TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

The Question Everyone is Asking

Following this year's election, we're getting the same question from many of our clients. Should I make changes to my portfolio based on the election results? Usually the question stems from tax planning concerns. Other times it involves the client's views on prospective returns for stocks under the new administration, which may or may not be driven by political beliefs.

Regardless of the reason behind the question, the answer this year (and most election years) is no. The tax question is particularly tricky this year, as implementation of proposed plans laid out by the Biden team will likely hinge on the Georgia Senate runoff, which won't be settled until the new year. There is a chance that sizable capital gains (in excess of $1 million) will be taxed as ordinary income in the future, but it is rare that our clients are faced with a situation where they'll be realizing that type of gain

Headlines and Portfolio Changes

As an investor, you should always strive to be "compass-driven", rather than "headline-driven". Shelter any cash that you'll need over the next couple of years in bonds & cash, and tune out the noise of market headlines. This is easy advice to give, but far tougher for most investors to follow.

2020 has tested the mettle of investors as much as any year in modern market history. Following the terrorist attacks in 2001 & during the depths of the financial crisis, consumers continued to shop, dine-out, and gather for large events. Times were tough, and often scary, but a sense of normalcy remained for most of us. With rumors swirling again about school closures, curfews & lockdowns, we are reminded anew that our sense of normalcy has been shattered in 2020. The domestic Covid death toll is approaching 285,000. Air travel in the U.S. is 35% of what is was one year ago. The unemployment rate is still nearly double what is was in February (6.7% vs. 3.5%).

These headlines would have blown our minds a year ago. If you gave 100 investors those headlines at the beginning of the year and polled them on where they expected the US market to be, few, if any, would have guessed the answer: <u>All Time Highs</u>. Investors that ignored the negative headlines and stuck to their investment plan have been rewarded this year. Besides, the headlines mentioned above only tell a part of the story. In less than a year, global pharmaceutical companies have successfully developed multiple vaccine options. Workers from the healthcare front lines, to teachers, delivery drivers, work-from-homers with little kids and everywhere in between have shown incredible toughness. Companies, including those we invest in, have adapted & advanced at a pace that never could have in one tax year. The exception is usually a business sale or corporate transaction, but there is scant time to squeeze one of those in before year-end. If tax rates and/or capital gains rates do rise in the future, deductions of any kind will be worth more, so it may make sense to delay those for now. As always, give us a call & consult your CPA if you have questions about your particular situation.

The second reason we get the question is related to economic prospects under the new administration. Historically, both scenarios that are in front of us have produced strong returns for domestic stocks. Over the past 91 years, the S&P 500 has delivered average annual returns in excess of 13% when a Democrat was President and Congress was at least partially controlled by Republicans. Following Democratic sweeps, the S&P 500 return averaged 9.4% over the years where full control was maintained.

While history isn't a perfect guide, we aren't willing to bet that this time will be vastly different from the past. While pessimistic market observers often sound the smartest, optimists make much better investors over the long-term.

Sources: wsj.com, kitces.com

happened without such a far-reaching crisis. As wretched of a year as 2020 has been, there are blessings that have come out of it that we may not fully appreciate for a while.

With the light and the end of the tunnel firmly in view, investors are now facing a headline challenge of a different kind. Positive vaccine headlines are sending the market roaring past old highs. Tales of large profits made on speculative investments are circulating once again, and risk-taking is ruling the day. Investors are starting to look at their cash reserve, or their undrawn equity lines and asking themselves if they could be utilizing those to cash in on the current investing environment. Now is the time to stick to your plan, and not let the headlines lure you into taking more risk than you should.

To Our Clients

This has been a year full of challenges, but it has also been one of the most rewarding yet for Tilia. Throughout this roller-coaster of a year, one of the things that surprised us was how steady our clients were in the face of an incredibly dire global crisis. While many of our meetings with you have been over the phone, or video conference, we were almost always greeted with friendly, optimistic voices. Many of you went on to tell us stories of job loss by you or a loved one, health scares, or something worse. Perhaps it's just the American way, but in spite of those hardships, the clients we talked to never wavered in their resolve and went out of their way to show kindness toward us during times of deep personal stress. Thank you for being great clients. We hope you have a wonderful holiday season & we look forward to promising new year.