October 15, 2020

Dear Client,

"Read the newspaper to be an informed citizen, not for advice on how to navigate the financial markets" -- Weston Wellington, Dimensional Fund Advisors

The markets continue to defy logic, marching to the beat of their own drum. The S&P 500 is now above where it started the year, overcoming its 30% drop in March. The tech-heavy NASDAQ index is up over 25% for the year. Real Estate Investment Trusts (REITS), however, are still down over 20% having not been able to rebound. REITs are interesting, many analysts originally predicted they would have a strong year but, as employees continue to work remotely, it appears the uncertainty of demand for future office space is outweighing Fed pronouncements to keep interest rates low which would normally help REITs.

With the S&P and NASDAQ grabbing the headlines, the temptation to get out of the markets and go to cash may increase. Afterall, the number of positive COVID-19 cases are back on the rise. More and more small businesses are shutting their doors and many Americans are facing eviction. The fear felt during the rapid fall of the markets in March is still fresh in our mind. Human instincts tell us to get out while the getting is good and "wait to see the election results" or "wait for a vaccine." And this is what many investors have been doing. Looking at the flows in and out of mutual funds, you can see big inflow to money market funds for the year. But history shows this is not prudent. If you look back at the S&P 500 index starting in 1926, the average annualized returns have been positive over one, three, and five-year periods following both new monthly highs and after market declines of at least 10%. We have experienced both a market decline of more than 10% and market highs this year. Of course, as we always say, past performance does not guarantee future results.

The election does add more uncertainty to the markets, and one would expect more volatility, but surprisingly market volatility typically lessens the days leading up to and following election day. And the election results themselves have little impact on the long-term performance of the stock market. Again, looking back to the 1920's starting with Herbert Hoover, there have only been three presidential terms that if you invested on the day of the election your account would have been lower at the end of the presidential term. Those three? Herbert Hoover, Richard Nixon, and George W. Bush. All other presidential terms saw a positive return regardless of party.

It would be convenient to be able to draw a definitive connection between who wins the election and future market performance, but it is not that easy. The market is priced based on information from around the world and the election is just one data point. The stock market is continually priced to offer a positive expected return every day. While there is no consistent way to predict when realized performance will be positive or negative, every day the market's expected return exceeds the expected return on cash. Unless you can time when to be in and out of the market, investors will have a higher expected return by staying invested versus going to cash. The markets advance more than they decline and those advancements last longer and have greater magnitude than market declines. This is one of the many reasons why it is so important to maintain a long-term investment view. Essential to maintaining this long-term view is having an appropriate overall asset allocation (mix of stocks and bonds) for your portfolio that positions you to achieve long-term growth needed to reach your financial goals while giving you peace of mind to ride out shorter-term downturns. Succumbing to the noise generated by short-term events and going to cash can provide immediate emotional relief but it can hurt you in the long-term. If you stay invested, the markets will reward you.

The CARES Act that was passed in March to provide stimulus in the face of COVID-19 included a provision that waived required minimum distributions from retirement accounts this year. For those of you who can forgo taking a distribution from your IRA, your taxable income for 2020 will be lower. This might provide a good opportunity for a Roth conversion. A Roth conversion consists of withdrawing funds from your IRA, paying taxes on that money (filling up the lower tax brackets) and depositing the funds into a Roth IRA where they grow tax-free forever. Not only do you benefit from the tax-free growth in the Roth, but you also reduce the balance in your IRA which reduces your required distribution in 2021 which reduces your taxes. We will be reaching out to you if this strategy may make sense for your situation.

If you are 65 years or older and on Medicare, open enrollment begins today and continues until December 7th. Even if you are happy with your coverage, it is good practice to review your Medicare Part D plan for prescription drugs. The drug coverage and pricing can change from year to year so you should make sure your coverage still meets your needs. Mary, in our office is a certified SHINE counselor (Serving the Health Insurance Needs of Everyone), a non-profit organization in Massachusetts. She is a great resource to help answer your Medicare questions.

As we are nearing year end, we may take advantage of loss harvesting opportunities so you may see some trades that do not look like our normal rebalancing trades. If there are positions that can be sold for a loss in your taxable accounts, we will look to sell the position and invest the proceeds in a similar fund. This will help lower your taxes for the year.

Schwab just finished its acquisition of TD Ameritrade making it by far the largest brokerage firm in the U.S. Although the deal has been completed it will take a few years before both companies are fully integrated so in the short-term Schwab and TD will continue to operate independently. We expect to see advancement in technology as the combined company is streamlined including more account applications and forms available online. We will be looking to use these new tools as much as possible. Schwab has also started to restructure how they support advisors and we are pleased to report that, thanks to our longstanding relationship and amount of assets, we have been assigned a high level dedicated support team. This is a direct benefit to all our clients, and it is not widely available with just any advisory firm, since it will enable us to provide you with better and faster service in all your dealings with Schwab.

Stay safe and be sure to vote!

Jim John Richard Mary and Ryan