MV Financial Special Update

August 25, 2020

To Our Valued Clients:

The presidential election is edging closer and speculation about the outcome will likely add another note of uncertainty to the financial markets, which have already been subjected to volatile swings caused by the pandemic, related economic pressures and global trade tensions. Regardless of who resides in the White House or which party controls Congress, it is only natural for investors to be concerned about the future outlook for jobs, taxes, market regulation and other economic issues.

We can't (and won't even try to) predict the outcome of the election – there are many factors at play that will influence voter sentiment one way or the other between now and November. In politics and economics, trends that may seem steady and predictable are always subject to abrupt and decisive change. For example, the S&P 500 rose 52% in the first two-and-a-half years of Bill Clinton's presidency, but his term in office is also remembered for the dot-com bust. Similarly, when George W. Bush was re-elected in 2004, the U.S. was in the midst of one of the longest economic expansions since World War II, yet his second term was marred by the Great Financial Crisis.

Below are some factors that we believe will continue to influence the economy regardless of who is sworn in as our next President – and thus should be part of your financial planning and decision-making process.

The Stimulus Bill Will Come Due

At some point our government will have to find ways to pay for the many programs enacted to ease the financial pain of the pandemic. As of this writing, the U.S. Congress has appropriated nearly $2.4 trillion for Coronavirus stimulus packages, and trillions more may be added to that amount. Whoever is in office during the next four years will need to take a hard look at alternatives for raising tax revenue to help cover the ballooning deficit.

Estate Tax Exemptions May Change

A possible solution to the revenue shortfall may be to reduce the estate tax exemption, currently at $11.58 million per individual. While we don't know if this (or any tax increase plan) will become a reality, investors would be well-advised to update their estate plans, ensure that they have established vehicles to transfer wealth to their heirs, and perhaps gift some assets sooner than later. We are, of course, available to discuss these matters with you.

Near-Zero Interest Rates Will Persist

As long as Covid-19 remains a threat to our lives and livelihoods, we are likely to see a continuation of the current Federal Reserve policies, including extreme liquidity and near-zero (or, in inflation-adjusted terms, negative) interest rates. In this environment, investors are not able to derive any sort of meaningful yield on ultra-safe fixed income instruments. That fact has driven many investors, ranging from individuals to major institutions such as pension funds, insurance companies and endowments, to channel their investments into stocks, levitating the equity market to valuations that seem disconnected from economic reality.

Stock Prices Will Reflect the "TINA" Market

In the absence of acceptable yields, investors' dollars have flooded into stocks due to the so-called "TINA" (There Is No Alternative) effect. However, the run-up in stock prices, and the likelihood that we have not seen the last of the Covid-19 economic strife, suggests that investors should exercise caution.

At MV Financial, we remain committed to protecting our clients' portfolios on the downside. In most cases, this means maintaining defensive positions in assets that offer liquidity and quality, while keeping our allocation to equities in most portfolios at the bottom end of each portfolio's target range. When we do invest in equities on behalf of clients, we often pursue a dollar-cost averaging strategy, making incremental purchases of specific assets over time in an effort to smooth the impact of volatility on the overall purchase and ultimately buy in at a better average price.

Recognizing that the nation's economic path over the next four years is largely unknowable, we advise investors to focus on *what they do know*: the importance of setting concrete investment plans – and making decisions based on your specific goals, time horizon and risk tolerance.

As always, please feel free to reach out to us at any time to discuss your investment and financial questions. We wish you and your family well. While there are still uncertain and perhaps even difficult times ahead, we remain optimistic about the longer term, and regardless of the economic outlook, we are here for you whenever you need us.

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