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# BKMWM Newsletter August 2020

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## Topics:

1. Presidential Elections & the Market
2. Interest & Money Creation
3. Low Rates = Opportunity
4. 529 Plans & Student Loans
5. BKMWM Update
6. There is No Alternative (TINA)

### **1) Presidential Elections & The Market**

Correlation is not necessarily causation. We find that investors often get overly concerned about the outcome of presidential elections. However, history has shown that on average the stock market has done well whether Republicans or Democrats are president. The investment firm, Capital Group, in their Outlook for 2020 suggests that "election results, historically speaking, made essentially no difference when it comes to long-term investment returns."

From our observations, movements in the stock market, up or down, generally don't have a single cause. Market prices are a result of millions of shares of stock being bought or sold. Each of those buys and sells can occur for a myriad of reasons. Very few of those reasons coincide perfectly with any given narrative that you might hear on the news. In addition to who is president, some factors that impact investment decisions include: the make-up of the House and Senate, interest rate and inflation levels, personal and corporate tax rates, and employment and confidence levels. Potential "black swan" events like terrorist attacks, geopolitics, pandemics, earthquakes and others can impact investment decisions.

Therefore, while it may be important and even entertaining to discuss who will get elected this fall, the impact on the stock market may be less disastrous or rewarding than you might think. Conventional wisdom might suggest that Republicans, who are supposedly more business friendly than the Democrats, would be more beneficial for your stock holdings. In fact, according to Kiplinger's Personal Finance, looking back to 1900, Democrats have been slightly better for stocks, with the Dow Jones up an average of nearly 9% annually when the Democrats are in control, compared with nearly 6% per year during Republican administrations. However, research by Russ Koesterich, chief investment strategist at Blackrock draws a similar conclusion to the Capital Group - a focus on which party wins the White House is unwarranted from an investing standpoint.

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You may read in the news that there is a correlation between the stock market and the presidential election cycle. We believe this too is suspect. There have been only 17 elections since 1950. Therefore, with such a small data set any conclusions should be greeted with skepticism. For what it is worth, here are the average returns of the S&P 500 in each year of the election cycle:

Year after election +6.5%  
Second year +7%  
Third year +16.4%  
Fourth year +6.6%

Bottom line; don't jump to conclusions. Throughout history, the U.S. economy, entrepreneurs, innovators and capitalists have overcome politics and whatever other factors may be temporarily driving short term investment decisions. Between 1950 and 2019 the S&P 500 stock index has had positive annual returns 73% of the time.

## 2) Interest & Money Creation

Have you ever wondered how money is created? No, not from a mint, or when you scrawl out an I.O.U. to a friend. Rather, when the economy grows, when wealth is created, how does that new value come into being? There are only so many dollars out there, so even if your first thought is "the government prints new dollars", then you're left with the question of how that gets out into the economy - the government doesn't just pass out new dollars they've created to everyone to go spend (but rest assured if they start, we'll make it a key component of your investment plan!). The answer: lending.

There are competing theories as to precisely where the new money is "created", but the simple answer to how new value enters the system is through interest from lending. Depending upon which theory is subscribed to, this either happens as a result of central banks issuing money to private banks, or from the private banks themselves issuing loans to firms, companies and individuals, with the central bank merely replenishing their reserves.

Lending initiates a complicated monetary circuit which we'll simplify here. Whether the initial "creation" occurs at the hands of the central bank doling out to private banks, or the private banks lending out into the system at large, the second step occurs when the borrowing companies take those loans and pay them out in the form of salaries, dividends and other expenditures to the public; i.e. you and me. Individuals then take those earnings and in turn buy goods and services back from the producing companies, alongside numerous detours such as to the government through taxes, and back out to the people through social services. These companies then pay back the banks that initially lent out the money, and the circuit is complete-but with interest. That loaned money, which was really just a debit on a ledger, is then closed out. The loaned out principal is effectively destroyed, but the added interest from the loan remains in the monetary system as new money.

If new money is created from interest, then what do low interest rates mean for future economic growth? Without innovation, productivity enhancing technology and population growth, economic growth faces a headwind in the form of low interest rates. However, innovating new firms that rely on the capital markets for loans may see low rates as a tailwind.

### 3) Low Rates = Opportunity

While low interest rates can be viewed as a detriment to economic growth and savers looking for income, they can often be a benefit to borrowers. If you have outstanding debt you may want to take a look at your options. With rates near all-time lows the savings could be worth the effort.

### 4) 529 Plans & Student Loans

There are many advantages to using state-sponsored 529 Plans for educational savings, and the SECURE Act, which went into effect January 1st, expanded these uses. In most states, including Wisconsin, you can now use 529 Plan savings to pay for qualifying apprenticeships and associated expenses without dollar limits. You can also use them to pay student loans up to \$10,000 per beneficiary. Because 529 Plans permit beneficiary changes between qualifying family members, this can be a useful way for families to reallocate educational savings to pay down student debt or use up remaining 529 assets without incurring the tax hit of non-qualified expenses. Keep in mind, when 529 plans are used to pay student loans you may be prevented from claiming a tax deduction for the student loan interest.

### 5) BKM Wealth Management Update

We opened BKM Wealth Management on May 1<sup>st</sup> and have been coming into the office most days since then. We hope you will come visit us when it is safe to do so.

- Our office is open Monday-Friday. Appointments are encouraged.
  - 20300 Water Tower Blvd, Ste. 250, Brookfield, WI 53045
  - Main office phone: 262-955-7150 | fax: 262-955-7147
  - [info@bkmwm.com](mailto:info@bkmwm.com) | [www.bkmwm.com](http://www.bkmwm.com)
- If you prefer web conferences over face-to-face meetings, please contact us to setup a web and/or video conference via a secure Zoom<sup>®</sup> link.
- Notarization of client documents is available by appointment.
- Reminder: When depositing money in your accounts you should make checks payable to "Wells Fargo Advisors", or to the name of your account. Please do not make checks payable to BKM Wealth Management.
- The BKM website ([www.bkmwm.com](http://www.bkmwm.com)) is up and running. While it is a continual work in progress, we hope you will use it as a resource. The site contains useful and timely information including:
  - Market, Economic and Stock Research
  - Financial Calculators
    - Savings accumulation
    - College funding
    - Required minimum distributions (RMDs)
    - Retirement portfolio lifespan
    - Roth IRA conversions
    - Capital gains taxes
    - Life insurance needs
    - Long-term care insurance
    - Disability income insurance
  - Information on Our Services:
    - Investment & Retirement Planning
    - Estate Planning
    - Corporate/Business Retirement Plans
    - Divorce Financial Analysis and Advice
    - Tax Efficient Strategies
    - Tax Free Income
    - IRAs
    - 401(k) Options
    - Advisory Services
    - Link to Log In to Your Account(s)
    - IRA , IRA Rollover, 401(k), and College Savings Account Information
    - Insurance & Risk Management
    - Liability/Debt Management

## 6) There is No Alternative (TINA)

"There Is No Alternative" has become a popular Wall Street acronym describing a key reason why stocks remain so popular. The term was originally credited to the former prime minister of Britain, Margaret Thatcher, in her argument that the market economy is the only system that works. Today the phrase is widely used to suggest that stocks are the only option for investors seeking a reasonable return in a world of low interest rates.

The Federal Reserve has announced their intent to keep the benchmark federal funds interest rate near 0% for the coming year. Despite the lack of yield, over five trillion dollars is now parked in money market accounts due to fears of volatile financial markets.\* While this "risk free" method of investing may preserve principal, money markets are unlikely to keep pace with rising costs over time. Most "safe" investments follow the federal funds rate and now yield less than 1%. It would take 72 years to double your money if you earn 1%! Historically, the cost of the goods and services we use has doubled every 24 years.

Now may be a good time to reevaluate your tolerance for risk and portfolio allocation. Stocks are near all-time highs and interest rates are near all-time lows. A lot has changed in a year. Please contact us to evaluate your portfolio and to discuss whether TINA is becoming a factor in your long term decision making.

*\*Source: [www.cnbc.com](http://www.cnbc.com), "There's nearly \$5 trillion parked in money markets as many investors are still afraid of stocks." June 22, 2020.*



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*The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.*

*The S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index of stocks in the Standard & Poor's 500 index having the highest price to book ratios. The Index consists of approximately half of the S&P 500 on a market capitalization basis.*

*The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor's 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.*

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*BKM Wealth Management is a separate entity from WFAFN.*