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OBERMEYER WOOD **NEWS**

FALL 2020

MARKETPOINT

As of September 30, 2020, it's been 254 days since the first confirmed case of the coronavirus in the U.S., a disease that has claimed more than 1 million lives around the globe. 187 days since the CARES Act was passed by Congress and signed into law, providing over $2 trillion of financial support for tens of millions of Americans. 34 days until the U.S. Presidential election, when our country will choose a new leader or stay the course. An unknown number of days until a COVID-19 vaccination is widely available and we can hug our family members without fear of infection.

A decade's worth of headlines has been packed into the last nine months. With the pandemic overshadowing every aspect of our lives, it is easy to forget all the other events that happened since the beginning of the year. On January 2, the Pentagon announced the killing of Qasem Soleimani, the head of the Iranian Revolutionary Guard Corps-Quds Force. As tensions skyrocketed, Iran accidentally shot down a Ukraine passenger jet later that month, claiming 176 lives and reminding leaders that there is always a human cost to conflict, and often an unforeseen one. At the end of January, the U.K. officially separated from the European Union; a decision made back in June 2016. The decoupling is far from over as the governing bodies continue to negotiate various issues, including trade, fishing access, the regulation of medicine, and security controls.

In February, the Iowa caucus results were delayed by three days due to "quality control issues." Peter Buttigieg became the first openly gay candidate in American history to earn Presidential primary delegates toward a major party's nomination process. Later that month, the Senate acquitted President Trump of two articles of impeachment. On March 16, the Dow plunged nearly 3,000 points in the worse drop since 1987 amid coronavirus fears. Thousands of sporting events were subsequently canceled, including the Tokyo Summer Olympics, only the fourth time in history the games were deferred. In May, George Floyd died in police custody, leading to thousands of protests in cities around the country.

More recently, the nation has mourned the loss of Justice Ruth Bader Ginsburg, a trailblazer for women's rights who served on the Supreme Court for more than 27 years. Other events in 2020 include the conviction of Harvey Weinstein, who sparked the #MeToo movement, the death of famed basketball star Kobe Bryant, and Harry and Meghan's defection from the royal family. With three months left in the year, Americans are standing at attention to see what else will be thrown our way. (Note: Since the close of the quarter and subsequent to this writing, President Trump tested positive for COVID-19, requiring our nation's leader to be hospitalized one month before the election.)

Investors have navigated these events with aplomb, gaining reassurance from the Fed and the swift, unified action our leaders took to stimulate the economy in the early days of the crisis. Most have looked past the short-term economic situation and focused on the innovation spurred by working from home, stronger-than-expected consumer spending, declining unemployment rates, blow-out new and existing home sales, and the American people's desire to "just keep swimming." The quarter ended with most major indices slightly positive, reflecting the positive economic data points and a remarkable outcome given the turmoil our nation has faced this year.

Yet as the coronavirus drags on and the fatigue of quarantining to save lives increases, politicians and the American people have settled back into old habits of ›

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divisive rhetoric and overreactions. Congress has shifted its focus to filling the Supreme Court vacancy, reducing the possibility of Republicans and Democrats coming together again to provide continued financial relief for unemployed Americans. Moreover, the first Presidential debate illuminated just how acrimonious this election will be and stoked concerns of a disorderly transition of power, whatever the voting results are.

Given this backdrop, investors need to remind themselves that cool heads in hot games win. We are prepared for the next three months and ready to block out distractions, focusing only on the most important information. We anticipate different scenarios and run drills on how to invest in all environments so that you, our clients, have the best possible outcome. The question that is top of mind for many of us is "how will the markets react to the election?"

Polling analysts are about as reliable as weathermen when it comes to predicting who will be our next President. In 2016, the experts were fed a big dose of humility when they incorrectly called a substantial lead for Hillary Clinton. Rather than assume we know the outcome, we look at all of the possibilities. Suppose the Democrats sweep the Presidential and Congressional elections. In that case, we anticipate several developments, including more fiscal relief, an altered approach to trade relations with China, and a national strategy to contain COVID-19, potentially putting the country on solid footing economically, albeit with higher taxes. If Republicans maintain their lead, we can expect continued low corporate taxes and ongoing limited regulation in the technology, healthcare, and energy sectors. Whoever our President will be, we acknowledge that there isn't a single solution to trade relations, tax policy, or how to handle a pandemic.

Since 1928, the S&P 500 Index has gained in 17 of the past 23 presidential election years — or about 74% of the time — with an average annual return of 7.1%.[1] In the past, the market has been more volatile in the months leading up to an election, mainly because investors dislike uncertainty. 2020 is an unusual year because we may not know the election outcome on November 3, as Americans shift from in-person voting to mail-in ballots, which take longer to process. Yet the Iowa caucus serves as a good reminder that we can thoughtfully resolve ambiguity and stay confident in the election process. While any delay in knowing who our President is would be unsettling, we will eventually have clarity and move forward.

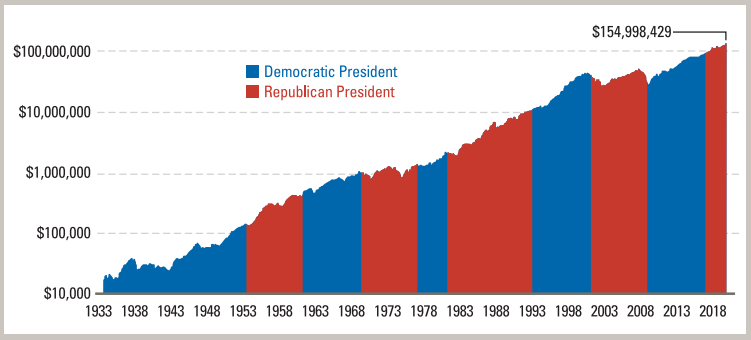
As evident from the chart displaying the growth of a $10,000 investment in the S&P 500 Index beginning in 1933, political parties have limited influence on long-term returns. Over time, the market has trended higher regardless of which party occupies 1600 Pennsylvania Avenue. Rather than fretting about hypothetical market impacts from election results, investors should focus on staying the course.

Where do we go from here? Looking past the election and into next year, the market is positioned for a potentially positive outcome. The money supply has increased more than 20% since March – more than twice the liquidity that was added in the year after Lehman Brothers went bankrupt.[2] Many consumers are ready to get out their checkbooks and spend the money they deferred spending this year because we were in quarantine. Next year's earnings may be higher because of this boom. Interest rates are likely to remain low, propelling a strong housing market, which accounts for over 15% of GDP and is one of the largest segments of our economy. These factors combined may sustain or increase the value of stocks once the near-term concerns are past us.

In the coming months, we expect uncertainty but anticipate eventual resolution. As we experienced earlier this year, those who stayed invested during the darkest moments of the pandemic were rewarded when the market swiftly rallied back to pre-COVID-19 levels. The market will react to headlines, so our job is to stay focused on the drivers of the economy, new technologies that underpin productivity, and the health of the consumer, all while looking around the corner for potential risks.

We acknowledge how much has happened this year and are here to support you and your loved ones. Please reach out to talk to a team member if you'd like to discuss how we can provide you with financial peace of mind.

Growth of a hypothetical $10,000 investment in the S&P 500 Index

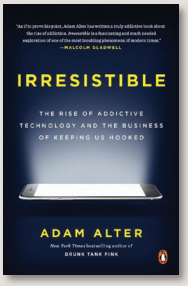


Sources: Morningstar, Standard & Poor's. The start date is March 4, 1933, and the end date is August 31, 2020. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

[1] Charles Schwab: "Stock Market Performance in Presidential Election Years," Michael T. Townsend. May 22, 2020.

[2] Source: Board of Governors of the Federal Reserve System (US), M2 Money Stock [M2], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/M2, October 1, 2020.

RECOMMENDED READING: *Irresistible: The Rise of Addictive Technology and the Business of Keeping Us Hooked*



Over the last five years, news stories have detailed how inventors and leaders from many well-known tech companies limit or prohibit their children's use of mobile devices and tablets. It is hard not to wonder what it means when someone in such a position will not allow their own family to use the product that they developed.

In his book *Irresistible: The Rise of Addictive Technology and the Business of Keeping Us Hooked*, author Adam Alter, a professor of psychology and marketing at New York University Stern School of Business, explores the eye-opening relationship between humans and addictive technologies.

People have been addicted to substances and behaviors for thousands of years. However, our infatuation with smartphones, apps, and social media has risen to the level it has today in an alarmingly fast period of just under two decades. For the most part, these are inventions that we've adopted because we assume they'll make our lives better, and many do have profound upsides. But their extraordinary appeal isn't an accident, and the consequences of "getting hooked" can be greater than many would assume.

By examining addiction through history right up until the present day, Alter shows that we're only just beginning to understand the epidemic of technology addiction in our society. And while much of the book is composed of observations of the negative impact our tech obsession can have on many of us, he also devotes significant thought to providing options we have to help address this problem before it potentially consumes us.

We think readers will benefit from this thoughtful and well-researched book by coming away with a deeper understanding of behavioral addiction and the powers of technology. Please let us know if you are interested in reading *Irresistible*, and we will send you a copy.

OBERMEYER WOOD RECOGNIZED BY:

We are delighted to share that the Obermeyer Wood team appeared in several prestigious rankings and awards lists over the last two months.

Dana Nightingale was named to the *Forbes* and SHOOK Research list of Top Next-Generation Advisors for the fourth consecutive year in early August. This recognition reflects our team's passion for working with gen Xers, millennials, and multigenerational families who see the benefit of including their adult children in conversations about wealth.

Later in the month, *Denver Business Journal* recognized our firm in its 2020 Denver-Area Wealth Management Firms ranking for the second consecutive year, marking our firm's second award recognition in that publication this calendar year.

In September, *Barron's* Top 100 Independent Wealth Advisors featured Wally Obermeyer at No. 62 in the nation and No. 1 in Colorado. Obermeyer, representing our firm, rose 20 places from his 2019 ranking, when he was No. 82 in the nation.

Working Mother Magazine rounded out the slate of awards by naming Ali Phillips and Dana Nightingale to its 2020 Top Wealth Advisor Moms list for the fourth consecutive year in late September. The annual ranking is a partnership with SHOOK Research and features 500 of the most successful mothers working in financial advising. Phillips and Nightingale came in at Nos. 12 and 242 in the nation, respectively.

We are humbled by these recognitions and believe each award reflects the entire team's tireless efforts in providing our clients with financial guidance and peace of mind. Finally, we would like to thank our clients for their partnership and loyalty that make honors like this possible.

For more details on these awards and links to the rankings, please visit the News section of our website.

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CARES ACT YEAR-END REMINDERS

The Coronavirus Aid, Relief, and Economic Security (CARES) Act response to the COVID-19 pandemic includes several measures designed to stimulate the economy. Below are two important features of that law that will expire at year-end for high-net-worth individuals to keep in mind. ***We encourage clients to consult their tax professional to determine the best strategy for their individual circumstances.***

WAIVED REQUIRED MINIMUM DISTRIBUTIONS (RMDS) FOR 2020

The CARES Act enabled any taxpayer with an RMD due in 2020 from a defined-contribution retirement plan, including a 401(k) or 403(b) plan, or an IRA, to skip those RMDs this year. This includes anyone who turned 70 1/2 in 2019 and would have had to take their first RMD by April 1, 2020. This waiver does not apply to defined-benefit plans.[3] For clients who usually take RMDs in the 4th quarter, we are assuming you would like to take advantage of this distribution holiday to reduce taxable income this year. **Please contact us before November 1 if you would like to take your RMD for 2020.**

TAKE ADVANTAGE OF HIGHER CHARITABLE DEDUCTION LIMITATIONS FOR 2020

The CARES Act has provided an opportunity for taxpayers who make charitable contributions in 2020 to receive a larger deduction than they have in previous filing years.

Before the CARES Act passage in March 2020, the annual charitable deduction limitations ranged from 20% to 60% of a taxpayer's adjusted gross income (AGI).

The CARES Act raised the limitation for cash contributions to a public charity up to 100% of AGI for donations in 2020 only. This change doesn't apply to donor-advised funds; contributions are still limited to a maximum deduction of 60% of AGI. Additionally, there were no changes to contribution limitations for private non-operating foundations and nonpublic charities under the CARES Act.

Taxpayers can also increase their AGI and corresponding cash contribution deduction limit by converting an IRA to a Roth IRA. A Roth IRA gives taxpayers tax-free growth with no RMD in future years, as well as a higher deduction amount in 2020.

We would be happy to participate in a Zoom meeting or conference call with your tax professional to help coordinate and align your chosen strategy.

[3] Source: IRS.gov: "IRS announces rollover relief for required minimum distributions from retirement accounts that were waived under the CARES Act," News Release. June 23, 2020.

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