The Light

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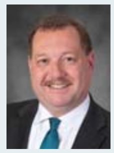
How Results of the 2020 Election Affect the Market



By Chris Bevington, CPA, MTAX, CFP®, Investment Advisor Rep.

Does the thought of Joe Biden or Donald Trump as president for the next four years turn your stomach? Concerned that an immediate plunge in the market hangs in the balance based on who is elected? No matter which side of the political aisle you're on, you've probably heard doomsday predictions, but recent history may surprise you.

Prior to Donald Trump's 2016 triumph, many experts were predicting a market collapse should he take up residency in the oval office. Yet if you were an investor who sold out of stocks ahead of President Trump taking office, you missed out on an S&P 500 total return of 22% in 2017, his first year in office. Fleeing stocks immediately prior to Barack Obama becoming president meant missing out on the S&P 500's 2009 total return of 26%.

As we speed towards the upcoming November election, we're once again seeing headlines predicting markets will either skyrocket or plummet, depending on who wins the office. With the President, one-third of the Senate, and the entire House of Representatives up for consideration, this election is particularly significant. Although things can change quickly, current polls seem to favor former Vice President Biden by a significant margin. Keep in mind, however, similar 2016 polls gave Trump only about a 30% chance of winning, and we all know how that turned out.

There's obviously good reason to question the accuracy of current polls, but it's never a bad idea to consider what a new administration could mean for tax policies and how it may affect the economy. This is especially true considering that many predict markets could decline sharply if Biden were to take office and achieve all of his policy objectives. But what are expectations if Biden wins the election, yet the GOP maintains the Senate? Under such a scenario, we would expect very little change, as there's little chance a GOP Senate majority would allow Biden to raise taxes.

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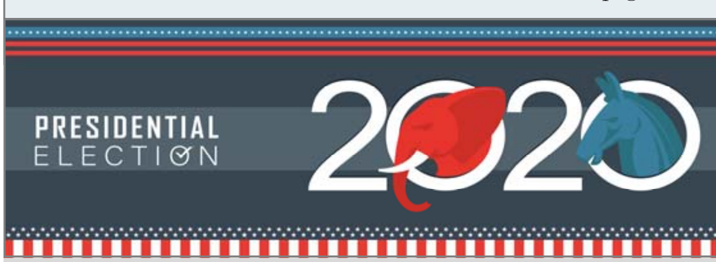

Preparing Financially for Our Ultimate Destination

By Tim Rowsey, CPA, Investment Advisor

It has been said that the only thing certain in life is death and taxes. We spend a significant amount of time helping clients plan for and prepare issues relating to taxes. The other certainty, however, is a much more sensitive topic. We all tend to live our lives as if death is something that we know is out there, but will never really come for us. It is prudent, however, to make some plans for ourselves and also potentially to save some heartache and distressing situations for those around us. We want to address some of the issues relating to death that can be addressed and probably should be considered by anyone over fifty. Accidental death, dementia or other unexpected illness can happen at any time. We also make better decisions when they are separated from the urgency or emotion of impending death. Here are some items to consider:

Legal Documents
There are four important legal documents that almost everyone should have in place. These documents help give direction relating to the ultimate disposition of your assets, and medical and financial decisions that would be made on your behalf if you were unable to make them yourself. Here is a summary of the basic documents and their purpose.

Will: Everyone who has assets that they wish to pass on to someone else, or who has children should have a will in place. If you die without a will, Ohio law will determine who inherits your property and it may not coincide with your wishes. A will is the legal document that directs the disposition of your assets according to your wishes. In a will you can name an Executor who is responsible to ensure that your wishes relating to the disposition of your property are completed. Another important function of a will is nominating a guardian for your children. A will does not control the disposition of assets that pass to a named beneficiary or a co-owner at the time of death. Examples of these assets would be IRA's and retirement benefits with a named beneficiary, or accounts owned jointly with rights of survivorship with another person.

Durable Financial Power of Attorney: This document would allow the person you name to conduct your financial affairs if you were incapacitated and unable to perform these duties

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Election Results (continued from page 1)

How Stocks Have Performed Under Different Party Scenarios
S&P 500 Average Annual Returns Since 1933

1. Democratic President, split Congress- 14%
2. Democratic President, Republican Congress- 13%
3. Democratic sweep- 9%
4. Republican President, split Congress- 6%
5. Republican President, Democratic Congress- 5%
6. Republican sweep- 13%

What has many investors most concerned is if Biden wins office and the Dems also take the Senate. If this were to happen, Biden's team has made plenty of tax proposals, but these are his Big Five: 1) Raising the top individual tax bracket from 37% to 39.6%; 2) Raising the corporate tax rate from 21% to 28%; 3) Ending the step-up basis at death; 4) Treating long-term capital gains and qualified dividends as regular income for those earning over $1M; and 5) Applying the Social Security payroll tax on income over $400K.

If we do shift to an all blue Congress under a Biden Administration, it's likely we will indeed see a raise to the top personal tax rates as well as the corporate tax rates. Raising the top tax rate back to 39.6% may slow economic growth some, but the effect would likely be small. And although keeping the corporate rate at 21% would seem to allow for the greatest economic growth, it wasn't long ago we were looking at 35% corporate rates prior to Trump's 2017 tax cuts. The corporate rate had been stuck at 35% from the early 1990s through 2017, and had not been as low as 21% since the 1930s. In a way, corporate tax rates being raised to "only" 28% may be looked at as a win, because it would mean future policy debates on corporate tax rates would range from 21% to 28%, versus 35%. Even with a tax increase, they won't be raised fast enough or high enough where a tax hike creates a recession independent of other factors. More likely, after a spurt of growth in the upcoming year, and perhaps the year after, we'd settle into a slower, more plodding pace of economic growth versus the somewhat faster pace of 2017-2019. Eliminating the step-up basis at death would be an administrative nightmare if you consider the possibility of heirs inheriting assets with no record of purchase dates and at what price.

From an economic growth standpoint, treating capital gains and qualified dividends as ordinary income would be more troublesome. For dividends, this would unravel about twenty years of tax policy which reduced the double-taxation on dividends; monies are taxed on corporate profits and then again at the personal level. For those earning over $1M, the long-term capital gain rate would go from a current high of 20% to topping out at 39.6%. Rates haven't been that high since the early years of the Carter Administration, and given that the economy is far from fully healed, there should be serious doubts the Biden Administration could rally enough moderate Democrats to allow such a hike. Changing any aspect of Social Security requires it go through "regular order" in the Senate until it gets the 60-vote supermajority required to support it. That seems unlikely as well.

If Trump is re-elected we can expect tax policies to remain unchanged, which would seem at least incrementally positive for economic growth and the stock market. Counterbalance unchanged tax policies with at least some risk of a re-escalation of trade wars. And with Trump not raising additional tax revenue, any expansion of social programs is unlikely. Biden's tax policy plan to raise revenue would hurt corporate profits, but the dollars generated would potentially be used to expand a number of social programs, including possibly creating a public option as part of the Affordable Care Act.

The outcome of the presidential election will undoubtedly affect financial markets, but our next president isn't the only market driver, or even the biggest. Congress holds the key to policy shifts, where a clean sweep, red or blue, makes the greatest impact. Assuming Congress remains split, which seems most likely, enacting new tax policies and spending legislation becomes more difficult. And even if we were to see a full sweep from either side, it's difficult to believe we'll see any sweeping policy changes in the short-term with the fragile state of the current economy.

So what does it all mean? Elections tend to generate lots of headlines, and it's understandable to have some concerns. But when it comes to your portfolio and financial markets, history suggests it will mostly be a non-issue. The market will be impacted far more by where we are with the virus, and how quickly the economy is recovering. To invest successfully, it's important to force your emotions to take a backseat in times of short-run uncertainty that events like an election can create. Maintain discipline and a long-term outlook. Stick with a broadly diversified portfolio that can help you achieve your own specific financial goals. History shows, regardless of who prevails in November, the stock market will still tend to post positive returns over the long term. ■

Preparing (continued from page 1)

yourself. Having this document in place is preferable to a court process that could be cumbersome and time consuming. The person whom you name has requirements to act in your best interest, keep your property separate from theirs, maintain accurate records, and avoid conflicts of interest. This document can be a great benefit as we age and other family members take on tasks such as paying bills or taking care of basic financial needs. Without this document in place, a court would have to appoint someone to handle financial needs of an incapacitated person.

Living Will Declaration: This document may also be known as an advance health care directive. It is a set of written instructions that specifies what actions should be taken for the health of the individual, if they are unable to make those decisions for themselves due to illness. Typically it would provide the course of treatment to be followed by health care providers including life-sustaining measures you do and don't want. It may forbid the use of some types of medical treatment such as mechanical breathing or tube feeding or resuscitation. It only comes into play when the individual is unable to give informed consent due to incapacity. Under

Ohio law the Living Will only applies to individuals in a terminal condition or in a permanently unconscious state.

Health Care Power of Attorney: This is a document that allows you to appoint someone you trust to make any health care decisions for you if you are unable to do so for yourself. This designation can help alleviate confusion as to who is authorized to make medical decisions on your behalf. It is usually good to have both the living will and the health care power of attorney in place. The living will helps your health care power of attorney to know some of your specific wishes regarding your end-of-life care.

Easy availability of instructions and important documents
Having proper documents in place is a wonderful start but sharing their location is also vitally important. We have known families who were still finding important documents months after the death of a loved one primarily because the important documents were not centrally located in a place that was known to those left behind.

Titling of assets/Beneficiaries
Proper titling of assets and making sure that beneficiaries are named can be a huge benefit to those left behind. If this is done properly it may be possible to entirely escape probate. Almost any asset can be titled as transfer on death including real estate. In addition, making sure that beneficiaries are named and are up to date with current desires is extremely important.

Simplify
We have helped many families through the years deal with the death of a loved one. Often the process is made much more difficult by the complex situations that were left behind. Funds held in six or more different banks, investment accounts with multiple fund companies or brokers, multiple small life insurance policies and annuities. While there is nothing wrong with diversification, the complexity of multiple holdings makes dealing with the finances after the passing of a loved one even more stressful. As we age, it can be smart to simplify and condense holdings into fewer holdings that are easier to manage during lifetime and also easier to transition in death.

Looking to the future and preparing for our own eventual death is not an easy thing. Knowing that we may be easing the burden on those left behind can be a powerful motivator. Choosing to deal with financial issues while living can certainly help ease the pain and stress of those who are left behind. ■

Market Recap

How the major indices performed in the 3rd Quarter 2020

DOW JONES INDUSTRIAL AVERAGE
3rd Quarter return 7.6% YTD return -2.5%

S & P 500 COMPOSITE
3rd Quarter return 8.5% YTD return 4.4%

RUSSELL 2000
3rd Quarter return 5.6% YTD return -9.6%

BARCLAYS AGGREGATE BOND
3rd Quarter return 0.7% YTD return 6.8%

*All indices are reported Total Return which includes Dividends.

Market Update

By Greg Emmons, CFP®
Investment Advisor Rep.

Steady climb for equity markets
The year 2020 has seen some challenges and through it all the equity markets have plodded along. For the third quarter the S&P 500 and the DOW were up 8.5% and 7.6% respectively. The NASDAQ ran incredibly hot through July and August but has cooled since the start of September. Buoyed by incredibly strong balance sheets and pandemic proof business models this basket of tech stocks still finished the quarter up 11%.

Bonds edge upward
The Barclays Aggregate Bond Index rose by 0.7% for the quarter. The yield for the US 10 Year Treasury Note hovered between 0.6% and 0.7%. The Federal Reserve has committed to keeping an easy monetary policy in place. Based off the minutes of their last meeting it's likely they won't raise rates until sometime in 2022.

Stock Market vs Economy
Despite several headwinds we've seen this year the stock market continues to show a tremendous amount of resilience. Many investors find this confusing and believe that there is a disconnect with the stock market and the economy. It's important to remember that the two are not the same thing. The economy represents a vast group of activities related to the production, consumption, and trade of goods and services. The stock market is just one of many factors in the economy and is an indicator of corporate profits and the rate in which investors expect them to grow or shrink. In terms of stock market performance "better" or "worse" are often times more important than "good" or "bad". The economic data that we see today isn't great by any stretch but it's far better than what it was back in March and April. Hopefully we can move past this Covid era and keep trending in the right direction. ■

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