SIA

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THE SIA REPORT

IS THIS TIME DIFFERENT?

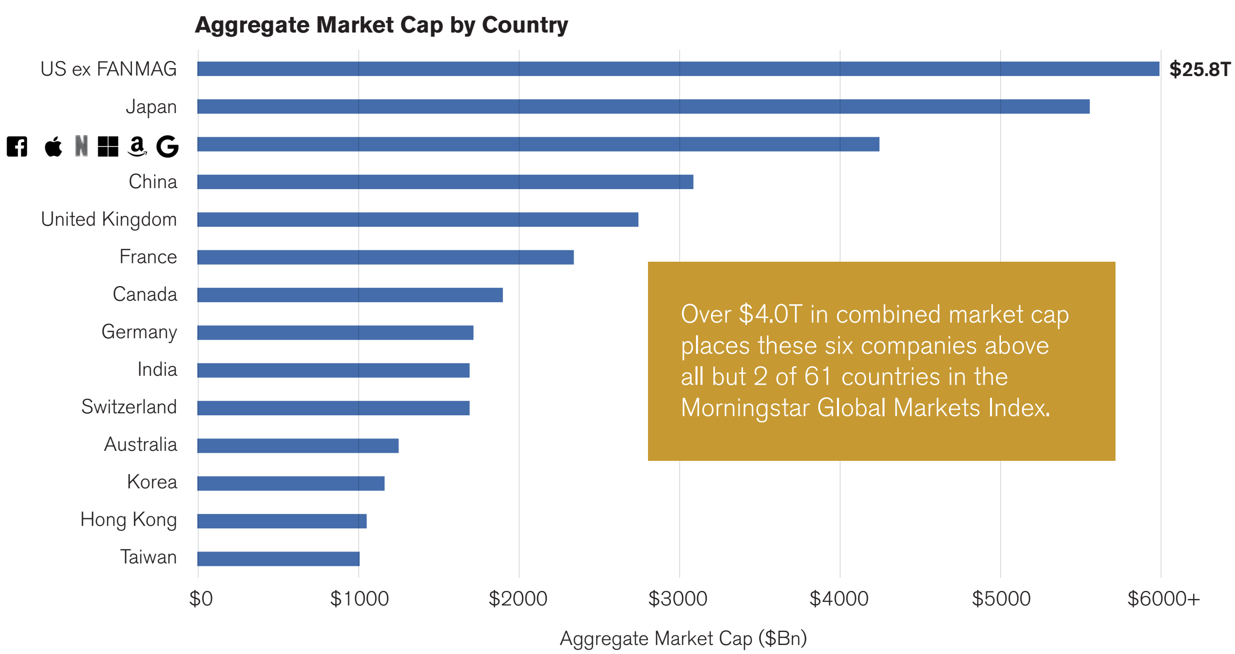
BY **Sam Miller**
CFA®, CFP®, CAIA®,
Senior Investment Strategist

Just like fashion, art, and cooking, investing is also subject to fads and styles that come in and out of favor. Whether it's dotcom stocks or cannabis startups or cryptocurrencies, it's simply human nature to become enamored with the shiny new things that everyone's buzzing about.

One of the trendiest investments in recent years has been "Big Tech" – a very select group of the largest technology and communications companies that includes some combination of Facebook, Amazon (officially a consumer discretionary stock), Netflix, Microsoft, Apple, and Google and which is referred to by various different acronyms (e.g., FANG, FAAMG, FANMAG) depending on whichever companies happen to be shining the brightest most recently. In most instances, we advocate steering clear of investment fads. But unlike other passing crazes, the adoration heaped on this short list of companies has been well deserved as collectively they have demonstrated truly remarkable innovation, scale, and profitability.

As a result, the stocks of these companies have handily beaten every other category, both in the raging bull market of the last decade as well as in the pandemic-fueled sell-off and recovery of 2020. Unlike other market cycles, where the outperformers on the way up often underperformed on the way down, Big Tech has bucked this trend. With the coronavirus improving the long-term prospects of businesses that can not only operate but thrive virtually – with less reliance on traditional workforces and brick-and-mortar stores – the rich have become richer. The end result? Now this small basket of companies is bigger than the market capitalization of most countries (see below).

FIGURE 1: COMPARING THE FANMAG STOCKS TO THE MARKET CAP OF THE LARGEST COUNTRIES



Source: Research Affliates, Data as of 9/30/2019

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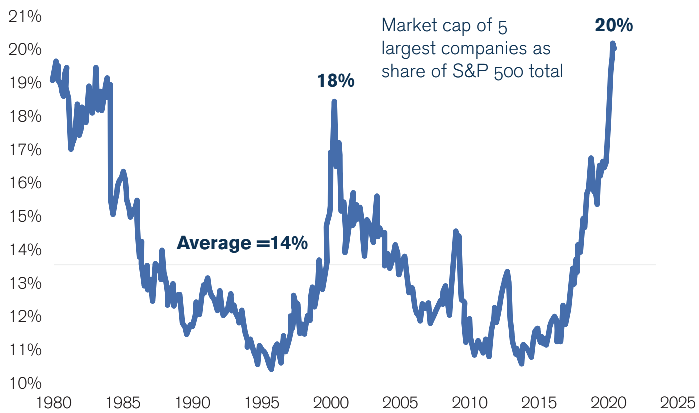
But this outperformance has also generated more risk in the form of narrower breadth and the greatest market concentration since the dotcom boom of the late 1990s (Figure 2). The market's prospects are currently riding on a far smaller list of companies than is typically the case. In fact, over the last 30 years, no two companies had ever EACH comprised more than 5% of the S&P 500® index. As of the time of this writing, Microsoft and Apple both do. Since the COVID-19 drawdown in March, Facebook, Amazon, Microsoft and Netflix have all led the market rally (achieving new all-time highs in the process), with the other FANMAG names not far behind.

FIGURE 2: MARKET CAP OF THE 5 LARGEST COMPANIES AS SHARE OF THE S&P 500®



Source: Compustat, Goldman Sachs Global Investment Research

Why You Shouldn't Put All Your Eggs in the Big Tech Basket

Certainly, tech stocks have been one of the few bright spots in an otherwise awful crisis. And it's feasible that their outperformance might continue further into the future. But if market history has taught us anything, it's that at some point performance will reverse as expectations begin to exceed reality. The technology sector in general (and FANMAG stocks in particular) will continue to be an important building block for most portfolios; yet we caution investors not to extrapolate the last few years' worth of performance into the future for several reasons:

1. There are upper bounds to growth

Since 2014, the market cap of Facebook, Amazon, Apple, Microsoft, and Google grew at an annualized rate of 21.6%, while the S&P 500 grew at 7.7%[1]. If these growth rates were to continue, in seven years these five stocks would represent HALF the index. Six years later, they would represent almost the entire index. From a purely mathematical perspective, this can't happen. The larger these companies become, the harder it will be to sustain the same astronomical growth going forward.

2. History offers some clues as to what happens next

Narrow breadth like we're experiencing can last for an extended period of time, but past episodes have always reversed. With a median duration lasting of three months, and the longest lasting 27 months from 1998-2000[2], these episodes have always ended in one of two ways: (1) The market leaders experience a large drawdown because fundamentals can't catch up to elevated valuations and investor crowding; or (2) an improving economic outlook and strengthening sentiment help the laggards catch up to the leaders, causing relative underperformance by the leaders. In either case, investors would be wise to own other asset classes that will benefit from such scenarios.

3. It's not uncommon for a small number of stocks to drive market performance, but history tells us that it's extremely tough to identify those stocks in advance and they don't stay on top for long.

It's actually quite common for a smaller subset of stocks to drive a sizable portion of the overall market return. However, if we look at the top 10% of stocks by performance each year since 1994, on average less than 20% of that group continued to rank in the top 10% the following year[3]. Just as with asset classes, research shows there's no reliable way to predict what stocks will be top performers in any given year.

4. Regulatory headwinds

While government officials currently remain focused on fighting COVID-19, one can only assume that the call for antitrust scrutiny will grow louder as the Big Tech names grow bigger and more dominant. Proposals like splitting up Amazon's web and retail businesses, breaking up Facebook into its constituent parts, curtailing Apple's power over the app store, or slowing Google's dominance in online advertising will continue to be discussed and eventually may begin to take shape. Presidential candidate Biden has specifically criticized Facebook and Amazon in the past, and this discussion is sure to take center stage as the election approaches.

While Big Tech will certainly continue to play an important role in driving performance, headwinds for these companies are likely to increase. Diversified investors would be wise to stick with their investment plan, rebalance back to your targets, and continue to allocate to "out of favor" asset classes like Value, Small Cap, and International as we believe patience will be rewarded.

1 Bloomberg
2 Goldman Sachs
3 Dimensional Fund Advisors

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STIMULUS PLANNING

BY **Glenn McGregor**
CFP®, AIF®
Advisor

2020 has been a turbulent and emotional time for us all. In the many conversations we've had with clients over the past few months, concerns have spanned a wide range of topics – from health and wealth to family and government.

Although we don't yet know how or when the COVID story will be resolved, it may prove beneficial to step back, review the economic steps already taken, consider possible future government action this summer, and explore some of the key areas outside of your portfolio which could have a profound affect on your long-term financial strategies.

During the darkest market days of the pandemic, Congress passed the CARES Act which provided a variety of stimulus strategies designed to help families and small business owners reduce the economic strain on their livelihood, including:

- Stimulus checks of up to $1200 based on income
- Enhanced unemployment benefits
- A suspension of required distributions from retirement accounts and simplified hardship withdrawal requirements
- Student loan interest and payment deferrals
- Forgivable loans to smaller businesses

As of mid-June, the stock market had rebounded closer to pre-COVID levels and many businesses are now somewhere in the process of phased reopening plans based on the stage of recovery their state/community is experiencing. A recent widespread uptick in infections, however, has pushed markets lower and muted some of the enthusiasm surrounding the prospect of a fast market recovery.

Keep in mind that market recovery does not equate to economic recovery. Many businesses either still have yet to open due to health concerns, are forced to operate at reduced capacity (e.g., restaurants that need high occupancy and a thriving bar to remain profitable are operating at 50% capacity with no bar), or have been overtaken by online/delivery services. To help buoy businesses and workers still struggling, the federal government is developing another round of economic stimulus. As of today, some of the assistance options being explored include:

- A House-passed HEROES Act – includes another one-time stimulus payment as well as an extension of the increased unemployment benefits through the remainder of 2020
- White House thoughts – promoting an extension of higher than regular unemployment benefits through 2020 in conjunction with employment and domestic vacation tax breaks
- Senate discussions – focused on additional loans to businesses and further financial support of the health care industry

SIA will provide commentary around any new stimulus as it becomes law, but we also want to alert you to several areas where we see a potential impact to your financial situation in 2021 and beyond:

1 Expect higher costs for healthcare, health insurance premiums, LTC insurance, as well as senior housing/care. The healthcare industry has been stretched to the limit due to COVID. Combined with new protective measures, added staff and medicine development, these factors will likely increase costs to consumers.

These higher costs (not to mention the continued spread of COVID) may prompt you to rethink your overall financial plan and retirement lifestyle. Do you perhaps want to consider living in a less densely populated community now or in the future? Might you prefer to age in your home rather than a retirement community? Do you anticipate more assistance to family members due to a change in work? Could your (or your spouse's) state or corporate pension be affected?

2 So called "recession proof" careers have not been protected from job loss. And while the potential for a speedy employment rebound exists; post-COVID employment may come with significant benefits changes. Make sure you pay close attention to the 2021 open benefit period:

- Thoroughly review health insurance/Medicare plan options

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Dear Clients,

As a country, we continue to endure unprecedented challenges – from trying to safely restart our economy without reigniting a new wave of infections, to addressing demands for greater racial equality in the wake of nationwide protests. Through it all, however, the professionals at SIA remain committed and are here to continue to support our local communities and your family's financial needs.

We thank you for the continued trust you place in us.

From our SIA family to yours, be healthy and be safe.

STIMULUS PLANNING *continued from page 3...*

- Ensure that you're carrying sufficient life insurance (consider coverage outside your employer to make sure all your insurance isn't tied to your job)
- Check your 401k contributions (and your employer match) if you changed your deferral rate during the year, and consider contributing to an IRA if your retirement plan has closed

3 Be prepared for higher state or local taxes in the next few years. States are going to be on the hook for healthcare, school technology and other costs, all while operating with lower income tax and sales tax revenue. Work with your tax advisor to ensure proper withholding, and be ready for the possible return of estate taxes.

4 Review your estate plan. COVID showed that people of all ages need a durable power of attorney, healthcare directive and a will. If yours is up to date, great! If not, don't procrastinate…and encourage your adult children to do the same.

As new information becomes available, some or all of these foundational elements of your long-term financial plan may need recalibration. Talk to your SIA team to explore how the pandemic has affected you and your family's goals and plans, so that we can work with you to develop and test new strategies that may help to get you back on track.

> "I believe successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

Brian D. Holmes,
MS, CFP®, CMFC, AIF®,
President & CEO

ABOUT SIA

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2020 Required Distribution Suspensions

The Internal Revenue Service issued a notice on June 23, 2020. The notice clarifies that people who took their required minimum distributions in January (and anytime this year) can redeposit their required minimum distributions (RMD) to accommodate the CARES Act RMD suspension for 2020 under new rules that apply to 2020 RMDs. The RMD deposit can be treated as a rollover if accomplished before August 31, 2020.

**Consult with an independent tax advisor regarding your specific situation.*
Forbes, June 23, 2020

SIA
Signature Investment Advisors®
A subsidiary of Signature Estate & Investment Advisors, LLC®

Century City, CA
2121 Avenue of the Stars, Suite 1600
Los Angeles, CA 90067
T 888 349 3241 F 310 855 3955
SignatureIA.com

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