TAX AND RETIREMENT PLANNING NEWSLETTER—JAN/FEB 2021

INVESTMENT LESSONS OF 2020 FOR THE AGES

2020 – A REMARKABLE YEAR

The market, as represented by the S&P500, closed up 16.3% and the total return with reinvested dividends was up 18.4%, a considerable return but not extraordinary. What's interesting is how the market made this return despite turmoil.

The other noteworthy fact is that, even with the impressive quintupling of the S&P500 since the low in March 2009, the investing public has been in net *liquidation* of equities to a greater or lesser extent for the whole period. For example, in the first three quarters of 2020, equity mutual funds and ETF's had net outflows of $226 billion!

Market Records and Disruptions -- Two major emotional events:

Covid:

The first event was the Covid-crisis market drop of 34%, which actually is not at all uncommon. That is, the S&P500 Index has declined on average by about a third every five years since the end of WWII. However, what *was* remarkable was the swiftness of the drop, 34% in 14 days – a speed record not seen before. Our opinion (not a forecast) offered in our April newsletter was that Covid-19 was not a *debt* crisis such as 2008-09 (which usually takes a number of years for full market recovery), but rather a medical *science* crisis and would probably resolve faster than many were expecting. In fact, we saw the whole market cycle play out in only 6 months. Almost as suddenly as the market crashed, there was a typical V-shaped recovery, surmounting its February 19 all-time high on August 18.

We think there are two noteworthy lessons here:

> **(1) The speed and trajectory of a major market recovery very often *mirror* the violence and depth of the preceding decline.**
>
> **(2) The equity market most often resumes its advance, and may even go into new high ground, considerably *before* the economic picture clears.** If we wait to invest before we see unambiguously favorable economic trends, history tells us that we may have missed a very significant part of the market advance.

Election Cycles:

The second significant emotional market event of 2020 was the hyperbolic level of fear surrounding this presidential election, for both parties. The larger lesson of the long-term presidential cycle chart featured in our October newsletter was clear – that *historically, the great companies of the US and World have always found a way to thrive and act in their stockholders' best interests, regardless of who is elected.* Although the election was only a few months ago, this election cycle so far has proved no different in this regard.

TRANSFORMATIVE TECHNOLOGIES

From a longer-term market standpoint, perhaps the greatest effect of the pandemic has been in accelerating growth technologies, especially online apps and medical technologies. Both the telecommuting forced on companies as well as the speed of vaccination development with the new mRNA therapies have been truly remarkable. The benefits and efficiencies are altering how our economy works.

We believe these will add to several transformative effects already underway and affect our economy for the next decade or two. There are similarities between the mainstream new innovations today (e.g., genome sequencing, biotech, robotics, artificial intelligence, electric energy storage, and blockchain technology) and the confluence of transformative technologies in the early 1900s with electricity, automobiles and the telephone. Can you imagine living back then and seeing both the disruptions and opportunities that resulted from those transformative discoveries? We believe a similar impact of the new innovations is at work today.

TAXES -- THE BIDEN TAX PROPOSALS

Senator Ron Wyden (D-Ore.) is slated to become chair of the Senate Financial Committee and has indicated he plans to introduce tax-reform proposals that are broadly consistent with the previously publicized Biden Tax Plan. Among these are the possibilities of:

- Long-term capital gains being taxed as ordinary income to the extent they (in addition to all other income) exceed $1M.
- Raising the top tax bracket from 37% to the 39.6% rate that was in place before the Tax Cut Act.
- Removing the step-up in basis at death for investments, real estate, and other assets, to prevent circumventing the higher long-term capital gains rate by simply holding until death. However, acknowledgement was given to the challenges this would create especially for illiquid assets (such as a small/family business), and so there was also consideration of a "step-up exemption amount."

Of course, it remains to be seen how much of all this will actually be enacted. With both houses so closely divided, 60 Senate votes would be needed to avoid a filibuster. However, an alternative route would be to bypass this with a budget reconciliation bill, which needs only a simple majority as long as it has a 10-year "sunset" provision. Also, there was talk of a bipartisan SECURE ACT 2.0, which will most likely be helpful in saving for retirement and providing greater clarification on the first SECURE ACT.

New tax laws often lead to new tax strategies that we can help our clients implement. Interesting times.

NOTABLE SQUIBS:

Warren Buffet in one of his interviews was asked what attributes he looked for when hiring people.

He responded:

Integrity, Intelligence, and Energy.

When asked what's the most important of these, he said:

Integrity, because without that you want them dumb and lazy.

We hope you have found this edition of our Tax and Retirement Planning Newsletter useful! We send our warm best wishes for health and happiness.