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Client Newsletter

WINDGATE
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MARKET REACTS TO ELECTION

As expected, this year's presidential election results arrived later than usual. Uncertainty remained the day after—and the day after that. But after the following weekend, former Vice President Joe Biden was widely acknowledged as the President-elect. And it looks likely there will continue to be a split Congress. The U.S. stock market jumped the day after the election—before there was a clear winner. In fact, the S&P 500 Index had its best post-election day since 1952 (see the chart on the next page). With election uncertainty remaining, COVID-19 cases surging, and an economic recovery slowing, you can be forgiven for scratching your head a bit in seeing this response from investors. .

The immediate market reaction bears some explaining: Strong market moves generally suggest the market has been surprised. In this case, it seems investors had been pricing in a higher probability of Democrats winning a unified government - a so-called blue sweep. Biden's stated tax policies would hit corporate profits, and he has promised other far-ranging policy changes. Markets do not typically relish dramatic change of any kind, so stocks were trading lower, reflecting the market's collective view of the future. But with the Republican Senate likely to

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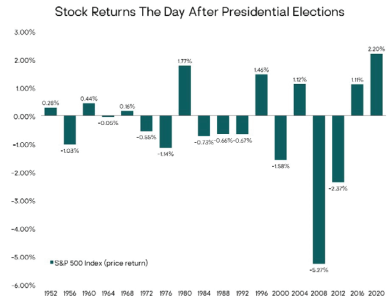


© Copyright 2020. Litman Gregory Analytics, LLC. Source: Morningstar Direct. Presidential elections back to 1952.

remain a check on power, an aggressive Democratic legislative agenda is likely off the table. Thus, a split Congress is seen as a positive by Wall Street. Part of the market's reaction likely derived from this assessment. Also, the worst fears of a contested election and serious legal challenges to the result have, so far, not come to pass.

We do not position portfolios around an election result or any single event. There are too many other variables that impact investment returns. In our analysis, we focus on the fundamentals and valuations that matter most long-term. And we construct portfolios to be resilient across a wide range of possible macro outcomes that could play out over the next few years, not days or weeks, regardless of the outcome of an election.

Over 30-plus years of managing money for clients, we have developed a healthy respect for the short-term unpredictability of financial markets. We have much greater confidence in our long-term investment views and allocate our clients' portfolios accordingly.

Over the next several months, the trajectory of the markets, the economy, and our society will remain highly dependent on the path of COVID-19 and our nation's response to it. But there have been positive developments just in the last week. Strongly positive vaccine news was announced, giving a further boost to global stocks and economic forecasts. And if political agreement can be obtained, an additional stimulus package could come before year-end and help individuals and the economy until COVID-19 is controlled. Of course, there may also be surprises coming out of a lame-duck legislative session in the next two months. As long-term investors, we always try to take a balanced view of the risks and opportunities.

ELECTION RESULTS & STOCK MARKET RETURNS

Each time a U.S. presidential election approaches, we revisit with clients our views about the impact on our investment outlook and portfolio positioning. Here is a quick review of how we think about elections in general within the context of a sound investment process.

A (Similar) Tale of Two Administrations

History tells us that the linkage between an election result and a market impact is not always clear. The 2016 presidential election was a perfect example of this, with stocks initially plunging on the surprising result and then soaring in the days after.

Below is a table of market returns during both Republican and Democratic administrations. Notably, there are many non-election variables that impact investment outcomes over merely who wins an election.

Republican Administrations

			Annualized % (Nominal Terms)		
Start Date	End Date	Administration	S&P 500 Total Return	S&P 500 EPS Growth	Small-cap Total Return
Oct-52	Oct-60	Eisenhower (R)	15.0	4.1	14.6
Oct-68	Oct-76	Nixon/Ford (R)	3.6	6.8	-0.2
Oct-80	Oct-88	Reagan (R)	15.1	5.8	12.0
Oct-88	Oct-92	Bush 41 (R)	14.5	-5.5	9.9
Oct-00	Oct-08	Bush 43 (R)	-3.1	-4.7	2.3
Oct-16	Aug-20	Trump (R)	16.2	1.6	8.8
		Average	**10.2**	**1.3**	**7.9**
		All Combined	**8.9**	**1.9**	**7.4**

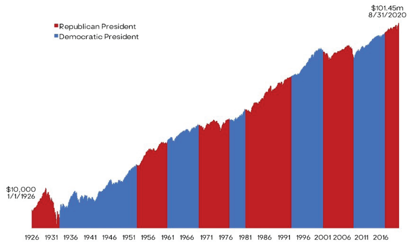
Democratic Administrations

			Annualized % (Nominal Terms)		
Start Date	End Date	Administration	S&P 500 Total Return	S&P 500 EPS Growth	Small-cap Total Return
Oct-32	Apr-45	FDR (D)	12.2	6.5	21.7
Apr-45	Oct-52	Truman (D)	13.5	12.6	11.2
Oct-60	Oct-68	Kennedy/Johnson (D)	12.2	7.2	19.3
Oct-76	Oct-80	Carter (D)	11.1	11.0	31.5
Oct-92	Oct-00	Clinton (D)	19.0	14.0	13.7
Oct-08	Oct-16	Obama (D)	12.8	12.4	12.0
		Average	**13.5**	**10.6**	**18.2**
		All Combined	**13.5**	**10.1**	**17.4**

Source: Furey Research Partners

Market Performance Around Elections

U.S. Stocks Have Risen Over the Long Run Regardless of Presidential Party



© Copyright 2020. Litman Gregory Analytics, LLC. Chart concept courtesy of BlackRock. Source: Morningstar Direct. Data as of 8/31/20.

Election years have sometimes led to downside volatility for the stock market, especially when incumbents lose. However, markets typically rebound strongly from any declines around elections the following year.

For investors with a time horizon longer than a year or two, elections do not have a meaningful or long-lasting effect on investment performance. It will generally pay off to look beyond the election at the other drivers of markets and potentially even to take advantage of election-year declines.

It is important to note that election and post-election year analyses represent the average result historically, and the sample size is often small. There are many reasons the market could respond differently this year, among them the large amount of economic stimulus, the ongoing pandemic, a quickly rebounding economy, and so on.

Fundamentals Drive Long-Term Investment Outcomes, Regardless of the Party in Power

Instead of betting on election results, we stick to our longer-term process of building portfolios that are durable in any environment. A good investment process must consider multiple macro scenarios and assess the potential risks and returns for numerous asset classes and investments in each scenario. As investors, we expect to experience market volatility and shorter-term downside risk at times. Stock market history makes this clear. The degree will depend on the portfolio's need for return and the corresponding risk exposure. Experiencing volatility is a necessary evil of owning stocks and other higher returning "risk assets." They would not be considered risky otherwise.

History shows that the political party in power is not a significant differentiator or driver of investment returns. There are simply too many other factors, variables, and events that impact markets and asset prices over time beyond election outcomes.

CHARITABLE GIFTING PLANNING UNDER NEW TAX RULES

Are you a philanthropic person who wants to help the community and save on taxes simultaneously? Donating cash or appreciated assets like stocks can be a great choice to accomplish these objectives.

Settling on the best gifting strategy can be somewhat complex, especially given that the rules have changed since the Trump administration's Tax Cuts and Jobs Act of 2017 (TCJA of 2017). For 2020, following the CARES Act, there are additional changes. Here is a brief overview of factors that might affect your year-end gifting strategy.

Adjusted Gross Income (AGI) Limits removed for 2020

It might be tempting to give excessive donations to eliminate your tax bill, however, the IRS has historically created AGI limits to combat this. Adjusted Gross Income (AGI) is the gross income you earned less any adjustments like Health Savings Account (HSA) and retirement plan contributions. For example, some donations, like cash donations to public charities, are limited to 60% of AGI. Non-cash donations of items like appreciated stock are limited to 30% and 20% of your AGI for public charities and private foundations, respectively.

The AGI limit has been completely removed for 2020. When you make a charitable contribution of cash to a qualifying public charity in 2020 under the CARES Act, you can deduct up to 100% of your adjusted gross income.

New $300 Deduction Even Without Itemizing

The Tax Cuts and Jobs Act of 2017 doubled the standard deduction from $12,000 to $24,000. This means that fewer people need to itemize their deductions; if your itemized deductions are under $24,000, you simply take the standard deduction. The standard deduction prevents you from claiming charitable donations, however. If you make charitable contributions but don't itemize deductions, you don't get the tax benefit. The AGI limit has been completely removed for 2020. When you make a charitable contribution of cash to a qualifying public charity in 2020 under the CARES Act, you can deduct up to 100% of your adjusted gross income.

Charitable Gifting in High-Tax States

One major change from the recent tax reform was that it capped the total state and property tax deduction at $10,000. This could be a major blow for some taxpayers, especially those owning property in expensive states like California or New York. Therefore, it could be prudent to increase charitable gifting to offset this limited deduction.

One simple strategy to do this is "lumping" several years' worth of charitable contributions into one. This can be done effectively through a donor advised fund (DAF). A donor advised fund is like a philanthropic savings account. You put money into it for the purpose of giving to charity and let it accumulate until you are ready to make your donation. However, unlike a savings account, all contributions are irrevocable. Once you put an asset into a DAF, you cannot take it back.

Because you cannot take back your contributions, they are considered complete charitable gifts and immediately tax-deductible. You can take the tax deduction right away even if you wait several years to pass the money on to charity.

Qualified Charitable Distribution and Donating Appreciated Stock

Taxpayers get a gift from the IRS the year they turn 72: you are now required to take an annual (taxable) distribution from your IRA account. If you do not need the income, this required annual distribution can lead to required annual tax headaches. Fortunately, there are several strategies to help you reduce this.

Many retirees have historically used a loophole called the Qualified Charitable Distribution (QCD) from tax-deferred accounts like IRAs and 401(k)s. The QCD rule lets these retirees donate part or even their entire RMD tax free.

Another simple strategy is to donate appreciated stocks in a taxable account up to an equal amount of your RMD income. Gifting long-term appreciated stock, as opposed to cash, benefits both the charitable organization and the donor. The reason is that anyone who donates stock that has appreciated in value (and held it at least 12 months) is able to deduct the full value of the investment without being forced to recognize the capital gain in the process.

By donating appreciated stock, your capital gain disappears entirely, allowing you to permanently avoid any long-term capital gains tax liability that you would otherwise owe in the future.

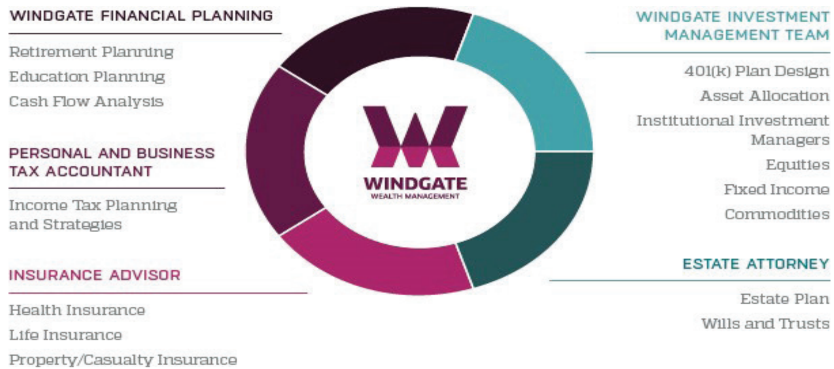
Charitable Planning Around RMD Waiver

The annual RMD headache will be suspended in 2020 because taxpayers will not have to take any distributions. The CARES Act waives Required Minimum Distributions (RMDs) from traditional IRAs, SEP IRAs, SIMPLE IRAs, and 401(k), 403(b), and governmental 457(b) plans for the year 2020. The waiver applies to beneficiary account owners in addition to original account owners. Therefore, no one must take RMDs for 2020.

The suspension of the RMD for 2020 might have an impact on your charitable planning. With less taxable income for the year, it may even make sense to wait until January 2021 to make a charitable contribution. As always, speak with your tax advisor for ideas on how the RMD waiver might affect your charitable gifting or other tax planning.

A donor advised fund is like a philanthropic savings account.

HOW AN ADVISOR ACTS AS A QUARTERBACK TO YOUR TEAM



If you are running a business, do you do everything yourself? Maybe this was true in the early days, but anyone who has begun to achieve success understands that you need to surround yourself with smart people and delegate.

Your personal finances are crowded with investments, business records, estate plans, budgets, legal matters, and taxes, just to name a few. Think of your situation in terms of a football team. If there is no one calling the plays and managing the execution, every one of these things is going to be running to different parts of the field without a clear purpose. That lack of coordination could cost you, not only financially, but also mentally by increasing stress.

Key members on a personal financial team include an accountant, attorney, private banker, and insurance specialist. Typically, these advisors work individually, placing an added burden on you to organize and delegate. That is why we recommend finding someone who can act as the quarterback to manage your team. This is the role of your Wealth Advisor, ideally a CERTIFIED FINANCIAL PLANNER™, who is also the individual that knows you and your goals best.

An Advisor for your Advisors

Often people try to be team owner and the quarterback. This can lead to significant gaps in seeing the game and the future of your team clearly. You likely hired your roster of professional advisors because you do nothave the time or expertise to handle every detail or meet with everyone. Being your own quarterback just adds to the burden and does not accomplish what you had hope for—a streamlined process with the peace of mind that everything is going according to plan.

Just as a football quarterback puts the right players in the right positions, making sure they are all specialists in their roles, your financial quarterback coordinates the players on your financial team to ensure they are all working toward the same end zone: growing and protecting your assets.

For example, consider your attorney and CPA, maybe an insurance broker too. While they may have years of schooling and are highly qualified, are they working together toward a common goal? Then you add in giving to charities, supporting family members, as well as leaving a legacy for them. Who is making sure everything and everyone is moving in the right direction? If there isn not a financial professional in your life taking the role as quarterback and executing on the field for you, the legacy of your team may not be what you had hoped for.

Who's Your Quarterback?

So, who should you get to coordinate your financial team and the different wealth management tasks on your plate? The ideal person is someone who understands your financial life and communicates well with you, your spouse, and other family members. They should be a financial professional who understands investing, estate planning, and tax implications of various strategies. In summary, someone who can sort through the complicated financial issues ahead of you and execute a custom strategy, helping you get from basic affluence to independent wealth and well-being.

Happy Holidays from Windgate Wealth Management

We wish you and your family a Happy Holiday season. This year's family gatherings might not be what they have been in the past, but if there is something we have learned in 2020 is to be thankful for those around us and enjoy the company of the ones we can share these moments with.

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