BKMWM Newsletter February 2021

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1) Markets

Despite continued pandemic concerns, rising unemployment and political unrest, most of the major stock indices have made record highs in early 2021.

At least temporarily, it appears that market leadership has shifted. Large growth stocks have recently underperformed, and many of last year's laggards such as energy and financial stocks have risen. More cyclically oriented "value" stocks as well as international and emerging markets stocks are also doing comparatively well.

The last year has shown how hard it is to time markets and why prudent investing means diversifying to reduce, not eliminate, risk. While most diversified portfolios were up nicely last year, consider this: more than one half of the S&P 500 stocks had negative returns in 2020. Over 25% of those stocks were down more than 20% for the year. Interest rates for relatively safe investments were between zero and two percent.[1]

Recently, longer term interest rates on Treasury bonds have spiked higher. This may be due in part to optimism that more government stimulus is on the way. However, all the debt that the U.S. government has taken on, both in years before and during the pandemic, is making some investors concerned that higher rates and inflation may be coming. Could it be that our 40 year trend towards lower interest rates is finally ending?

Bond prices decline when interest rates rise. Higher interest rates also typically slow the economy and act as a headwind for stocks. Over time, as rates rise, investor preferences may shift away from stocks and towards bonds.

As financial advisors, we are charged with investing your funds prudently. We encourage you to continue communicating with us to help assure appropriate action is taken for your specific situation. Regular communication can also provide you with a greater comfort level and ensure that you remain on the right track.

1) *Source: S&P 500 Global Market Intelligence*.

2) Tips for Combating Fraud

- Be Leery of the Bad Guys
  During 2020, the Federal Trade Commission received nearly 140,000 reports of coronavirus and stimulus-related fraud resulting in a total loss of over $190 million. The FBI issued a warning telling people to watch out for government impersonators, phishing emails, robocalls and employment scams. To protect yourself limit where you share your personal information, and don't fall prey to the predators. When you receive a robocall, don't say anything, simply hang up. Don't hit a button when prompted to "stop getting calls". That could lead to more calls as scammers often use this information to identify potential targets.[1]
- Limit What You Reveal Online
  Vacation photos may sound like a thing of the distant past. But once we have travel photos to share again, wait to post them on social media until you are back home. Don't give thieves yo9ur up to the minute location notifying them that you are not currently at home. This includes restaurant selfies, party updates, game day pictures, etc. Uploading your photos can wait until you return home.
- Sign Up for Transaction Alerts
  Help protect your money by signing up for transaction/account alerts. Enable credit card auto notifications for purchases. This way, if anything is out of the ordinary, you will know immediately and can take action to limit the financial damage.
- Put Your Shredder to Work
  Shred your bills and financial documents. Better yet, opt for electronic delivery where possible to avoid paper copies ever being created.
- Check your Credit Report Annually
  The Fair Credit Reporting Act (FCRA) requires each of the nationwide credit reporting companies — Equifax, Experian, and TransUnion — to provide you with a free copy of your credit report, at your request, once every 12 months. Utilize annualcreditreport.com to check your credit scores and other credit information to ensure nothing looks amiss.[2]

If you believe your identity has been compromised, do not hesitate to call our team so we can take the steps necessary to secure your accounts and offer suggestions on ways to quickly report and move forward from the setback. We are here to help you protect your personal data and financial assets.

1) Source: Money.com 2) Source: aarp.org

3) Retirement Savings

In our experience, Americans are not always responsible with their personal finances. Many do not create and commit to a plan. The pandemic has done little to remedy the issue.

Before the COVID era, 25% of all working Americans had saved nothing for retirement, with that number climbing to 50% for younger workers, and just 1 in 3 people felt they were on track to retire.[1] The average American between ages 55-64 had saved enough to spend just $300/month in retirement.[2] Much like everything else in life, the pandemic has shaken things up.

When it comes to personal finances, the unique environment of 2020 created a bifurcation of financial health. In general, middle aged workers who were fortunate enough to maintain their jobs and income benefited from reduced spending and positive market performance to improve their savings and net worth. On the other hand, workers who lost their jobs or earned less income suffered. This particularly affected workers on the younger and older ends of the spectrum. They were easier to lay off or push into early retirement. The problem was compounded by the fact that these two segments are particularly vulnerable. Older workers have less time to make up for the lost savings before retirement. Younger workers are generally behind prior generations with their savings, and have a smaller financial cushion in an emergency. According to a CNBC survey, these groups were far more likely to take advantage of the CARES Act rules regarding early retirement plan withdrawals.

The good news is that near the end of 2020, only an estimated 2-3% of people had drawn on their retirement accounts[3], and many of those may be able to replenish that money within the permitted three-year window. Additionally, most people who were able to maintain some investment savings benefitted from a strong market year. Another silver lining of the past year has been the discovery of investing for many. In fact, an astounding 22% percent of consumers made their very first investments in 2020, with higher percentages for demographics such as Gen Z and women[4].

While there have been some positives in personal finance for those on the fortunate side of the dislocation, workers as a whole are more poorly positioned for the future, and will likely need to do some buckling down. While 1 in 3 people felt on track towards retirement a year ago, today 1 in 4 expect to need to work longer to achieve that goal. Planning has become more important than ever[4].

Sources: 1) Bankrate Financial Security Index. January 21-26th, 2020. 2) Economic Policy Institute, "The State of American Retirement." 3) CNBC SimplyWise Survey 2020. 4) LeandingTree and Stash, "Impact on America's Personal Finances". October 5th, 2020.

4) SPACs

If you are a follower of financial entertainment media, you've likely heard the term "SPAC" mentioned as a hot new way to invest… for better or worse.

A Special Purpose Acquisition Company (SPAC) is a publicly traded, non-operating, company with the sole purpose of acquiring a private company and therefore bringing the subsidiary company to public market. In essence, a SPAC acts as a placeholder, reserving a spot in the public trading market for a future, undetermined, private company. Shares typically issue at $10, and will stay around that price until the announcement of the private company the SPAC will be acquiring. Once the merger occurs, shares then convert to those of the newly acquired company, and move in the market accordingly.

There are several benefits to companies going public through this reverse-merger scenario over the traditional Initial Public Offering (IPO) route, including less onerous regulatory hurdles and greater control over the sale of ownership shares. However, the reason SPACs have become the talk of the town is their popularity with investors.

At a time when the traditional Initial Public Offering market was starting to fizzle, SPACs came along and reignited the market. For many investors, SPACs have been a way to invest in newly issued companies that are otherwise difficult to gain access to for the average retail investor. Not only that, but with the popularity boom, there have been many headline-grabbing success stories.

The potential for attractive returns is accompanied by significant risk. Younger, smaller companies tend to carry a higher degree of risk than strong, established companies. One obvious concern is that you have no idea what company you are ultimately investing in, but merely placing faith in the managers' ability to identify and acquire a promising private company. Additionally, the SPAC structure only affords a two year window to acquire a company, potentially pressuring the managers to find whoever they can to meet the deadline. There are also several layers of arbitrage risk, and potential conflicts of interest structurally built in for both sides of the acquisition. The SPAC shares are typically accompanied by warrants, which can lever up risk exponentially. Nonetheless, the largest concern may actually stem from the fad itself. Despite the sensationalist headlines, and occasional lurid returns, SPACs as a whole have actually underperformed both traditional IPOs and the broad market.[1] When something sounds too good to be true, it often is.

1) Source: Renaissance Capital Report "SPAC Returns Fall Short of Traditional IPO Returns on Average" 10-1-2020

5) 2021 IRA Distributions

Taxpayers age 72 and older this year must take required minimum distributions (RMDs) from their IRAs by December 31, 2021. Your 2021 IRA statements will show the amount, or you can call us.

You have the option to take all or part of your distribution "in-kind". That means taking shares of stock, mutual funds or units of bonds or CDs out of the IRA and moving them into your single, joint name or trust account. You can also elect or change prior elections to any Federal and state tax withholding at any time with a signature.

Depending on your situation, you may avoid taxes on your IRA distribution by making Qualified Charitable Distributions (QCDs). Up to $100,000 may be given to one or more charities in a calendar year. The funds must be distributed directly from your IRA to the charity(ies). While you cannot claim the gift(s) as a charitable deduction, the amount will typically be excluded from your income altogether.

Your RMDs may be taken anytime during the year. We will attempt to contact you by December 1 if we have not heard previously from you. Please call when you'd like to discuss your IRA RMDs, timing strategies and potential benefits of traditional to Roth IRA conversions.

6) Control

"God, grant me the serenity to accept the things I cannot change, courage to change the things I can, and wisdom to know the difference." –Reinhold Niebuhr, 1951

What We Can Often Control:	What We Typically Cannot Control:
Retirement age	Market returns
Annual savings	Sequence of returns
Retirement income	Timing of emergencies
Annual vacation fund	Inflation
Portfolio risk level	Tax laws
Portfolio holdings/exposures	Social Security & Medicare changes
Charitable donations and gifts	Unexpected life events
Health	Health

As financial advisors when we create plans for clients we typically look at three scenarios we label as "ideal", "recommended" and "acceptable". We use the "recommended" scenario as the one we're actually planning for. However, it is rare that a plan goes perfectly. Eventually, something happens that is beyond anyone's control and will change the plan for better or worse. That is why we try to construct plans so that changes for the worse will still fall within the "acceptable" range. By planning and preparing for a range of outcomes, hopefully you are better able to focus on what you or we can control, while shedding much of the fear that often accompanies worrying about what you cannot.

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Financial advisors whose mission is to positively impact lives.