THE

ADVISOR

conquer the complex

IS THIS FINALLY THE LIGHT AT THE END OF THE TUNNEL?

in this edition:

Will 2021 be the Comeback Year for Value Stocks

Possible Changes to Capital Gains?

Doing some home improvement projects? You aren't alone.

Navigating Income After Retirement

yhb Wealth Advisors

2Q2021

Will 2021 be the Comeback Year for Value Stocks?

Over the last 10 years (through 2020) Growth stocks have returned about 17% annually while their Value cousins have turned in an annualized performance of about 10%. Strong performance by both styles for sure, but Growth has been the winner.

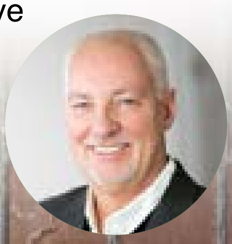
But when you dig a little deeper into these numbers, you find that a significant portion of the out performance by Growth has largely stemmed from technology stocks. In fact, in some years, the gains in just a handful of big cap tech stocks like Apple, Amazon, Google and Microsoft account for nearly half of all the returns in the Growth sector.
While the past decade has ushered in strong sales, rising user growth and outsized stock gains for some tech companies, it has also led to stock prices that are increasingly disconnected from underlying earnings. Today there are a record number of companies with zero or even negative earnings and many of them are tech companies trading at very high prices relative to those earnings.

The difference between the price to earnings ratio (P/E) of Growth style stocks and the P/E of Value style stocks is the widest it's been since the tech stock bubble of 2000. Will the valuation spread become even wider in 2021? It's possible for sure, but it's also possible we see a reversion as investors begin to rotate away from the high P/E tech names and look for more opportunities in Value.

Mean reversion isn't the only possible factor in favor of a rotation to Value in 2021. Over the last 12 months, the government and Federal Reserve have taken extraordinary measures to sustain the economy during the COVID pandemic. In addition to the liquidity injected into the financial system by the Fed, government stimulus has taken the form of direct transfers such as stimulus payments to American families and "PPP" and "Main Street" lending to businesses. The result of all this is there is an enormous amount of liquidity in the financial system, which historically has been a precursor to higher inflation.

Rising inflation levels tend to push interest rates higher, which weighs on stock valuations, especially growth stocks. There are several reasons for this: Higher rates provide improved returns to bond investors, but also open the door for assets that were allocated to equities to be re-directed into income securities. Higher rates also negatively impact valuation models that use the U.S. Treasury market as the proxy for a "risk free return" benchmark to justify equity valuation premiums. The higher the risk free return, the lower the equity premium has to be. Alternatively, rising rates tend to favorably impact some value sectors – like financials – that could see increased investor interest as their profitability improves.

It is still early days in 2021 and there could be many factors that may impact the equity market performance beyond what we've discussed here, but there appears at least to be the potential for the value style of investment to have its day in the Sun.



RANDY BEEMAN

Securing Your Sedan?
Technology Best Practices.

I recently bought a new-to-me (euphemism for 'used') car. It is fancy– a term I use loosely given my history of driving pickup trucks or 10+ old cars running on their last few pistons. But this is a 2014 with all the luxuries model year 2014 offered us in the way of Bluetooth, smartphone connectivity, GPS, etc.

As a tech nerd I was excited to upload my entire digital life into the dash of my sedan and scurry off to the next client. However, as a security professional I encountered some concerning breadcrumbs about the last owner. As such, here is a proof of concept attack that will make you think twice before sending your car off to its next life

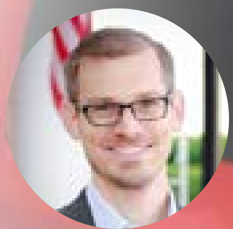
GPS –My first order of business was to program the GPS to send me home. The only problem—the previous owner's home address was already listed. Along with his home address, the list of previously searched addresses and locations were included in the search history as well. Home, office, and even a vacation house were listed.

Contacts List and Call History – My next step was to connect my smartphone via Bluetooth. The previous owner had done the same, but never deleted the contact list and call logs that were saved in the dash's memory, so I was served a nice list of all his primary contacts. The list included quite a few doctors as well. Given that my new-to-me sedan is a model favored by retirees, I'm sure with a little ingenuity, someone more nefarious than I could have easily exploited medical records from the list of doctors stored in his contact list.

Garage Door opener – This one is probably the scariest. While trying to program my garage door opener into the built-in buttons on the new car, the first two buttons had already been programmed. One can only assume the previous owner (the only previous owner) had programmed his own garage doors.

So let's recap. Because the previous owner didn't take a few simple steps to delete his (or her) personal details I had his home address. A quick search through the local property tax records could have identified his name. I had access to his garage door opener, which could have given me physical access to the premises. Reviewing his phone records could identify frequent contacts like spouse and family and even a list of doctors. If that search were to be expanded to include online records, Facebook or LinkedIn could have identified employer information and additional personal connections—maybe even some of those phone numbers in the contact list.

To be clear, I did nothing disreputable with the information from my new-to-me car. I used the "delete all personal data" feature to wipe all the information discussed in this article. However, this proof of concept serves as a reminder that the technology that makes our life easier can also expose us in ways we don't always consider. Expand this risk to your business practices—do you wipe the hard drives of PCs before returning them to the leasing company or disposing of them? Is part of the employee separation process removing access to mail, contacts and calendars from the user's mobile device? What if your staff rents a car, syncs their mobile device, then forgets to delete the data that was synced? Information security goes far beyond protecting your computer. Don't forget all the other, non-traditional locations data lives.



BRYAN NEWLIN, CPA.CITP, CISA

Navigating Income After Retirement

Less than 15 years ago, cash was yielding 5% and bonds averaged an even more enticing total return.

But over the subsequent decade yields have steadily declined, as a byproduct of the financial crisis and persistently sluggish economic growth. This has created a challenging environment for retirees hoping to design a very conservative allocation. How can they extract income from their portfolios in an era of incredibly shrinking yields?

For retirees that are allergic to touching principal, a pure income approach is still the most appealing answer. But a fair portion of retirees can’t afford to subsist on income alone; they need to tap appreciated positions in order to generate a livable cash flow.

Given that yields and market returns often move in different directions, it seems a good option is to take a flexible approach to generating cash flow for retirement. Over the long term in retirement, when yields are attractive, a portfolio’s income may provide most of a retiree’s cash flow needs. But when yields are meager, as they have been for the past decade, selectively pruning appreciated positions to meet living expenses is a way to raise cash while also reducing a portfolio’s risk level.

The old-fashioned way of generating income from a portfolio was building an allocation with an eye toward income production, then relying on whatever income distributions that portfolio's stock and bond holdings kick off.

On the plus side, such a strategy allows a retiree to leave his or her principal untouched. Subsisting on income alone also helps ensure that a retiree will never spend all of his/her assets in her lifetime, which can provide valuable peace of mind.

The big knock against an income-centric approach, however, is that income can fluctuate, often substantially, and many retirees are seeking stable cash flows in retirement. That leaves income-minded retirees with two choices: Make do on whatever income their portfolios serve up (which can result in dramatic changes in a retiree's standard of living) or attempt to keep their portfolios' yield production stable, even if it entails taking greater amounts of risk. As yields have trended down over the past decade, many retirees have opted for the latter strategy, venturing into higher-yielding stocks and bonds. They may have unwittingly increased the risk in their portfolio as well.

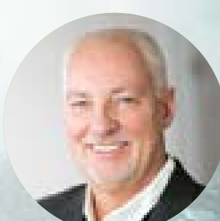
In contrast to the income-centric strategy, a retiree using a total return strategy doesn't focus solely on income. Rather, he or she builds a well-diversified portfolio encompassing income-producing and capital-gains-producing investments, then reinvests all income distributions back into the portfolio. As needed, the retiree then harvests appreciated positions to help meet living expenses.

A big positive of the total return approach is that because income isn't the sole priority, a total-return-oriented portfolio is apt to be better diversified than an income-centric one. Moreover, the process of rebalancing--periodically scaling back the total return portfolio's appreciated positions--can help reduce a portfolio's risk level.

A third option that brings together the two previously outlined strategies is the blended option. A retiree builds a total-return-oriented portfolio with a mix of income- and capital-gains-producing securities, then funds living expenses with a mixture of income and rebalancing proceeds. If the portfolio's organically generated income is insufficient, rebalancing proceeds can make up the shortfall.

A retiree using a blended approach is able to receive a healthy share of his or her cash-flow needs via organically generated income distributions and that can provide peace of mind. But because the retiree isn't going out of his or her way to generate income, the portfolio is apt to be better diversified and more all-weather than the income-centric portfolio.

In the end, each retiree should consult with their individual financial advisor and choose the strategy that best fulfills their need for income and growth, and which they feel most comfortable.



RANDY BEEMAN

Possible Changes to Capital Gains under the Biden Administration?

With a new administration comes the possibility of new tax laws. The basic proposals under Biden's tax plans that were laid out during the campaign trail only impact taxpayers if their income is greater than $400,000 in a tax year. If that applies, then any realized capital gains and qualified dividends which are included in that income will be taxed at the taxpayer's ordinary tax rate.

Passing such a change to capital gains rates is most likely to occur when Congress can turn its attention away from the COVID-19 crises. It seems unlikely they will pass any tax reform issues in 2021. Currently, in order to pass a bill in the Senate, 60 Senators are needed to override a legislative filibuster. There have been talks of ending the legislative filibuster but enough Democrats have said they do not support such an idea, this route does not seem practical.

There is a budgetary trick where a bill does not need to go through the legislative filibuster called budget reconciliation. Congress can only use the budget reconciliation trick to pass legislation with a simple majority once a fiscal year. Congress has already used this method in 2021 to pass the American Rescue Plan Act of 2021. The next time reconciliation could be used again is when the federal government's next fiscal year starts.

It is unlikely there would be enough bipartisan support to increase capital gains through the normal legislative process, at this point.

Next fiscal year, it is possible we could see a tax bill passed through the reconciliation process. In 2017, this process was used to pass the Tax Cuts and Jobs Act. Based on the precedent set with that bill and how it needed to function through reconciliation, it is unlikely we'd see retroactive changes to the tax law, but most, if not all changes would be done prospectively. That would mean the earliest we would see any changes to the capital gains rates would be in 2022.

Finally, while no one knows the Biden administration's priorities for sure, there are a lot of indications out there that they will try to use budget reconciliation process in the next fiscal year to address climate change. An increase in capital gains could be used there to offset some of the bill's costs, but we would most likely not see comprehensive tax change similar to the Tax Cuts and Jobs Act.

After that change to use reconciliation, the ability to use it again during the Biden administration would hinge on the 2022 election cycle and if there is unilateral control of the White House, Senate and House of Representatives.

With these possible changes in mind, it's a good time to work with your YHB Advisor to consider what these possible impacts will have and the possibilities of deferring or accelerating capital gains.

Nicholas Preusch, CPA, JD, LLM

Alex Fleming, CPA, PFS

Doing some home improvement projects? You aren't alone.

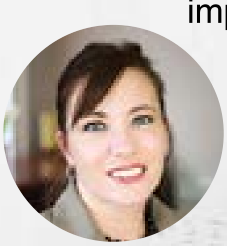
The onslaught of the COVID-19 pandemic has had some impact on nearly everyone on the planet. For those who used to commute to a job every day have had significant changes. A year ago, as of March 2021, most of us began consistently working from home. This abrupt change in our lifestyle entailed many adjustments to our regular, comfortable daily routines. Some of those changes were creating new habits, which in many cases, have become new routines that will stay in place. Other changes have had lasting impacts to our home environment.

When spending days on end at home (whether working, home schooling children or just trying to stay healthy) it gives you an opportunity to look around at the place you work so hard to obtain and keep. During the pandemic, home improvement projects have gone through the roof (no pun intended).

According to a NerdWallet survey, as of August 2020, sixty one percent of US homeowners took on home improvement projects since March 1, 2020. It seemed like the perfect time to start a home project since it seemed like everything but home improvement stores were closed and we had to spend countless hours staring at the wall that never got painted, or the kitchen backsplash that was supposed to be re-done a year before.

Also, according to that same survey, (surprisingly) eighty percent of homeowners who undertook improvement projects actually stuck to their budget. The average homeowner spent $6,438 per project. And even more surprising, seventy five percent said they paid for the projects from money they had set aside.

According to Realtor.com, home improvement upgrades can really add value to your home's value. Historically you get the best return for your home improvement dollar in future resale value when upgrading the kitchen and bathrooms. So, if you're reading this and looking around the room wondering why you didn't tackle that project you meant to do last year, pick up your car keys and head to the home improvement store.



JAMIE BROTHERS

50 S. Cameron St.
Winchester, VA 22601

We Help You
Conquer the Complex

RANDY BEEMAN
randy.beeman@YHBwealth.com
540.545.8702

JAMIE BROTHERS
jamie.brothers@YHBwealth.com
540.545.8702