December 2020

FIDUCIARY PULSE

Kendall Capital
Serving Middle-Class Millionaires®

4th Quarter 2020: COVID-19 Vaccines Gives Businesses and Consumers Hope While Lawmakers Approve a Second Stimulus

By Clark Kendall

The Quarter In Brief

On Wall Street, the fourth quarter's biggest development had everything to do with science and medicine. In November, news that two vaccines had been highly effective against COVID-19 in clinical trials strengthened Wall Street's fall rally. The Food and Drug Administration (FDA) authorized both vaccines for emergency use weeks later.

Two important deals were struck after much negotiation. In the nation's capital, Congress approved a second economic stimulus in response to the pandemic. Overseas, the United Kingdom and the European Union met the deadline to forge a post-Brexit trade agreement.

All three major Wall Street indices ended 2020 with 12-month gains, with the Nasdaq Composite far outpacing the Dow Jones Industrial Average and S&P 500. As a tragic year ended, participants in financial markets here and abroad hoped that vaccine rollouts, further economic support measures, and dovish monetary policies would help stabilize the global economy in 2021.

The U.S. Economy

The federal government's Operation Warp Speed produced results.In December, the FDA greenlighted the immediate distribution of two COVID-19 vaccines, both of which were found

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more than 90% effective in clinical trials. States began vaccinating health care workers and residents of long-term care facilities on December 14. On Main Street and Wall Street, there was hope that the end of the pandemic was in sight, albeit not near at hand.

In the second half of December, Capitol Hill legislators approved a new economic stimulus for American households, which President Donald Trump subsequently signed into law. The new stimulus included $600 economic relief payments for most taxpayers and at least a 10-week extension of the enhanced $300 federal jobless benefit.

The Department of Labor statistics showed headline unemployment lessening in the quarter, dipping to 6.7% in November from 6.9% in October. The U-6 jobless rate, which counts both the unemployed and the underemployed, was 12.1% in October, 12.0% a month later. The economy added 610,000 net new jobs in the quarter's first month, and 245,000 in its second.4

Understandably given fall headlines, consumer spending and consumer confidence wavered. The Bureau of Economic Analysis said personal spending contracted in both October (0.3%) and November (0.4%), along with personal incomes (down 0.6% in October, and 1.1% in November). Retail sales, ticking down only 0.1% in the tenth month of the year, slumped 1.1% during the eleventh, according to the Census Bureau. The University of Michigan's monthly consumer sentiment gauge came in at just 76.9 in October and 80.7 in November; the Conference Board's monthly consumer confidence index declined from 92.9 to 88.6 in the same time frame.

Both the service and manufacturing sectors were growing, at least according to the monthly purchasing manager indices (PMIs) at the Institute for Supply Management. ISM states that when these indices are above 50, the sectors are expanding. Its monthly manufacturing PMI was at 59.3 in October and 57.5 in November; its services PMI came in at 56.6 in October and 55.9 the following month.

In contrast to most of the above economic indicators, existing home sales rose in November and declined in October. National Association of Realtors reports showed residential resales improving 4.4% in the opening month of the quarter, followed by a 2.5% November dip. As for new homes, the Census Bureau said they plunged 11.0% in November, following a 2.1% October descent.

Federal Reserve chairman Jerome Powell on December 16 said that the central bank would keep buying bonds until the economy showed "substantial" improvement. To many traders and market analysts, that commitment signaled that interest rates might stay near historic lows for years; in fact, the latest consensus opinion among Fed policymakers projects no change for the federal funds rate through 2023. Last month, the Fed forecast a 2.4% contraction for the U.S. economy in 2020, improved from a 3.7% estimate in September. For 2021, it sees economic growth of 4.2% and unemployment declining to 5.0% by year's end.

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The Global Economy

The United Kingdom and European Union hammered out a post-Brexit trade agreement, beating a year-end deadline; Michel Barnier, the E.U.'s chief negotiator in the deal, called the Brexit "an act of mutual weakening." The E.U. has lost one of its largest members, one that accounted for about a sixth

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MARKET INDEX	Y-T-D CHANGE	Q4 CHANGE	Q3 CHANGE
DJIA	7.25	10.17	7.63
NASDAQ	43.64	15.41	11.02
S&P 500	16.26	11.69	8.47
BOND YIELD	12/31 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	0.93	0.69	1.92

Sources: Yahoo Finance, December 31, 2020

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

of its economy. While the U.K. gains some political control, its residents can no longer live or work in much of Europe with the ease they once knew, and its economy and financial industry may face potential setbacks.

China's powerful economy was expanding again, according to China government reports. The nation's official factory sector purchasing manager index stood at 51.9 in December, down from 52.1 in November; anything over 50 signifies sector growth. China's services PMI has been above 50 for ten months.

"Frustrations in the first few weeks of Q1 may test stocks; on the other hand, measurable progress against the pandemic could renew enthusiasm.

China's government never announced an economic growth target last year; according to CNBC, its 2020 gross domestic product will approach 2.0%, compared to the 6.0% GDP of 2019.

The MSCI EAFE Index, tracking shares in 21 stock exchanges outside North America, rose 15.75% for Q4. The top 3-month gainer among national benchmarks was Brazil's Bovespa, up 25.81% in Q4; that was hardly the only major climb. India's Nifty 50 rose 24.31%, South Korea's Kospi Composite 23.44%, and Spain's IBEX 35 20.21%. In Japan, the Nikkei 225 added 18.37%. Hong Kong's Hang Seng improved 16.08%, France's CAC 40 15.57%. China's Shanghai Composite gained 7.92%, Germany's DAX 7.51%.

Looking back, Looking Forward

Optimism grew on Wall Street as the quarter progressed. The Nasdaq Composite, S&P 500, and Dow Jones Industrial Average all saw double-digit Q4 gains, and all three benchmarks advanced for 2020.

The Nasdaq had a banner year, as traders readily bought shares of technology firms whose products helped people work at home. It wrapped up 2020 at 12,888.28. The S&P 500 settled at 3,756.07 on December 31, while the Dow ended the year at 30,606.48.

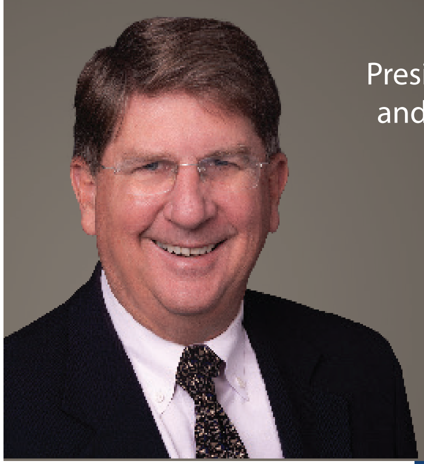
Treasury yields rose in Q4, with the 10-year note approaching 1%. Its peak yield for the quarter: 0.98%, on November 10.

In this past quarter, bullish sentiment was widespread on Wall Street. In the opening quarter, investor optimism may rise as the vaccine gets more widely distributed. Frustrations in the first few weeks of Q1 may test stocks; on the other hand, measurable progress against the pandemic could renew enthusiasm.

Many Americans believe that 2021 will be better than 2020. In the glass-half-full outlook, with most of the nation vaccinated by spring, it takes until fall in the glass-half-empty view. In either scenario, business sectors hurt by stay-at-home orders could bounce back before the end of the year.

Clark A. Kendall

President and CEO



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Retirement Blindspots

By Carol Petrov

Some life and financial factors that Middle-Class Millionaires sometime overlook.

We all have our "blue sky" visions of the way retirement should be, yet our futures may unfold in ways we do not predict. So, as our clients at Kendall Capital think about their "second act," we encourage them to consider some life and financial factors that can suddenly arise.

You may end up retiring earlier than you expect.

If you leave the workforce at "full" retirement age (FRA), which is 67 for those born in 1960 and later, you may be eligible to claim "full" Social Security benefits. Working until 67 may be worthwhile because it will reduce your monthly Social Security benefits if you claim them between age 62 and your FRA.

Now, do most Americans retire at 67? Not according to the annual survey from the Employee Benefit Research Institute (EBRI).

In EBRI's 2020 Retirement Confidence Survey, 16% of pre-retirees expected to retire between ages 66-69, and 31% thought they would retire at age 70 or later. The reality is different. In surveying current retirees, EBRI found that only 6% had worked into their seventies. In fact, 70% percent of them had left work before age 65, and 33% had retired before age 60.

You may see retirement as an extension of the present rather than the future.

This is only natural, as we all live in the present – but the future will arrive. The costs you have to take on later in retirement may exceed those at the start of retirement. As you may be retired for 20 or 30 years, it is wise to take a long-term view of things.

You may have a health insurance gap.

If you retire before age 65, what do you do about health coverage? You may shoulder 100% of the cost.

Looking forward, you may need extended care, and it seems to get more expensive each year. Wealthy households may be able to "self-insure" against extended care, but many other households struggle. In Genworth's 2020 Cost of Care Survey, the median monthly cost of a semi-private room in a nursing home is $7,738. In California, it is $9,023; in Florida, $8,803.

Suppose you become disabled or seriously ill, and working is out of the question. How do you make ends meet?

Age may catch up to you sooner rather than later.

You may stay fit, active, and mentally sharp for decades to come, but if you become mentally or physically infirm, you need to find people to trust to manage your finances.

You could be alone one day.

As anyone who has ever lived alone realizes, a single person does not simply live on 50% of a couple's income. Keeping up a house, or even a condo, can be tough when you are elderly. Driving can be a concern. If your spouse or partner is absent, will there be someone to help you in the future?

These are some of the blind spots that can surprise us in retirement.

"We all have our "blue sky" visions of the way retirement should be, yet our futures may unfold in ways we do not predict.

They may quickly affect our money and quality of life. If you age with an awareness of them, you may have the opportunity to manage the outcome better. We encourage you to reach out to an advisor here at Kendall Capital to make sure you are well prepared for your future and any bumps along the way.

Carol Petrov
CFP®

Vice President and Senior Relationship Manager

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Welcome Katelyn Murray, CFP® to Kendall Capital!

As a Financial Planner and Relationship Manager at Kendall Capital, Katelyn is committed to utilizing her background in behavioral finance to cultivate an integrated financial planning approach, in which behavioral coaching elements are blended with traditional wealth management expertise to help our clients lead healthier financial lives. As a holistic CFP® professional, her goal is to not only help clients cross financial goal posts, but also to aid them in finding true peace and comfort in their personal relationship with money.

An unorthodox convert to the field of financial planning, Katelyn graduated from James Madison University with a BA in Theatre & Dance and History in 2009. She later went on to secure her Master of Business Administration from Averett University and a Graduate Certificate in Financial Planning from Northwestern University. Currently, she is pursuing certification as a Financial Behavior Specialist® through the Financial Psychology Institute and Creighton University's Heider College of Business. As a public speaker, Katelyn has had the opportunity to present at several national industry conferences and has appeared as a guest on The W Pulse podcast.

Outside the office, Katelyn, a resident of Leesburg, serves on Loudoun County's Disability Services Board, helping to promote inclusivity and accessibility for differently-abled individuals throughout her community. An avid cat lover with two extremely spoiled felines of her own, she also volunteers with The Feline Foundation of Greater Washington as an adoption coordinator.

2021 Limits for IRAs, 401(k)s and More

By Katelyn Murray

Numbers for Middle-Class Millionaires to know for the new year.

On October 26, the Treasury Department released the 2021 adjusted figures for retirement account savings. Although this year's adjustments will not bring any major changes, there are some minor elements to note.

401(k)s.

The salary deferral amount for 401(k)s remains the same at $19,500, while the catch-up amount of $6,500 also remains unchanged. However, the overall limit for these plans will increase from $57,000 to $58,000 in 2021.

Individual Retirement Accounts (IRA).

The limit on annual contributions remains at $6,000 for 2021, and the catch-up contribution limit is also unchanged at $1,000.

Roth IRAs.

Roth IRA account holders will experience some slightly beneficial changes. In 2021, the Adjusted Gross Income (AGI) phase-out range will be $198,000 to $208,000 for couples filing jointly. This will be an increase from the 2020 range of $196,000 to $206,000. For those who file as single or as head of household, the income phase-out range has also increased. The new range for 2021 will be $125,000 to $140,000, up from the current range of $124,000 to $139,000.

> **Although this year's adjustments will not bring any major changes, there are some minor elements to note.**
>
> kendallcapital.com

Although these modest increases will not impact many, it's natural to have questions anytime the financial landscape changes. If you want to discuss any of the above, speak to your financial here at Kendall Capital or tax professional for more information.

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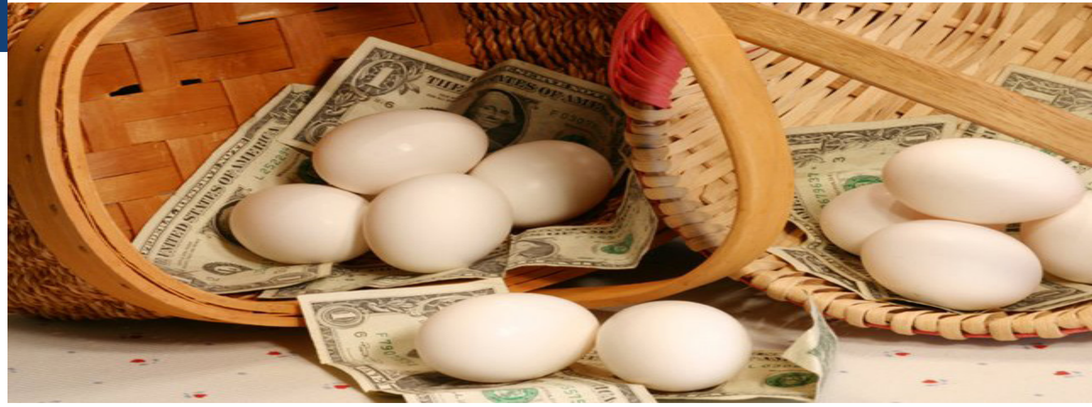


S&P 500 Index Has Become a Basket With a Few Big Eggs

By Clark Kendall

What will happen with the U.S. stock market in the months ahead?

That's the burning question on the minds of investors after a rollercoaster of a year that brought us extreme volatility with stocks twisting and turning in wild and unforeseen ways during the Covid-19 pandemic.

While nobody has a crystal ball that can predict with full assurance exactly what's waiting for us around the corner, looking at current trends can provide clues and warning signs that history may be repeating itself.

Just a handful of companies have been rocketing skyward in the S&P 500 Index, which is a market-capitalization-weighted index of 500 of the largest publicly traded companies in the U.S.

Five stocks now comprise about 20% of the entire S&P 500 market cap, as noted by the financial news website TheStreet. They include Apple, Alphabet, Facebook, Microsoft and Amazon.

Companies that have done well have really done well and companies that have done poorly have really done poorly. The pandemic spawned a "bifurcated" stock market with large technology names seeing disproportionately huge gains. According to Axios, "the concentration of wealth in a few massive U.S. tech companies has reached a scale significantly greater than it was before the dot-com bubble burst."

The situation is similar to what happened ahead of Y2K in the late 1990s when people were scared because many computer programs only used two numbers to record the year. There was intense and widespread panic that computers would be unable to operate when the date turned from "99" to "00. In 1999 there was an enormous amount of money and energy spent on making sure that the computer infrastructure was put into place. Major events can shake people too far in one direction or the other.

At that time, investors were being shaken toward companies such as General Electric and Qualcomm. But the gains in that specific sector of the market did not continue indefinitely. Since 2000, Qualcomm's revenues and earnings have gone up 17 times but the stock trades at about three-quarters of the value it was 20 years ago. The all-time high General Electric closing price was $60 in the year 2000. Now, the stock's average price hovers around the $8 mark, according to the research platform Macrotrends.

The 10 years that followed the Y2K scare were in general not so great for investors.

"For the period of December 31, 1999 through December 31, 2009, the S&P 500 index had an annualized simple price return of -2.72%," Forbes magazine noted. "When dividends are factored in, the results do not get much better as annualized total return for the S&P 500 index (with dividends reinvested back into the index) over the same timeframe was -0.95%."

So, what lessons can current investors learn from that period of time?

For one, you want to be prudent and avoid overpaying for something just because it is all the rage right now. I caution people against getting excited about Covid success stories and paying too big of a premium. Investors need to make sure they pay attention to fundamental security analysis, return of cash flows from investments and paying a reasonable price for those future cash flows whether they're in interest or dividend payments or capital appreciation.

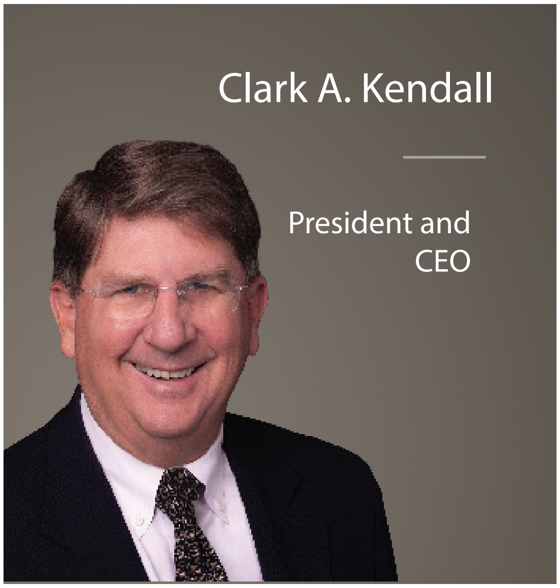
Another lesson lies in the old cliché of "don't put too many eggs in one basket" because things will inevitably change. The pandemic has temporarily forced all of us to spend an inordinate amount of time indoors, relying on packages and groceries being shipped directly to us and communicating through online video platforms such as Zoom. It has even led to people moving away from big cities.

"Now that more Americans can work and attend school from anywhere, they are increasingly looking to leave large urban centers for smaller, less dense cities with cheaper housing," CNBC reported.

But the pandemic will pass and our lives will eventually shift back to a more normal state.

Simply put, it just doesn't make sense to be hyper-focused only on stocks that are doing exceptionally well when we're living through an exceptionally unusual time.

What's being repeated now is people getting overly excited with really good companies and forgetting the nuts and bolts of investing. All investors need to own not just a stock, but a diverse portfolio of companies.



Kendall Capital's New Micro-cap Strategy

By Brian Mattox

Many high-net-worth and affluent individuals and families have begun following the lead of institutional investors – allocating part of their portfolios to alternative investments such as private equity (PE), venture capital (VC) or hedge funds. To satisfy this demand, most major PE firms and many diversified asset managers have been offering "alt" funds to retail investors for years, and view this as a high-growth category. Instead of choosing alternatives like PE, VC or hedge funds, most high-net-worth investors would be better off investing in micro-cap securities via actively traded mutual funds. Micro-cap indices have tracked the performance of PE, VC and hedge funds very closely in recent years. These investments offer the potential benefits of PE, VC and hedge funds without such drawbacks as illiquidity and questionable return calculations. Of course, micro-cap stocks should only represent a portion of a well-diversified portfolio that features an appropriate asset allocation based on the investor's goals. "Middle-Class Millionaires" who buy into the narrative of wealth associated with alternative investments may be convinced to add PE, VC or hedge funds to their portfolios. However, those who hold less esoteric investments, such as micro-caps, may be able to tell a better performance story.

Well known asset managers have performed research concluding that actively managed, value-oriented micro-cap funds tend to outperform private equity over the long term.

While micro-cap funds tend to outperform PE, they do share similar performance trends and comparable return profiles. For example, micro-cap active managers often target similar assets as financial sponsors while seeking value-oriented investments in businesses with strong fundamentals and consistent cash flow. Despite the outperformance, micro-caps are often overlooked by institutional investors, which leads to them also being overlooked by the analyst community and the media resulting in capital flows into U.S. public equities holding essentially flat since 2008 while capital flows into private equity funds have averaged around $250 billion a year since then.

"Well known asset managers have performed research concluding that actively managed, value-oriented micro-cap funds tend to outperform private equity over the long term.

At Kendall Capital, we believe that the lack of attention from institutional professionals to the micro-cap space may create an excellent investment opportunity.

Less analyst coverage and transparency cause more information asymmetry among microcap companies than their larger peers. This less efficient price discovery mechanism translates into more alpha-generating potential. Our main argument for investing in microcap companies is that this unique asset class may be able to give investors a taste of PE/VC-like returns without the latter's illiquidity and opacity.

The Kendall Capital Micro-cap Strategy invests in mutual funds that own publicly traded companies with market capitalizations less than $500 million. This strategy looks for portfolio managers of mutual funds that own rapidly growing companies with strong underlying financial quality to fund their continued growth.

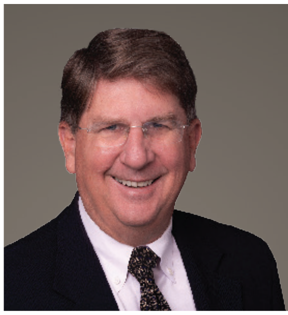
Over the next 12 months we will be increasing the use of the Kendall Capital Micro-Cap strategy for the accounts we manage.

Please expect a conversation with either Brian Mattox, Jason Tkach or Clark Kendall at your annual review. As always, asset allocation to this strategy along with our other strategies need prudent consideration from many factors to meet your long-term financial goals

Brian Mattox
CAIA

Senior Portfolio Manager

THE KENDALL CAPITAL TEAM



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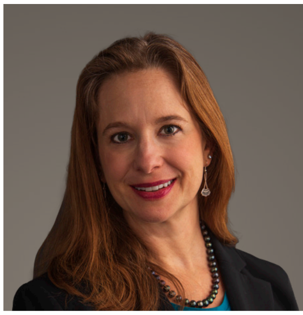

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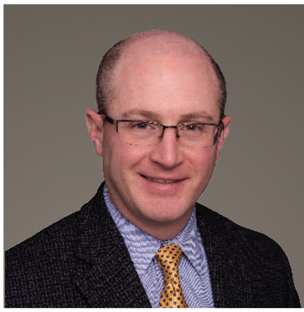

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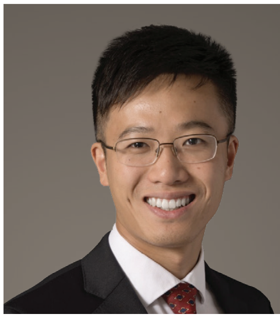

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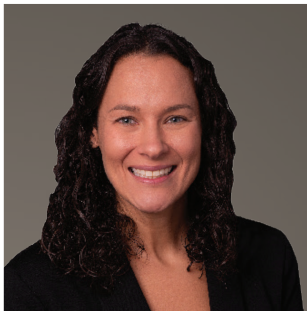

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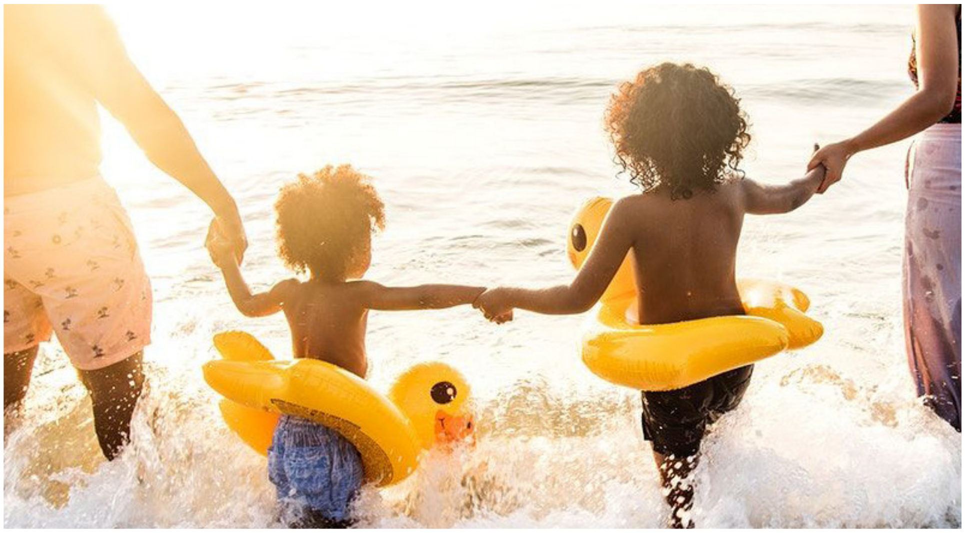

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