

THE SIA REPORT

ELECTION 2020 | IT'S POLICY NOT PARTY THAT MATTERS



BY Brian D. Holmes
MS, CFP®, AIF®
President, CEO

Historically, has the stock market fared better under Republican or Democratic administrations?

Many of us might instinctively answer Republican, based on the party's traditional lower-tax, pro-business platform. In reality, however, there's absolutely no statistical difference. Since 1945, a traditional 60/40 stock to bond portfolio has delivered a 6.0% average annual return with a Democratic

president and a 6.1% average annual return under Republican administrations.¹

It's not the party in power that influences stock returns, but rather a host of other factors including where we are in the business cycle, the Fed's monetary policy and current and projected corporate profits and valuations. Furthermore, given the steady march towards a globalized economy (with more than 50% of revenues for S&P 500® firms generated from overseas), the actions of any one government – even one as influential as the U.S. – has less and less of an impact than in decades past.

Yet it's all too easy to allow party politics to color our investment decisions rather than focusing on what actually might help to shape the market's future direction – the impact of policy. Whether November brings another term under a



Trump administration or a new Biden presidency, it's policy not party which will ultimately drive the economic train. It should be noted, however, that the Federal Reserve could choose to tighten its policy of low interest rate and unprecedented fiscal stimulus, regardless of who is in power.

Navigating a post-coronavirus election economy

Whoever's the next Oval Office occupant, they will undoubtedly still be dealing with the economic, social and public health aftershocks of COVID-19. There's still a great deal of uncertainty surrounding how soon everyday life (and our economy) will get back to some semblance of normalcy. And even when that does eventually come to pass, medical professionals have cautioned that periodic flareups of the virus (along with regionalized "shelter in place" orders) are likely to occur for the foreseeable future. Ultimately, the economic damage – especially across service businesses, travel and entertainment industries, commercial real estate and retail – will be extensive and long-lasting.

Given these unprecedented question marks hanging over the market, any prognostications must, by necessity, come with a tremendous caveat that we are swimming in unknown waters where past performance may be even less likely to indicate future returns. Nevertheless, we believe that the following three historical truths will continue to hold up in the aftermath of the November election:

1 A division of power tends to be a good thing – in examining annualized returns for the two calendar years following every presidential election since 1952, the highest returns have occurred with a Democrat in the White House and either a Republican (15.8%) or split Congress (14.0%).²

2 Boosted by a Trump re-election – three sectors in particular (defense, energy and financials) would likely enjoy a strong tailwind in the form of sustained high spending levels with continued low regulatory hurdles and controls.

3 Benefitting from a Biden presidency – we would expect to see significantly increased spending to improve both healthcare and infrastructure, as well as a reduced headwind for large multinationals thanks to loosened trade sanctions and restrictions. Tax sensitive investing could also receive a boost.

Even in this time of unparalleled volatility and uncertainty, the best course of action is generally to stick with your carefully crafted long-term financial plan and trust that thoughtful diversification will enable you to weather the storm. Of course, you'll want to periodically rebalance to ensure that market turmoil hasn't significantly altered your overall allocation – resulting in either too little or too much risk. Aside from considering a few sector tilts, however, it's best to leave party politics out of your investment portfolio.

Potential election outcomes	
Scenario	Economic Implications
Trump status quo	Continued low-tax/low-regulatory regime; increased spending; continued geopolitical uncertainty
Biden + split Congress	Somewhat higher taxes/more regulation; increased spending; more predictable trade/tariff outlook
Blue wave	Highest taxes/most regulation; increased spending; more predictable trade/tariff outlook

¹ "Annual Returns on Stock, T. Bonds and T. Bills: 1928 – Current," Stern NYU
² FactSet, November 2018

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THE 2020 YEAR-END PLANNING CHECKLIST



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

The world has changed a great deal in 2020, and for better or worse, likely so too has your financial situation. From the CARES Act and rock bottom interest rates to a stock market that at times has defied gravity, markets

have whipsawed in response to current realities and perhaps permanently shifted in anticipation of a new future state of the world.

As we head into the final stretch of this tumultuous year, there are strategies you can adopt to more effectively respond or react to events that have already occurred, while also planning for what's to come. This is an opportune time to reassess your goals and take positive steps to make sure your plan is on track. While there are a multitude of factors that comprise a sound financial plan, think about the following five categories as key areas where potential action as we head into year-end may yield especially positive results:

1 Interest rates

Record low interest rates are generally bad news for savers who rely on steady interest income. But they can present tremendous opportunities for borrowers. Specifically, debtholders may want to consider refinancing their mortgage or student loans to help reduce the interest burden over the life of the loan.

Beyond refinancing debt, low rates also present a unique opportunity for intra-family loans, which can serve as a great way for parents or grandparents to help their children or grandchildren accomplish important financial goals (e.g., buying a first house or starting a business) while ensuring the loan recipient retains some "skin in the game."

2 Taxes

For those of you who may be charitably inclined, the CARES Act altered certain rules to make giving more attractive. Specifically, for cash gifts made directly to charity, individuals are now permitted to deduct up to 100% – up from 60% – of their adjusted gross income (AGI).

If you've already begun taking distributions from IRAs, 2020 proved to be an RMD holiday! The IRS decided mid-year that IRA holders could re-contribute any RMDs taken earlier in the year, so long as they did so by August 31st. Individuals who took advantage of this RMD holiday potentially saved a bundle on taxes.

Additionally, after a wild roller coaster ride in the stock market, many investors are left holding low basis or concentrated stock positions, creating excessive and unnecessary portfolio risk. From exchange funds to qualified opportunity zones, there are a variety of techniques that can be employed to diversify a concentrated position while minimizing or reducing your resulting tax liability.

3 Estate plan

While laboratories across the globe work day and night on developing an effective vaccine, the pandemic rages on and serves as a reminder that all of us should have a thoughtful estate plan in place. As part of that plan, take time to share any essential documents (e.g., wills, durable powers of attorney, trusts, etc.) with the people you've asked to help with your estate. Make sure too, that all your beneficiary designations are up-to-date. Beyond these initial steps, your plan should include a Health Care directive – an item of increased importance in the midst of this pandemic. In the event your health care proxy is not able or allowed to be present at a medical facility, your estate plan should include instructions for how health care professionals may receive instructions from your proxy either electronically or by some other means.

4 Retirement accounts

Converting an IRA to a Roth IRA can be a beneficial strategy if the timing is right. If you find yourself in a lower tax bracket than normal this year, or if you believe that taxes will rise precipitously under future administrations, it may make sense to enact a partial or full Roth IRA conversion.

For those who may have been adversely impacted by COVID-19, the CARES Act also allows for hardship withdrawals of up to \$100,000 from any combination of IRAs or employer plans. If certain eligibility requirements are met, these withdrawals will be exempt from the typical 10% early withdrawal penalty and are eligible to be repaid over three years. If not repaid, however, they become taxable income (spread out over three years).

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Dear Clients,

We're immensely proud of the reputation we've built as your trusted financial partner, and approach our fiduciary duty to always act in your best interest with the utmost care. Thank you for the ongoing trust you place in us. And rest assured that our team stands ready to support you, your family and our shared communities whenever a need may arise.

From our SIA family to yours, we wish you continued health, safety and happiness.

2020 YEAR-END PLANNING CHECKLIST *continued from page 3...*

5 Investments

Much of the recent growth in the stock market has been driven by a relatively small number of "big name" stocks. This has resulted in increased concentration in many portfolios, along with greater imbalances between growth vs value, domestic vs international, and small vs large cap. With this in mind, if market appreciation has allowed you to reach the point where your essential and important financial goals are fully funded, it may make sense to dial down the risk of your portfolio, or at a minimum rebalance and take profits from stronger performing areas of the markets.

I think we can all agree that 2020 has proven challenging enough without adding additional items to our to-do lists. Taking just a few proactive steps to shore up or improve your financial plan today, however, could pay off down the road. Your SIA relationship manager stands ready to assist in implementing these and other strategies that your circumstances may dictate.

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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

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SIA In The News

2020 RIA Channel Top 100 Wealth Managers



The 2020 RIA Channel Top 100 Wealth Managers List showcases wealth management firms based on size, growth, and quality. RIA Channel ranked the Top 100 RIA firms of 2020 based on a proprietary set of criteria and data. The ranking is based on both size and growth in assets as of June 30, 2020, as reported to the SEC. RIA Database (RIADatabase.com) was used for regulatory data, organic research, and advisor surveys. RIA Channel is a privately held company and does not charge fees to be included in their lists.

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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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