Pinney & Scofield

Building long-term relationships with long-term investors

October 15, 2021

Dear Client,

Last week you should have received a letter announcing the retirement of Jim Pinney. If you have not received it in postal mail yet, you should shortly. For clients who have joined us in the last two years, you did not have the privilege of meeting Jim and, yes, it would have been a privilege. Jim's devotion to clients, keen insights and unique observational writing have been pillars of Pinney & Scofield since he and Dean Scofield founded the firm over 30 years ago. We would like to thank Jim for giving us all the opportunities and wisdom over the years. He will be missed.

You will see enclosed with this package a notice discussing the sale of Jim's share of the business to Richard. Longer term clients know that our other founder, Dean Scofield, retired in 2014 and sold his share to John in a similar transaction. This means both "Pinney" and "Scofield" are no longer with the Firm and technically this makes us "Seeley & Goddard." The name will continue to be Pinney & Scofield, however. We appreciate the legacy and association with our founders.

We have been asked if things will change now that both founders have retired. The short answer is no. While the change in ownership was recently completed, John and Richard have been running the firm since Jim went on leave in early 2019. The firm is structured so it is not dependent on one person. Our investment and financial planning methods are systematic and consistent across the firm. All of us at P&S believe in, and are committed to, the passive, disciplined investment and planning approach pioneered by Jim and Dean. The approach is founded on academic research and fundamental financial principals and has stood the test of 30 years of the Firm's history.

Part of the brilliance of the investment approach Jim and Dean developed was the recognition of what is now called behavioral economics. Through their own personal experiences, they became aware of how psychology plays a meaningful role in financial decisions. A portfolio founded on academic research alone is not good enough, it needs to have a disciplined structure to avoid human emotions interfering and making untimely decisions. Fear and greed are powerful forces that have been the demise of many investors. The predetermined rebalancing parameters that are part of your portfolio remove emotions from rebalancing decisions. This discipline will be maintained.

While how we approach investing will not change, we will not be complacent. The industry is always evolving with new investment vehicles or asset classes being introduced regularly. We will research these and if they enhance your portfolio we will adopt them – a similar process used by Jim and Dean. For instance, when they first started managing money, real estate investment trusts (REITS) and Treasury Inflation-Protected Bonds (TIPS) did not exist. Data showed adding these new asset classes to a portfolio can lower correlation and increase risk-adjusted return, so they were added to the portfolio mix. We

22 Hilliard Street, Cambridge, MA 02138 • (617) 492-6223 • Fax (617) 492-8025 • www.pinneyandscofield.com

continued this process more recently when we introduced the use of Exchange Traded Funds (ETFs) earlier this year for greater tax efficiency with more ETFs likely to come. We have also been researching the popular cryptocurrency craze which we touched on last quarter. As of now, the data does not support adding crypto as an asset class, but we will continue to analyze as meaningful data becomes available.

Of course, there will also be technical advancements and we will adopt new technology if it better serves our clients. In today's world, unfortunately, this can be accompanied with increased identity theft risk so we will continue to work with our professional partners, e.g. Charles Schwab, to minimize this risk. Along these lines, we will be instituting two-factor authentication on our website portal which we will be rolling out in the coming weeks.

We appreciate the trust you have put in Pinney & Scofield and look forward to continuing to work with you to help you achieve your goals.

You may have seen talk of tax law changes winding their way through Congress. Critical to our approach is the tacit understanding that future market performance is unknowable and therefore, rather than trying to control something that is uncontrollable, we shift our energy to what we can control. That means creating portfolios structured to combat a wide spectrum of economic conditions based on a sound financial plan. Within that plan, we can control many factors, one of the biggest being tax management. For instance, we changed many of our protocols when the current law, known as the Tax Cut and Jobs Act, was passed at the end of 2017. We changed other protocols when the SECURE Act was passed in 2019 impacting retirement and estate planning. And any changes to the tax laws this time around will be no exception. While much is subject to change before final passage, here's what we know so far:

- The highest tax rate could return to 39.6% rising from the current 37%. For those in this bracket, it may make sense to try to realize more income this year before the higher rate goes into effect.
- The Federal capital gains rate could rise from 20% to 25% for those earning over $400,000 (initial proposals were as high as 40% but that is looking very unlikely). This proposal may be backdated to September eliminating future opportunities to realize gains this year at the lower 20% rate.
- Back-door Roth conversions could be eliminated entirely. We have used this technique when appropriate and may step up this process before year-end prior to the new law taking effect.
- Regular Roth conversions may have an income limitation
- Increased required minimum distributions for high value IRAs
- Increased corporate tax rate from 21% to 25%

We will be in touch with impacted clients to discuss appropriate actions as we learn more information.

It is that time of year for those of you who are 65 years or older and on Medicare to review your Medicare coverage. Open enrollment begins today and continues until December 7th. Even if you are happy with your coverage, we recommend you review your prescription drug coverage. Drug coverage and pricing in the policies 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 and can discuss plans in detail for Massachusetts residents.

John, Richard, Mary, and Ryan