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# THE ADVOCATE

## Nobody Knows the Future: Steering Through a "Fat-Tail" Sea

## Maximize Your Retirement Savings with the New Catch-Up Rules

## Market Review

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# Table of Contents

# A Note from the Principal

Dear Friends,

As we move through the early months of 2025, we are once again reminded of the dynamic and unpredictable nature of the world we live in—both in terms of global events and financial markets. Much like the intricate dance between global economies and political decisions, we are constantly adjusting our course to navigate new opportunities and challenges.

In this edition of The Advocate, we delve into a variety of topics that are particularly timely and impactful. Our first article explores President Trump's recent return to the White House and his administration's assertive approach to trade. While it's clear that these policy shifts have stirred market volatility, they also provide us with important lessons on resilience and opportunity. Just as rough waters are a part of any voyage, periods of market turbulence often present unique chances for disciplined investors. We examine how to strategically manage through these volatile times and make the most of the opportunities that arise.

Next, we turn our attention to the upcoming changes in retirement planning, specifically focusing on catch-up contributions for those nearing retirement. With the new rules taking effect in 2025 and beyond, we outline the expanded opportunities for individuals aged 60 to 63 and the important adjustments for high earners. These new provisions allow you to maximize your retirement savings during your final working years, helping you stay on track for your long-term goals.

Lastly, we provide a comprehensive review of recent market performance across regions, with particular emphasis on the varied results between the U.S., Europe, and emerging markets.

The first quarter of 2025 was a reminder of the value of diversification—while U.S. stocks faced setbacks, international stocks and bonds showed strong performance. We highlight how this year's early volatility has reinforced the importance of holding a well-balanced portfolio and preparing for any market shifts.

As always, we remain committed to supporting your financial journey, helping you navigate whatever the future holds. While the landscape may be shifting, our focus on long-term, thoughtful planning and adaptability ensures that we are prepared for the opportunities and challenges that lie ahead.

Thank you for placing your trust in us. We look forward to continuing this journey with you.

Warm regards,

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# Nobody Knows the Future: Steering Through a "Fat-Tail" Sea

Wayne Cravens

President Trump's first 100 days of his second term have reminded us that managing wealth is much like captaining a ship through unpredictable waters. The administration's assertive approach to addressing trade imbalances, characterized by swift and aggressive tariffs and tough rhetoric toward both traditional allies and competitors, has heightened market volatility and raised concerns about global alliances and economic growth. This also highlights how unpredictable economic and market conditions can be. These recent shifts in trade policy have introduced additional volatility and raised important questions about global trade, economic stability, and investment returns. Yet, while uncertainty can feel unsettling, history consistently demonstrates that the U.S. and other developed economies navigate these periods with remarkable resilience.

Volatility, though often uncomfortable, is a normal part of capital markets, much like rough seas are an expected challenge for any ship crossing open waters. Economic fluctuations frequently result from shifts in policy, evolving consumer preferences, or typical business developments. Occasionally, however, volatility spikes dramatically due to unexpected and profound shocks—such as the 2008 financial crisis or the COVID-19 pandemic. These events often catch markets off-guard, revealing hidden connections and vulnerabilities previously unnoticed.

Recently, Tom Morrison, President of Blackstone Private Equity Strategies, visited our office and shared valuable insights. One point particularly resonated: Blackstone entered 2025 optimistic about the investment landscape, but the somewhat chaotic implementation of tariffs and trade policy has introduced greater uncertainty. While volatility may feel unsettling, Morrison emphasized it also frequently creates unique opportunities. Deals continue to be completed, though perhaps under adjusted terms, and other opportunities previously unseen have emerged.

This optimistic approach amid volatility aligns with broader macroeconomic perspectives offered by other respected voices.

Similarly, economic observers note that policy shifts, such as current trade disputes, often lead to unintended, and sometimes amplified, economic outcomes—both positive and negative. Tariffs designed to protect domestic industries and rebalance global trade relationships might enhance domestic production and economic conditions. Conversely, these measures could trigger inflation, disrupt supply chains, and cause economic slowdowns or recessions. The wide-ranging potential outcomes underscore the complexity of economic decision-making and reinforce the importance of flexibility and thoughtful analysis in portfolio management.

Recent discussions in the financial community have also included perspectives on international economic relationships, particularly the dynamic between the U.S. and China. Ray Dalio, founder of Bridgewater Associates—the world's largest hedge fund—points out in his essay, "A US-China Beautiful Rebalancing," that both global giants need to thoughtfully rebalance their economic relationships. An improved balance could lead to more sustainable and stable global growth, benefiting everyone involved. Although potentially challenging in the short term, this rebalancing could eventually foster significant positive outcomes for global markets.

Given these complexities and the broad range of potential outcomes—often referred to as "fat-tail" events—thoughtful, disciplined decision-making becomes even more critical. These "fat-tail" events represent rare but impactful outcomes—extreme market moves occurring more often than traditional expectations suggest. Understanding this reality helps us better structure portfolios designed to withstand shocks, capture opportunities, and support long-term financial goals.

Like a seasoned mariner, we chart a course that diversifies risk and avoids overexposure to any one storm system, knowing that rough seas are an inevitable part of any long voyage. This means carefully diversifying portfolios to avoid being overly exposed to any single outcome or economic scenario. We prioritize maintaining adequate liquidity, allowing us to respond swiftly and decisively when opportunities arise. Additionally, we focus on identifying quality investments—assets and businesses with robust fundamentals, sustainable competitive advantages, and strong balance sheets—that often become mispriced during periods of volatility. These investments have the potential to provide attractive long-term returns, partly because they can be purchased at advantageous prices during uncertain times.

While no captain can predict every gust of wind or rogue wave, we believe a disciplined, proactive strategy best equips us to navigate whatever lies ahead. We recognize periods like these can naturally cause concern, but we've successfully navigated uncertainty before and are prepared to do so again.

In conclusion, uncertainty and volatility are not signs of failure; they are enduring elements of the investing voyage. History consistently shows markets recovering from even the most severe disruptions, eventually returning to growth and stability. By focusing on disciplined analysis, thoughtful diversification, and maintaining perspective, we can confidently navigate the current economic environment, steadily moving forward toward our financial objectives despite the inherent unpredictability of the future.

# Maximize Your Retirement Savings with the New Catch-Up Rules

Caleb Rouse

As you approach retirement, maximizing your savings becomes more important than ever. One way the IRS helps is by allowing catch-up contributions—extra amounts you can contribute to your employer-sponsored retirement plans once you reach age 50. These additional contributions can make a real difference in your long-term savings strategy.

Starting in 2025 and 2026, two important changes are coming to catch-up contributions that could affect you. Here's a breakdown of what's changing, who it affects, and what steps you might want to take.

**Catch-Up Contributions: The Basics**

If you're age 50 or older, the IRS allows you to make catch-up contributions to your employer-sponsored retirement plans in addition to the standard annual limit. For 2025, the contribution limit is set at $23,000. If you're 50 or older, you can contribute an additional $7,500 in catch-up contributions, bringing your total to $30,500 for the year.

This provision is designed to help people who may have started saving later or who want to accelerate their savings in the final stretch before retirement.

**A New "Super" Catch-Up for Ages 60–63 (Starting in 2025)**

Beginning in 2025, there's a new opportunity for people between the ages of 60 and 63. During these four years, your catch-up contribution limit will increase significantly. Instead of the usual $7,500, you'll be allowed to contribute the greater of:

- $10,000, or
- 150% of the standard catch-up amount for that year.

For example, if the regular catch-up limit remains at $7,500, 150% would equal $11,250. That means eligible individuals could contribute over $34,000 in total to their employer-sponsored retirement plan in a single year.

This “super catch-up” window is a powerful way to put away more during the final working years — a time when many people may have fewer expenses (like a paid-off mortgage or grown children) and more capacity to save.

**Roth Catch-Up Requirement for High Earners (Starting in 2026)**

While the super catch-up offers an exciting opportunity, there’s also a new rule coming that higher-income earners need to plan for.

Starting in 2026, if you earned more than $145,000 in wages subject to FICA taxes from your current employer in the prior year (this threshold is indexed for inflation), any catch-up contributions you make must go into a Roth account within your employer-sponsored retirement plan. That means:

- You’ll pay taxes now on the money you contribute,
- But your withdrawals in retirement will be tax-free, provided you meet certain conditions.

This new rule applies only to catch-up contributions — not your regular deferrals — and it is based on your individual wages, not household income. So even if you're married filing jointly, the $145,000 threshold applies per person and is tied to income from the employer sponsoring the plan.

One critical caveat: If your employer’s plan does not offer a Roth contribution option and you exceed the income threshold, you won’t be allowed to make catch-up contributions at all. This puts pressure on employers to update their plans accordingly.

This provision was originally scheduled to take effect in 2024 but was delayed until 2026 to give employers and plan providers more time to implement the necessary changes. Even so, it’s important to start preparing now — both from a plan design standpoint and in terms of your personal retirement strategy.

**What You Should Do**

Here are some steps to consider as these rules take effect:

1. Check your eligibility. If you’ll be between 60 and 63 in 2025, you may qualify for the increased catch-up limits.
2. Review your income. If your wages from your current employer exceeded $145,000 last year, the Roth catch-up rule will affect you starting in 2026.
3. Talk to your employer or HR team. Confirm that your employer-sponsored retirement plan includes a Roth contribution option — especially if you plan to use catch-up contributions in the future.
4. Coordinate with your financial advisor. We can help you evaluate whether pre-tax or Roth contributions make more sense based on your current tax rate and expected retirement income.

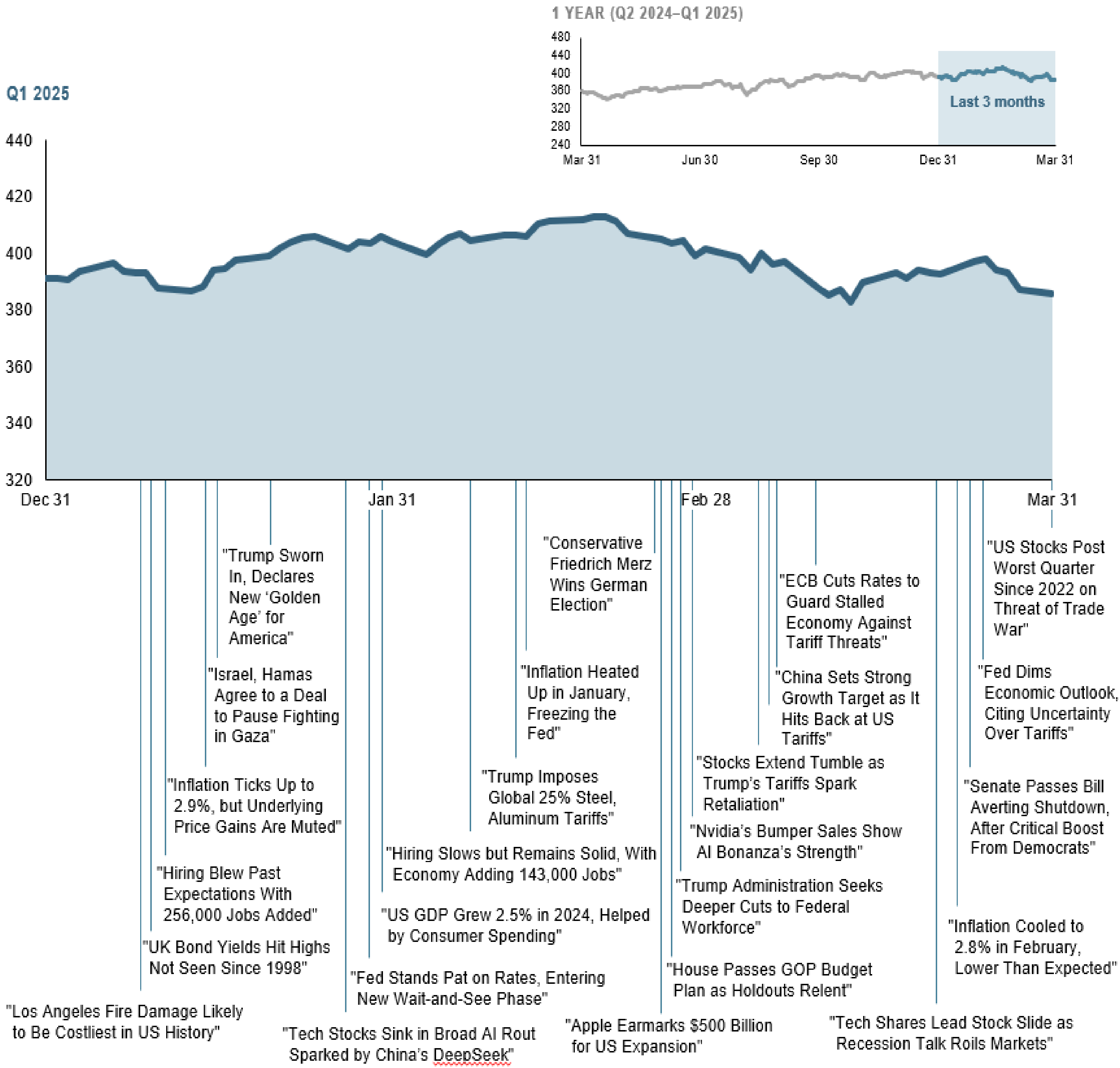
**Final Thoughts**

Retirement rules are always evolving, and these changes are aimed at helping people better prepare for the future. The new “super catch-up” contributions can be a valuable tool, especially if you're looking to boost your savings quickly. Meanwhile, the Roth catch-up requirement for high-income individuals adds a new layer of planning and emphasizes the need to stay proactive.

As always, we’re here to help you make sense of the details and tailor your strategy to fit your unique goals. If you have questions about how these changes affect you, or want to explore ways to optimize your retirement savings, don’t hesitate to reach out.

# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2025




***These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.***

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2025, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
**Past performance is not a guarantee of future results.**

# Market Review

## Woody Welch

Global stock markets displayed wide dispersion of performance across regions and styles over the first quarter of the year. After making a new all-time high in mid-February, U.S. stocks (S&P 500 Index) suffered their first 10% correction since 2023 before recovering to end the quarter down 5%. Smaller-cap U.S. stocks (Russell 2000 Index), which tend to be more volatile than their larger-cap counterparts, declined further, ending the quarter down 10%. Large-cap growth stocks (Russell 1000 Growth Index), which have led the market higher for several years, finally lagged this quarter as investors rotated into U.S. large-cap value (Russell 1000 Value) and foreign stocks (MSCI EAFE) amid economic uncertainty.

In contrast to the U.S., many European and Asian markets rose sharply. Developed International stocks (MSCI EAFE Index) gained nearly 7%, driven in large part by a fiscal policy shift in Germany focused on increased defense spending. Emerging market stocks (MSCI EM Index) also fared well, finishing the quarter up 3%. Gains in emerging-markets were bolstered by China which delivered solid, double-digit returns of 15% (MSCI China Index).

Interest rates experienced significant volatility throughout the quarter, fluctuating amid shifting inflation expectations, Federal Reserve policy signals, and broader market uncertainty. Overall, the 10-year treasury rate declined from 4.57% at the start of the year to end the quarter at 4.36%. The decline in rates benefited investment-grade bonds (Bloomberg U.S. Aggregate Bond Index), which gained 3%.

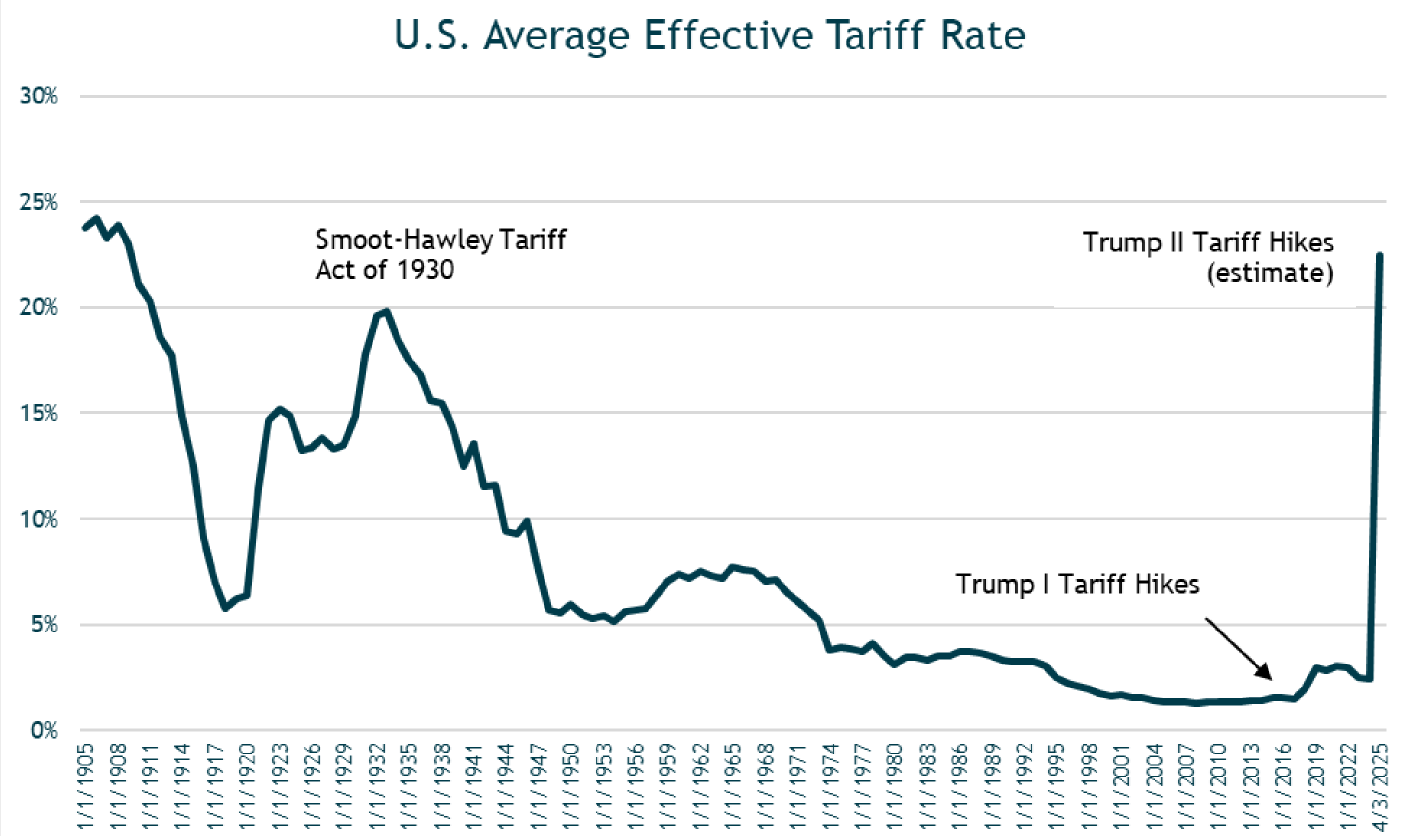
Performance in the first quarter was a great reminder of the benefits of diversification. Losses in U.S. stocks (growth stock in particular) were offset by gains in U.S. large cap value stocks, foreign stocks, and investment grade bonds.

## Investment Outlook and Portfolio Positioning

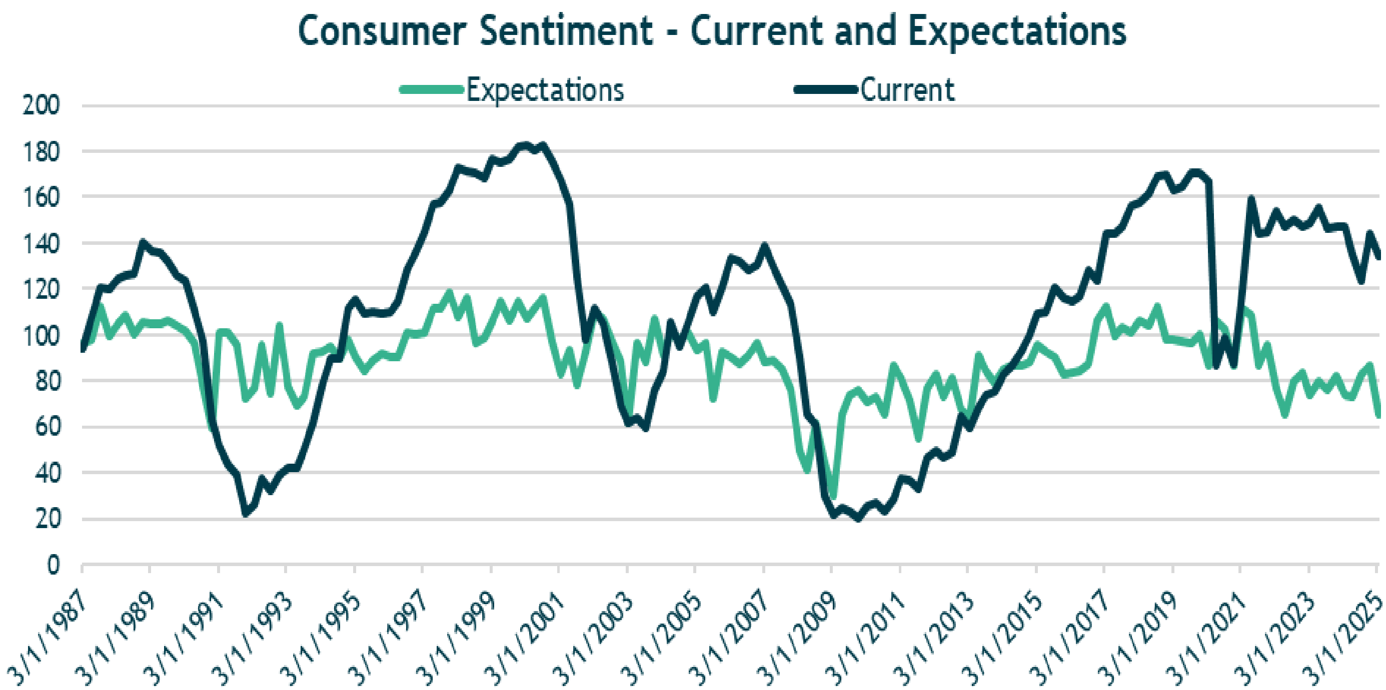
Heading into the year, we expressed caution that elevated stock market valuations, especially for U.S. technology companies, combined with policy uncertainty, could leave the market vulnerable to volatility. Indeed, this is what transpired over the first quarter of the year.  In our individual stock strategy, we were somewhat buffered from market declines as our risk measures led us to hold extra cash. The real benefit of cash, however, is its ability to purchase equities at a discount during market declines.

After hitting new highs in on February 19th, U.S. stocks suffered their first "correction" since 2023, when the S&P 500 index declined a total of 10% through March 15th. The narrative around U.S. stocks started to shift in late-January beginning with the release of DeepSeek, a Chinese built Artificial Intelligence model that is seen as a direct threat to U.S. tech companies dominance of the Ai industry. The selloff was exacerbated in early February amid tensions around trade, tariffs, and policy uncertainty.

President Trump further shocked investors on April 2 (what he declared "Liberation Day") by announcing a comprehensive set of much higher-than-expected tariffs. These included a 10% baseline tariff on all imports and unexpected and significantly higher tariffs for certain trade partners, such as 54% for China and 20% for the European Union. These tariffs in aggregate, if implemented and maintained, would result in the effective tariff rate on all imports rising to 24%, putting it at a 125-year high.



Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab analysis. Data as of 4/3/2025.




Source: The Conference Board. Data as of 3/31/2025.

Perhaps the most surprising aspect to the announcements was the equation used to arrive at "reciprocal" tariff levels. This so-called "reciprocal tariff" is a bit of a misnomer because they do not truly reciprocate the existing tariff levels imposed on the U.S. by other countries. Instead, the administration simply took an economy's exports to the U.S. as a percentage of its trade balance with the U.S. and assigned that as the tariff, meaning that countries with larger trade surpluses with the U.S. are being subjected to higher tariffs—whether or not they impose high tariffs on U.S. goods. In this way, the announced tariffs seem to be more of a blunt tool aimed at reducing trade deficits.

Looking ahead, one of the key questions facing investors is whether tariffs will push the global economy into recession, causing further declines in global stock markets. If left intact, we believe this is a likely outcome. According to the IMF and Ned Davis Research, a 10% universal tariff, coupled with retaliation abroad, would reduce global economic growth by 0.5%. This latest announcement puts the tariff at least double that (i.e., 24%), doubling the damage if not more so. The global economy's one saving grace is that it was in good shape prior to the tariff announcement.

The decline in stocks and increased uncertainty have led to heightened anxiety, but history suggests that corrections (and volatility) are a normal part of long-term investing and do not always signal a crisis. Since 1950, the S&P 500 has experienced 34 corrections of this magnitude, yet only about a third have escalated into bear markets with losses exceeding 20%.

During periods of heightened volatility, we find it valuable not to overreact to the latest headline that could tempt investors to sell. Panic selling during risk-off markets can be a significant drag on long-term returns, as the old saying goes, "*time in the market is more important than timing the market*." So far, psychological indicators are a mixed bag, not panic. Surveys say younger investors have increased their risk, and older investors have taken a more cautious approach. Our desire is to be more aggressive during downturns, looking for bargains, but we also adhere to the Warren Buffett axiom of "don't be contrarian for contrarians' sake". It's hard to imagine that the current uncertainty driven by tariff policy is not having an impact on future earnings. This situation can clear up quickly, but every day of uncertainty increases the effect on future earnings.

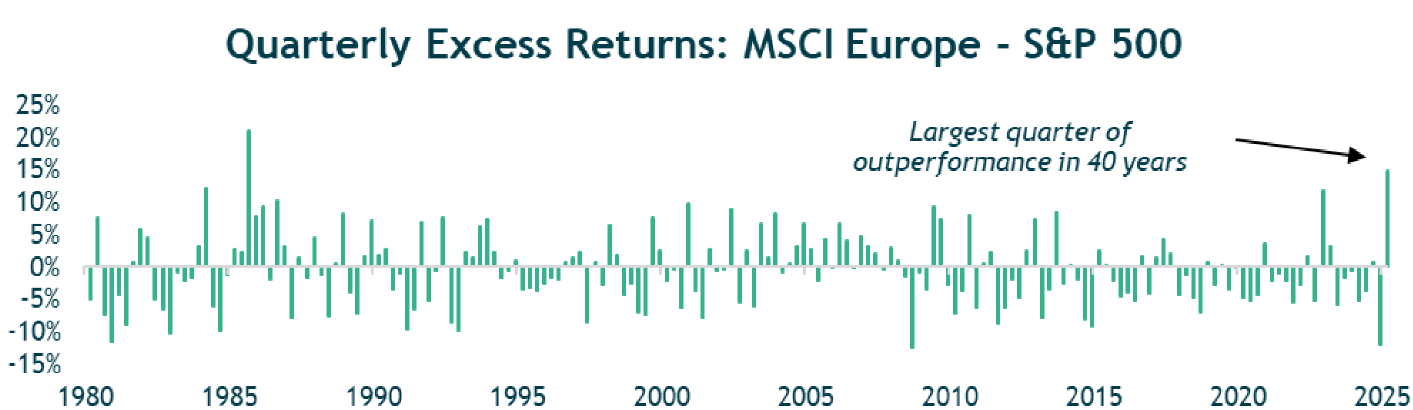
Leading up to "Liberation Day," economic conditions in the U.S. were reasonable and the overall economic backdrop was relatively stable. GDP is still expanding, albeit at a slower pace, reflecting a resilient economy even in the face of higher interest rates. Meanwhile, the labor market remains in decent shape, with unemployment at historically low levels and key sectors such as construction, healthcare, technology, and professional services still adding jobs. Furthermore, consumer spending has remained relatively steady and businesses have yet to signal widespread distress.

That said, rising uncertainty among consumers and businesses acts as a significant headwind to economic growth, and we are closely monitoring several factors that could lead us to become more defensive. Specifically, there are some soft data points such as consumer confidence that have weakened materially. Consumers drive about 70% of U.S. economic activity, making their sentiment an important factor to monitor. While consumer confidence is a "soft" indicator, meaning that it reflects feelings rather than hard data, it has historically declined ahead of recessions. We track the Conference Board Consumer Confidence Index (below), which equally weighs current conditions and future expectations. We find it more useful to focus on current sentiment, as future expectations tend to be much more volatile. Right now, current sentiment is holding up, but it's no surprise that it has weakened a bit amid today's uncertainty. When both current and future expectations fall together, it signals broad pessimism, often leading to reduced spending and slower economic growth.

The consistently ever-changing tariff landscape is clearly weighing on consumer sentiment, adding to overall uncertainty. The rapidly changing policies make it difficult to keep up in real-time, and frequent reversals can make any analysis moot within hours. Uncertainty seems to be a tactical tool in Trump's governance toolkit, as if to give him political leverage to achieve his desired outcome. Without details, the long-term market impacts are unclear, and the broader investment implications will take time to play out. The key question is whether the tariffs are a tool to increase government revenue (a tax) or a negotiating tactic.

To put it simply, the stock market hates uncertainty. And uncertainty around trade and tariffs will continue to be a headwind for U.S. stocks until clarity is provided.

However, while we're seeing headwinds in the U.S., we're getting some good news in other parts of the world. European stocks have been a bright spot this year, significantly outperforming U.S. stocks – their




Source: Morningstar Direct. Data as of 3/31/2025.

widest quarterly outperformance gap versus U.S. stocks in 40 years (see chart below). Fiscal stimulus, particularly from Europe's largest economies in Germany and France, increased defense spending, and accommodative monetary policy could stimulate economic activity and bolster equity markets.

**Closing Thoughts**

It goes without saying that tariffs and trade policy have injected a big dose of additional uncertainty in the financial markets, and we understand that such developments can be worrying. There are still many lingering questions, including what potential retaliatory measures will come from countries hit with tariffs, whether the announced tariff levels will remain in place or possibly be lowered, and what their ultimate impact will be on the financial markets. Until there is more clarity, the volatile environment will likely continue.

Currently, it seems like stock prices are at least reflecting some of the bad/unexpected news regarding tariffs. While many foreign and U.S. economies were in relatively good shape prior to the Liberation Day, the tariff announcement has led us to an increase in the probability of a recession.

At the portfolio level, our fixed-income exposure continues to favor our positions in high-quality bonds. It remains anyone's guess where Treasury yields are headed next, and in this uncertain environment, we are avoiding trying to predict the timing and magnitude of interest-rate moves.

Within our global equity allocation, we remain diversified across U.S. and foreign stocks, and across growth and value stocks. The benefits of diversification were apparent in the first quarter, and our analysis suggests there continue to be opportunities in areas outside of U.S. large-cap growth stocks, like U.S. large cap value, European, and emerging-market stocks where valuations are more compelling.

We believe it's important to stay disciplined and avoid making reactive portfolio shifts.  This is a challenging environment, but one that reinforces the importance of diversification, patience, and a clear investment process.

# Your Financial Advocate

You have goals you want to achieve… places you hope to go… things you want to do… people you desire to spend time with.

These dreams have motivated you over the years to work hard and to sacrifice.

Fully realizing your dreams also takes planning and execution to get them "over the top".

Whether you aspire to…

> ...travel the world with your spouse…
>
> …spend more time on hobbies like flying, cooking, or wine collecting…
>
> ...live on a ranch in the country or a cabin in the mountains…
>
> ...create a legacy for your children and grandchildren…
>
> ...support the charities and causes that you hold dear...

We can help you create and execute a comprehensive plan for financial success. One that will give you the confidence to spend your free time on the other things that are important to you.

At Cravens & Company Advisors, our mission is to help successful individuals and their families realize and enjoy their life goals. We are an SEC-Registered Investment Advisor that combines holistic planning, personalized investment management, tax and estate strategies, and business planning with a proactive, solutions-oriented mindset. The result is a fiduciary with a plan and a culture centered on your success; however you define it.

Since 1996, we have been serving the specialized needs of family businesses and their owners, professionals, and successful retirees. While prudent investment advice is a foundational component of our service, we believe developing an intimate understanding of your overall financial situation and goals is essential to formulating your strategy. Our holistic approach enables the development of solutions with the highest possibility for success. Because goals cannot be measured by return, we benchmark our progress as a firm in the same way you do as our client; by successful outcomes.

As we discuss your situation, goals, and concerns; we hope you will recognize the benefits that come with our independence and objectivity. As your fiduciary, we are held to the highest standard of transparency, objectivity, and disclosure. Simply put, we have not only an ethical but also a legal requirement to always act in your best interest.

Our goal is to provide each client with the leadership, relationship, and creativity needed to allow them to achieve their life's goals and, even more importantly, the confidence to enjoy the journey. After all, what is the point of all the work and worry if you do not get the satisfaction of realizing the results?

At Cravens & Company, we have a team that is by design, ready to work for you. If you have complex financial issues and/or desire a relationship of this type, please contact us to arrange an introductory meeting. We can be reached at 931-528-6865 or by email at info@cravensco.com.

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WEALTH MANAGEMENT