INVESTMENT UPDATE

Saltmarsh
Financial Advisors, LLC
AN AFFILIATE OF SALTMARSH, CLEAVELAND & GUND

INSIDE THIS ISSUE

Proposed Changes to Tax and Estate Law: No Updates at This Time

In conjunction with Saltmarsh Tax, Estate and Trust partners, we are dedicated to keeping you informed on the most current information regarding the Biden proposed Tax Plan. If you would like to receive a summary copy of the Treasury's Green Book explanation of the tax proposals and path for proposed changes to be enacted, please contact a member of the Saltmarsh Financial Advisory team.

Doss Featured in Advisors Magazine on "Getting the Whole Picture"

In the May 2021 'Holistic Talk Issue' of *Advisors Magazine*, Christina weighs in on the importance of a holistic approach to financial planning and wealth management to achieve better results. The Saltmarsh planning methods go beyond a traditional monetary-only focus. They consider additional factors in clients' lives, such as family, personal beliefs and lifetime goals, and focus on financial education when advising clients.

Saltmarsh Recognized as Top Wealth Advisory Firm by Accounting Today

We are honored to be recognized by *Accounting Today* as a top firm by total assets under management (AUM)! *Accounting Today*'s yearly report recognizes the top 150 CPA financial planners by assets under management, which increased by 50% collectively over the past year. With the uncertainty of 2020, many firms increased client communications through a more virtual environment. Saltmarsh Financial Advisors hosted multiple virtual events about the stock market, investing and the impact of 2020 on financial planning, which reached clients and prospects throughout the United States.

"At Saltmarsh, we have an integrated, team-based approach focused on wealth management, tax, trust and estate expertise. We have built strong relationships due to our conflict-free advice, and it has truly been a win-win for our clients and the firm. As a result, over the past few years, we have experienced significant organic growth in referrals and assets under management." - Christina Doss, AAMS®

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BILLIONAIRE INVESTOR DAVID BOOTH ON VALUE STOCKS' COMEBACK AND WHY BITCOIN ISN'T A BUBBLE

BY MALLIKA MITRA
FROM MONEY.COM | APRIL 27, 2021

David Booth became a billionaire patiently adhering to a philosophy of betting undervalued stocks. Over the past several years that patience has been tested as so-called value stocks endured one of their worst stretches in memory. Now Booth says those stocks are making a comeback — even as he doubts the stock market, powered by the runaway gains of tech and other growth stocks, is in a bubble.

Booth co-founded his private investment firm Dimensional Fund Advisors (DFA) in 1981 from the spare bedroom of his Brooklyn apartment. He took an academic approach to investing after studying at the University of Chicago under a professor who would eventually win the Nobel Prize for research on the "efficient market hypothesis" — which essentially says you can't beat the market. Since then, Booth has become a staple in the value investing world and DFA has grown to have $637 billion in assets under management and more than 1,400 employees. After four decades, the firm sticks to the same basic principle: investors can't beat the market, but they can lean into factors like value and profitability, eyeing stocks that have a higher value on the books than the cheap price they're trading at on the market.

Value investors, though, have recently been disappointed as fast-growing companies like Netflix and Amazon have driven stock market returns. From August 2006 to mid-April 2021, the Russell 3000 Value Index has lagged behind the Russell 3000 Growth Index by 5.61 percentage points a year, according to Morningstar. While value stocks have just recently made a small comeback, it's too early to tell if the pendulum is actually swinging that way again.

So should investors give up on value stocks for good? Is the stock market about to burst? Is the crypto frenzy dangerous? Here's Booth on all that and more. *(This interview has been edited and condensed for clarity.)*

Are we in a stock market bubble?
No. Individuals have great short-term memory; markets typically don't. Markets go up and go down, and they go up and down in unpredictable ways. In the last 10 years, we frequently had people call in saying, "The market's near its all-time high, what do you think?" Well, I think there's kind of an order in the universe: stocks have a higher expected return than bonds and bonds have a higher expected return than money market instruments. That's the way it works out over long periods of time.

What moves should investors make right now?
If you say, "Well, what about the short term?" — trying to get on short-term market movements is more like gambling. The last year, if anything, has shown the tremendous cost of trying to time those things and not getting it right. At the end of March last year, a lot of people got out of the stock market and it has done over 60% since then. You want to have a long-term focus, something you can stick with. People talk about the "new normal" all the time, and if we look somewhere in the future, it will be the next normal too. It's about uncertainty and sources of uncertainty change over time but the marketplace does a really good job of sorting through that.

Is value investing really dead?
Over the long haul, research shows that value stocks on average outperform growth. We think there's a good reason for that. It's lower-priced stocks and basically the lower price you pay for something the higher the eventual return. In the last few years it hasn't been there — that's kind of the nature of premiums in general. But over the last year, it's been really quite different. Value has come back the way we think it ought to. At the end of the day, it's always about uncertainty. If there is no uncertainty about the future, then your investment return would be basically a money market, a riskless asset return. On one hand, people shrink away from uncertainty, naturally, and on the other hand, it's uncertainty that creates the opportunity to do better than a money-market-type of fund. During the first decade of this millennium, when value was doing really well, we didn't shout our lungs out. If you're a value investor you have to be prepared for those kinds of times when they're going to underperform.

Has the definition of a value stock changed overtime?
Value is kind of in the eye of the beholder. We started our value strategies in 1992 and typically rely on price-to-book. [Editor's note: The price-to-book ratio is a company's market value or stock price compared to its total assets minus its debts on its balance sheet.] Other people have come in with other definitions and a lot of them have advantages. The reason we like price-to-book primarily is it typically ends up with lower turnover rates and it's also less manipulatable. Earnings have a better chance of being manipulated; There are ways of smoothing earnings that aren't there with book value.

What about Bitcoin? Will it stick around, or is it a bubble?
I don't think it's a bubble, but it's kind of like a gambling casino. There's really no income that comes from Bitcoin, so you really just have to bet that if you're buying it, it goes up. I think there are some great opportunities for Bitcoin and I think there are some major concerns. It's a speculative investment and speculative investments tend to go up and down. Starting with the tulip bulbs, over the last 600 years we've seen these things go up and down. I don't know why Bitcoin would be any different, other than it's still at a relatively early stage so you could make the argument that it's going to be a long time before it's fully priced. I'm not making that argument either, that's just why I'm not forecasting it's a bubble. But, you ought to be concerned about it.

Will the GameStop trading frenzy and other events like it change the way people invest?
No. Whatever your view is about investing, there are always some stocks or bonds that fall outside, that can't be explained by your view of the world. GameStop is one of those things where you have enormous amounts of people betting that GameStop's stock will go up and enormous amounts of people betting that it will go down. But by and large, so many of those are short-term investors which gets back to the idea that — to the extent that short-term investors are moving the price around — we always view that as gambling and we try to avoid that when we can.

Should investors worry about inflation?
I think we should be worried. I'm worried about inflation. When we started the firm, inflation was around 12% and treasury bonds were yielding over 10% — it was a different world 40 years ago. There's no reason it can't happen again. I'm not planning that it's going to happen in the next 12 months, but if you're a long-term investor, you've got to think about these long term issues: what happens if there's inflation? What happens if there's deflation? What happens if there are high interest rates? Figure out what your goals are, figure out the range of outcomes that can happen with different scenarios and then figure out which one seems sensible.

HOW REBALANCING CAN REDUCE YOUR RISK

FROM THE VANGUARD GROUP, INC.

Volatile financial markets, events in your life, and even regular invesment reviews can prompt you to wonder why we rebalance your portfolio. After all, if your strongest-performing assets account for a larger portion of your holdings, why not let them ride?

It all comes down to risk.

Appropriately balancing risk and returns. When we initially drew up your investing plan together, we weighed several factors: Your income, age, and your financial goals, among other things. We built your portfolio based on your unique goals and incorporated some market return assumptions. The resulting portfolio's allocation balances the potential returns you'll need to reach your goals with the risk of potential losses you may incur.

In other words, the purpose of rebalancing isn't to score the maximum returns possible. The purpose is to manage risk, so your nest egg might fluctuate less in the event of a downturn. The chart on page 4 visualizes the concept. Historically, as the percentage of equities in a portfolio has increased, so have the portfolio's returns. But there's a trade-off: the higher the percentage of stocks, the greater the risk of losing money.

One way to think of it: Imagine you're a baseball manager looking to put together a team. You have a limited number of slots and a finite budget. You could go with a big-name slugger who hits lots of home runs—and commands a hefty contract. Alternatively, you could use that same budget amount to pick up a few less flashy players—who happen to be really consistent at hitting singles and doubles.

Your analysis shows that having a player with a higher on-base percentage in the lineup equates to more wins than having a player with a lot of homers. You could also reduce your risk by spreading out the investment over a few "quality" players rather than just one. So it makes sense for you to sign players who have the potential to get more base hits.

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HOW REBALANCING CAN REDUCE YOUR RISK (Cont.)

Similar reasoning is at work when you maintain a diverse, balanced portfolio with a disciplined commitment to an established asset allocation—for example, a portfolio made up of 60% stocks and 40% bonds. If you require relatively consistent returns (for instance, if you're generating income from your portfolio and want that income to remain steady), bonds serve to dampen the market volatility that might otherwise disrupt steady returns.

Past performance is no gaurantee of future returns. The performane of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Source: Vanguard, as of December 31, 2019. Notes: Stock allocation consists of 60% U.S.-domiciled outside the United States. U.S. stocks are represnted by the Dow Jones Wilshire 5000 Index from 1997 through April 22, 2005, and the MSCI US Broad Market Index thereafter. International stocks are represented by the Total International Composite Index through August 31, 2006; MSCI EAFE + Emergining Markets Index through December 15, 2010; MSCI ACWI ex USA IMI Index through June 2, 2013; and FTSE Global All Cap ex USA Index thereafter. U.S. bonds are represented by the Bloomberg Barclays U.S. Aggregated Bond Index. International bonds are represented by the Bloomberg Barclays Global Aggregate Float Adjusted Composite Index.

Notes: Please remember that all investments involve some risk. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Diversification does not ensure a profit or protect against a loss. Investments in bonds are subject to interest rate, credit, and inflation risk.

Historically, higher-return assets have brought increased risk

Best, worst, and average returns for various stock/bond allocations, 1997–2019