PRAETORIAN GUARD℠

QUARTERLY NEWSLETTER
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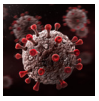

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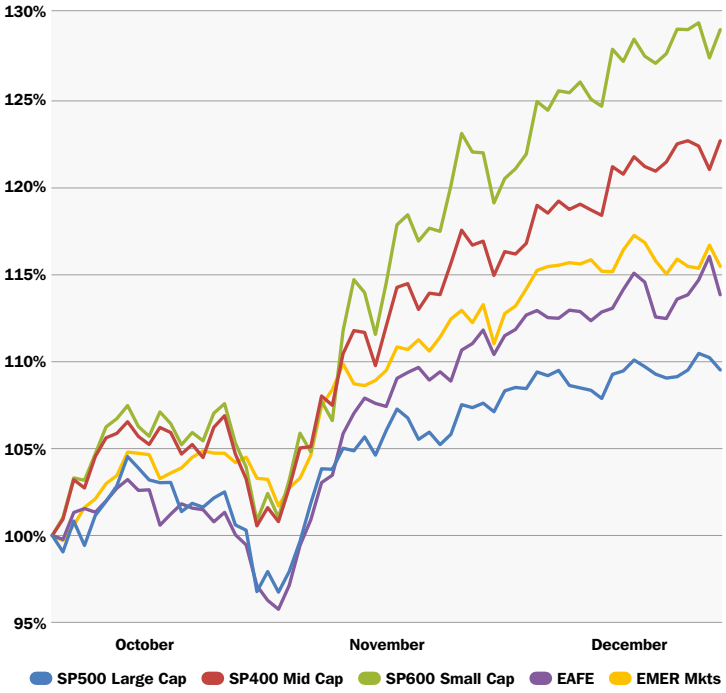
2020 MARKET COMMENTARY

By **Richard A. Hewitt**

In a year of continuous twists and turns, it is not surprising that markets had a wild ride week to week in 2020—but in the end, it was a good year for investors. In the below graphs we see both the 4th Quarter as well as the year in total.

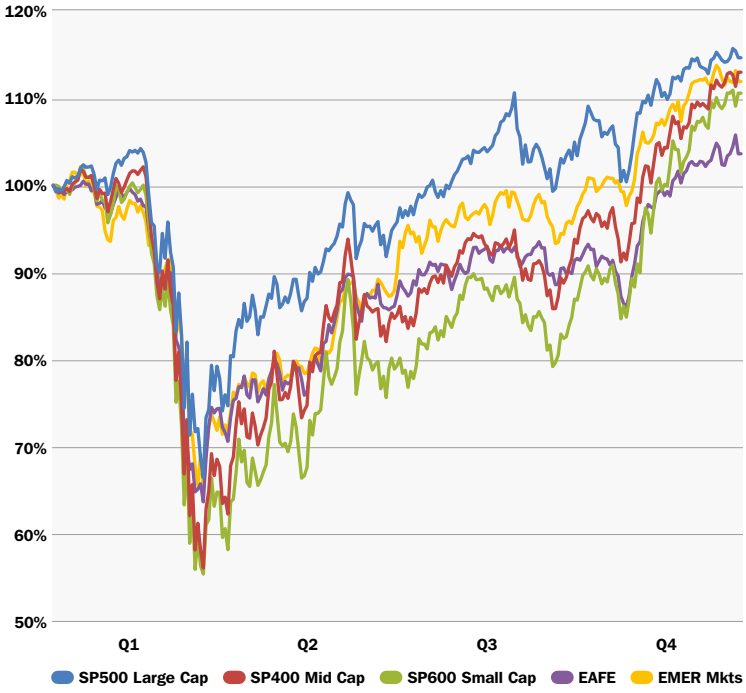
There are several interesting points and lessons to be relearned—let's begin with the 4th Quarter. As we closed out the 3rd Quarter, all focus in the United States was on the election and markets got their typical jitters (as they dislike uncertainty). As the election results came in both nationally and at the state level, markets exhaled and a significant positive move in all five indices began (U.S. Large-Mid-Small Cap as well as International Developed and Emerging Markets). Subsequently, the first vaccine (Pfizer-BioNTech) was submitted for Emergency Use Authorization to the FDA in the United States and the markets were off to the races. This is a textbook example of two aspects of collective markets: first, when the world does not end we are all relieved. Second, markets are forward looking by 6 to 12 months. *(continued on pg. 4)*

Q4 2020 U.S. & International Equity Market Performance



Source: Yahoo! Finance

2020 U.S. & International Equity Market Performance



Source: Yahoo! Finance

PANDEMIC IMPACT ON FINANCIAL PLANNING 2021 & BEYOND

By **Joseph P. Clark**

The COVID-19 pandemic (and associated economic slowdown) highlighted the importance of having and maintaining a focus on a long-term financial plan. During the downturn, we saw the importance of asset allocation to fixed income that served to diversify and stabilize client portfolios. We expect the Federal Reserve to keep short-term federal funds rates near zero in 2021. It may be another good year to examine your debt and look at refinancing opportunities that can reduce your fixed expenses and increase your disposable income (now and into retirement). The pandemic has changed how some Americans are planning for retirement. It also exposed some areas of financial planning that are often not emphasized enough.

1. **Reassess retirement planning.** According to a 2020 Schwab survey, more than 52% of Baby Boomers surveyed said the pandemic has made them more focused on developing a clear financial plan for retirement. In addition, a 2020 TD Ameritrade survey of U.S. adults found 71% of those surveyed anticipated that the pandemic would affect their retirement plans—with 37% of Baby Boomers indicating they had delayed (or considered delaying) retirement and 23% indicating they had retired early or considered it because of the pandemic. These shifts in how people are thinking about retirement point to the importance of planning beyond your portfolio, including living arrangements in retirement (perhaps downsizing or moving to a more affordable location) and what your expenditure levels will be in retirement. Most of the Baby Boomers questioned in the 2020 Schwab survey felt confident in their retirement portfolio level, but further analysis showed the average of those surveyed had only saved enough for about 10 years of retirement spending. Now is a great time to update your financial plan and confirm how much you will need to live comfortably in retirement.

2. **Prepare for potential retirement policy changes.** In November, the U.S. House of Representatives proposed a bill commonly referred to as the "SECURE Act 2.0." If passed in 2021, this bill could provide more flexibility for retirement savings in such areas as increasing the Required Minimum Distribution (RMD) age from 72 to 75 and potentially allowing some older workers to make even larger contributions to their retirement accounts. During recessions, more Americans tend to start taking Social Security benefits at age 62—the earliest age possible. If you are nearing retirement, the timing of your filing decision is one of the most critical retirement decisions you will make. In most cases, we recommend that clients in good health and financial stability wait as long as possible (up to age 70) to start Social Security. You should work with your advisor to make the most informed choice.

3. **Re-examine estate planning documents and insurance coverage.** The uncertainty of the pandemic should make each of us prepare for the inevitable. We should confirm our insurance coverage is adequate and we have basic estate planning documents in place. Start with reviewing your will or trust and subsequently review advance directives, such as a living will, durable power of attorney for health care, and do-not-resuscitate instructions. Ensure your beneficiary designations are up to date so your assets will be distributed according to your wishes. If you have a trust in place, make sure all assets you want included in the trust are retitled in the name of the trust.

POLITICAL & ECONOMIC ENVIRONMENT

By **Richard A. Hewitt**

As I write this, we do not know the final outcome of the two Georgia Senate Runoff races and therefore which party controls the Senate. The impact will be significant regardless of which party prevails. More pragmatically, what does the U.S. and global economy look like for 2021? We expect it will be challenging to eke out much growth during the first three months—winter weather combined with continued shutdowns will subdue economic activity for large swaths of the nation. By the end of March 2021 we will have four vaccines approved with a growing level of vaccination across the country—that will begin to unleash the economy in the second quarter.

Many consumers will have both cash to spend and a year-long pent-up demand to spend it—and spend they will. The consumer discretionary sector will have a very strong second half of 2021 as will energy. Any Biden administration impacts on oil and gas won't have had time to overcome the need for energy for both economic activity as well as travel in the form of driving and flying.

Predictions: Georgia will return at least one Republican Senator, leaving the Senate in Republican control. Honestly, this would be the absolute best outcome for President Elect Joe Biden as he will have an "excuse" to be more of a centrist politician which is his historical preference. The largest pending political fight will shift to the census impacts on reapportionment of Congressional seats based on the 2020 census. This will be completed, challenged in courts from coast to coast and have a huge impact on the mid-term elections of 2022. Finally, follow the ages of many of our U.S. Senators as the passing of any of the octogenarians (Grassley, Feinstein, etc) could have a major impact in a 51-49 Senate.

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TAX PLANNING & CHARITABLE GIVING

By **Marc A. Wehmeyer**

Do you make donations to charitable organizations? Many Americans do and the COVID-19 pandemic has highlighted the ongoing need for charitable giving in our society. According to Giving USA, Americans gave an estimated $449.64 Billion to U.S. charities in 2019. Federal tax law encourages charitable giving by allowing donors to deduct their contributions in certain circumstances.

Maximizing your ability to deduct your charitable contributions became more challenging with the passage of the Tax Cuts and Jobs Act of 2017 (TCJA). The most common way to deduct charitable contributions is by itemizing them on Schedule A of your Form 1040. One of the consequences of the TCJA is that fewer Americans benefit from itemizing deductions because of the enlarged standard deduction. For 2020, the standard deduction is $12,400 for individuals, $18,650 for heads of household, and $24,800 for married couples filing a joint return. These amounts are increasing for 2021 to $12,550, $18,800, and $25,100 respectively. Regardless of whether or not you itemize deductions on your tax return, here are some ways to support qualified charitable organizations and receive a tax benefit:

1. **$300 "Above-The-Line" Deduction.** The Coronavirus Aid Relief and Economic Security (CARES) Act passed in March 2020 added a temporary provision allowing taxpayers who do not itemize to deduct up to $300 in cash contributions (including checks and credit card payments) to 501(c)(3) public charities or private operating foundations. Contributions to donor advised funds (DAFs) do not qualify. The limit is $150 for married filing separately. This provision has been extended for 2021 at $600 for married couples filing jointly and $300 for all other filing categories.

2. **Increased Charitable Giving Adjusted Gross Income (AGI) Limitation.** The CARES Act also temporarily increased the charitable deduction limitation for cash gifts from 60% under the TCJA to 100% of AGI. This applies to 2020 contributions to 501(c)(3) public charities and private operating foundations. Donations to DAFs do not qualify. If you think your charitable contributions could qualify for the increased limitation, we encourage you to consult with your tax professional to ensure they are properly documented on your tax returns. This provision has also been extended for 2021.

3. **Donations of Appreciated Assets.** Rather than donating cash, you may want to consider donating appreciated assets, including securities held in taxable accounts, directly to a charitable organization. If you have held the asset for at least one year, you can deduct the fair market value of the asset at the time of donation and the gain is not taxable income. Otherwise, you can only deduct your cost basis in the investment. If you sell the asset and donate cash instead, you would be responsible for taxes on the capital gain. We can help you coordinate donations of appreciated securities if this is something that applies in your situation.

4. **Qualified Charitable Contributions (QCDs) for 2021.** We described QCDs in detail in our October 2018 newsletter. QCDs are a way for IRA owners who are at least 70 ½ to make charitable contributions directly from their IRA and count them towards their annual Required Minimum Distributions (RMDs). One change since our earlier article is that Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in December 2019 increased the starting age for RMDs from age 70 ½ to age 72 for individuals turning 70 on July 1, 2019 or later. If you would like to include QCDs in your 2021 charitable giving plan, let us know so we can integrate your wishes when making your 2021 IRA distributions.

5. **Donor Advised Fund (DAF).** A DAF is a charitable investment account for the purposes of supporting your preferred charitable organizations. You can fund it with cash, securities, or non-publicly traded assets and receive an immediate tax deduction. If you contribute appreciated securities held for more than one year, you can deduct the full market value with no long-term capital gains tax. Contributions to a DAF are irrevocable gifts and cannot be returned to the donor. The assets held in the DAF can be invested and grow tax-free while you are deciding which organizations you want to support and when you want to make the donations. One of the benefits of utilizing a DAF is the ability to "bunch" your contributions in order to maximize the tax benefit in that year while spreading out your giving over multiple years with grants from your DAF. You can also simplify your recordkeeping when using a DAF. Instead of keeping track of your donation receipts to multiple organizations, you only need to document your DAF contributions. If a DAF sounds like something that would support your charitable giving goals, please contact us and we can go over your options.

PRESIDENT'S COMMENTARY

"FIRST, AMERICA IS BLESSED WITH TALENT AND INGENUITY—THE ABILITY TO FIGURE OUT A WAY FORWARD AND ADJUST TO A NEW SET OF PARAMETERS."

I am confident none of us are sad to see 2020 behind us as we all look forward to the next six months of vaccinations and a more stable second half of the year. 2020 reinforced several lessons if we choose to take the time to search for them. First, America is blessed with talent and ingenuity—the ability to figure out a way forward and adjust to a new set of parameters. Second, politicians love power so we should be skeptical of both parties and yank the voting "choke collar" every few years to make sure they know they are accountable to us. Lastly, centralized, "one size fits all" solutions don't work well—the country is too large, too different and too independent. South Dakota is not the same as Queens County, NY.

2020 MARKET COMMENTARY

(CONTINUED FROM PAGE 1)

(continued from pg. 1)

The most interesting part of the 4th Quarter increase is seen in the U.S. Mid and Small Cap sectors—which had been lagging for most of the 2nd and 3rd Quarters. These companies are more domestic (U.S.) focused in revenue and growth and had been hit harder than the large cap sectors (more technology heavy) as the shutdown/stay-in-place/work-from-home boosted many of the S&P 500 stocks. They are the companies that will see the end of the COVID-19 economic impact by late spring/early summer 2021.

As we look at the year in review in the graph from page 1, the initial shutdown and the very scary days of March and April 2020 are clear. When situations like that occur and they are not "flaws" in the system—they are "design features"—the best action to take is… wait for more information. Allow the gears of government to get unstuck as politicians begin to look out for their own derrieres and take action.

The sectors that had the best performance over 2020 were technology and consumer discretionary. Energy was hardest hit but we moved into that sector as an overweight on March 19th when the damage had been done and have benefited as it has outperformed the broader large cap index. We also took an overweight position in Health Care in April (which has also outperformed the S&P500).

LIFETIME RETURN

$$\text{LIFETIME RETURN} = \left(\text{INVESTMENT RETURN}\right) + \left(\text{INVESTOR BEHAVIOR}\right)^2$$

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CLOSING THOUGHT

"The purpose of life is not to be happy. It is to be useful, to be honorable, to be compassionate, to have it make some difference that you have lived and lived well."

—Ralph Waldo Emerson

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