

the BENCHMARK

Newsletter



04

Rollercoaster Year

Partner Myra O'Dell recaps the ups and downs of the year so far. No one could have predicted the unusual events of the year. We hope you are taking care of yourselves and your families. We wish

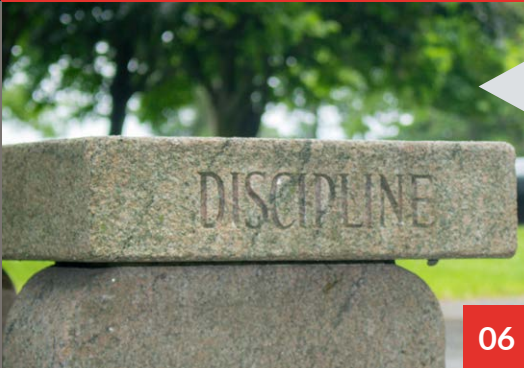
you excellent health, prosperity, and wisdom in a time of uncertainty. Please do not hesitate to reach out to us with any questions, concerns, or if you just need a listening ear. God bless!



02

A Viewpoint on Investing & Presidential Election Cycles

Philip Bachman talks about the upcoming presidential election and the impact that past elections have had on the stock market.

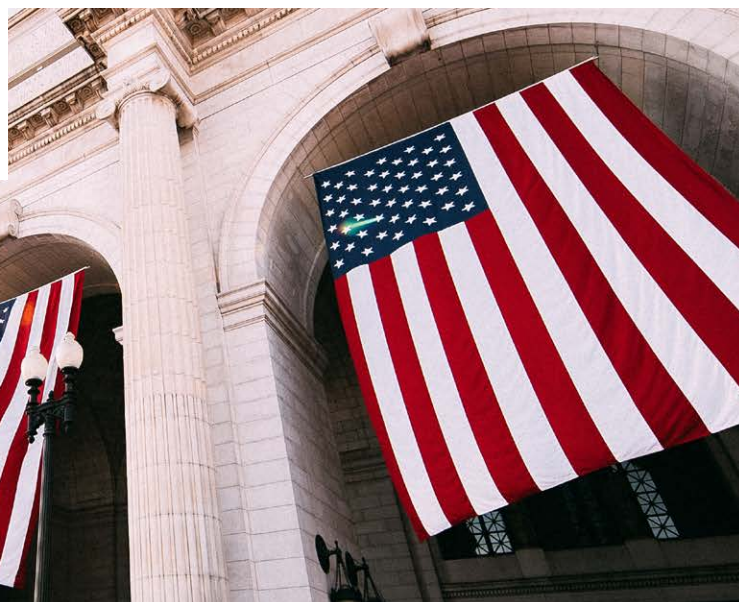


06

Emotional Investing vs. Disciplined Investing

Managing Partner Nick Clay writes about the dangers of investing based on how you feel instead of building a portfolio to last.

A Viewpoint on Investing & Presidential Election Cycles



By Philip Bachman

The U.S. economy was running strong in all material respects when 2020 began. Most analysts did not expect a recession on the near horizon. Indeed, life itself was normal. Folks could enjoy dinner out. Jam-packed basketball arenas were commonplace. People could travel anywhere. And one of investors' primary concerns was the upcoming presidential election.

Then the COVID-19 pandemic happened. Fear of the virus caused huge parts of the global economy to halt in March. Entire states and countries went into lockdown. Daily life changed – and still is changing – in unfortunate ways that our society will grapple with for years to come. The 2020 election fell to the back of most investors' minds.

The election will resurface as a mainstream topic as November draws near. Investors will begin to focus on the election again as a source of uncertainty. Some investors may be worried that a contentious election season, or a particular outcome, could deepen the U.S. economy's struggles.

However, history shows presidential

elections have made essentially no difference when it comes to long-term investment returns. Looking at election results back to 1932, U.S. stocks have trended up regardless of whether a Republican or a Democrat won the White House. "Presidents get far too much credit, and far too much blame, for the health of the U.S. economy and the state of the financial markets," says Capital Group economist Darrell Spence, "There are many other variables that determine economic growth and market returns and, frankly, presidents have very little influence over them."

Rather, what has mattered is staying invested. Although past results are not predictive of future returns, a \$1,000 investment in the S&P 500 Index made when Franklin D. Roosevelt took office in 1933 would have been worth over \$14 million today. During that time there have been seven Democratic and seven Republican presidents. Getting out of the market to avoid a certain party or candidate in office could have severely detracted from long-term returns.

We offer the following illustration to this point. In early 2016, our team was studying the performance of a large U.S. stock mutual fund. The fund

was closely correlated to the S&P 500. There had been 11 terms of Democratic presidential leadership and nine terms of Republican leadership in the White House from 1936 going into the 2016 election. Interestingly, the difference between the fund's investment performance results (based on 10-year periods, each beginning on January 1 of a new presidential term year) of Democrat and Republican presidents was negligible. The fund had average annual returns of 11.0% during the Democratic 10-year periods and 10.7% during the Republican 10-year periods.

The performance figures above span periods of both economic calm and economic strain and overlap different presidents. There are several other studies offering data about the stock market's performance in presidential election years and among presidential cycles. It is difficult to make forward-looking predictions based on them. However, broadly speaking, what we see in such studies validates being invested in the market regardless of political cycles. That is a good reminder for all of us right now.





Dangers of Chasing Yield

By Nathan Goodwin

It's mid-2020, and again we find ourselves with interest rates at all-time lows. In fact, in late March as the Coronavirus wreaked havoc on the economy, yields on one- and three-month Treasury bills actually dipped below zero temporarily. The only other time this has happened was 2015. Rates on CDs, bonds, and other fixed instruments are also at all-time lows. For years now, low rates have created a difficult balancing act for those trying to generate sufficient income on their investments and savings. Based on recent Federal Reserve commentary, we shouldn't expect a change anytime soon.

It can be tempting to "chase yield" in times like we're in, especially after years of low rates. However, this can be a dangerous game with unforeseen consequences. Investors can mistakenly believe that higher-yielding bonds will still be safer and more stable than equities. But in fact, many high-yield bonds are correlated with stocks and exhibit similar

volatility. This is mostly because high-yield bonds are subject to credit risk, or the risk of loss from an issuer's failure to make timely payments of principal and interest, including the risk of default. During a market selloff or correction, these higher paying but riskier bonds will not soften market declines like most expect from their bond holdings.

Another way investors chase yield is by extending the duration of their bond holdings. Some may see a longer term bond paying greater income and mistakenly believe the risks are the same because the credit rating is the same. However, longer term bonds are subject to greater duration risk. Their values are much more susceptible to interest rate movements compared to shorter term bonds. This can be especially true in bond mutual funds that have no defined maturity.

Some even look to dividend paying stocks, convincing themselves that not only are they getting greater income, but opportunities for capital growth too.

While this is true, stocks generally exhibit higher volatility than bonds. Therefore, stocks are not an appropriate substitute for bonds for most investors.

Not paying attention to these variables can lead to a situation where any increase in portfolio yield is more than offset by declines in portfolio values. These situations defeat the purpose of having an allocation to bonds, and they can be hard to recover from. Unfortunately, some investors discover these truths too late.

A properly designed portfolio should focus on total return in relation to your goals. While this does include yield (dividends and interest), yield is only one piece of the puzzle. Don't get caught in the trap of chasing higher yields at the expense of total return. Feel free to contact us if you have questions or concerns, or if you would like a complimentary portfolio review.



Rollercoaster Year

By Myra O'Dell

I have always loved rollercoasters. Even as an adult, whenever my dad and I travel together, we always google the closest theme park to see if there is one in the area. We scout out the biggest rides and then make our way around the park, from one ride straight to the next.

I hate to admit it, but my dad is slightly a bigger dare devil than I am, and I often find myself on a ride that I might have skipped if it weren't for the fact that I refuse to let him outdo me! When I find myself in that situation, I double- and sometimes triple-check to make sure my seat belt harness is on as tightly as possible. Thinking about the stock market's performance year-to-date, it has felt a lot like being on one of those rollercoasters. I'm sure many of you agree with me!

As Nick mentioned in his article at the end of the first quarter, the first quarter of 2020 was the worst quarter since 1987 and also the worst first quarter ever. However, June 30, 2020 marks the end of

Major Stock Indexes	2nd Quarter 2020	YTD
DJIA	17.8%	-9.6%
Nasdaq Composite	30.6%	12.1%
S&P 500	20.0%	-4.0%
Russell 2000	25.0%	-13.6%
Global Dow	14.4%	-13.2%
Japan: Nikkei 225	17.8%	-5.8%
Stoxx Europe 600	12.6%	-13.3%
UK: FTSE 100	8.8%	-18.2%
Major Bond Index	2nd Quarter 2020	YTD
Bloomberg Barclays US Aggregate (Total Return)	2.9%	6.1%

the best quarter since 1987. Yeah... I hope you triple-checked your seat belt harness because that's quite the swing!

Since June 8, which was the most recent peak, the S&P 500 dropped by -7.1% through June 11, followed by a gain of 4.3% through June 23, and then another drop of -3.9%. The most recent



peak in the S&P 500 corresponded to the point at which the number of COVID-19 cases shot up again. Stocks will likely continue to be at the mercy of virus-related news—both positive and negative.

The nature of this market cycle is unique to cycles we have experienced in the past. We have never seen a health crisis transform into an economic crisis caused by a government-mandated, full shutdown. Furthermore, the speed at which the market is moving is unlike any we have seen before, with a full market cycle having been condensed into a few months. The wild swings have encouraged some investors and traders, while leaving others in a haze.

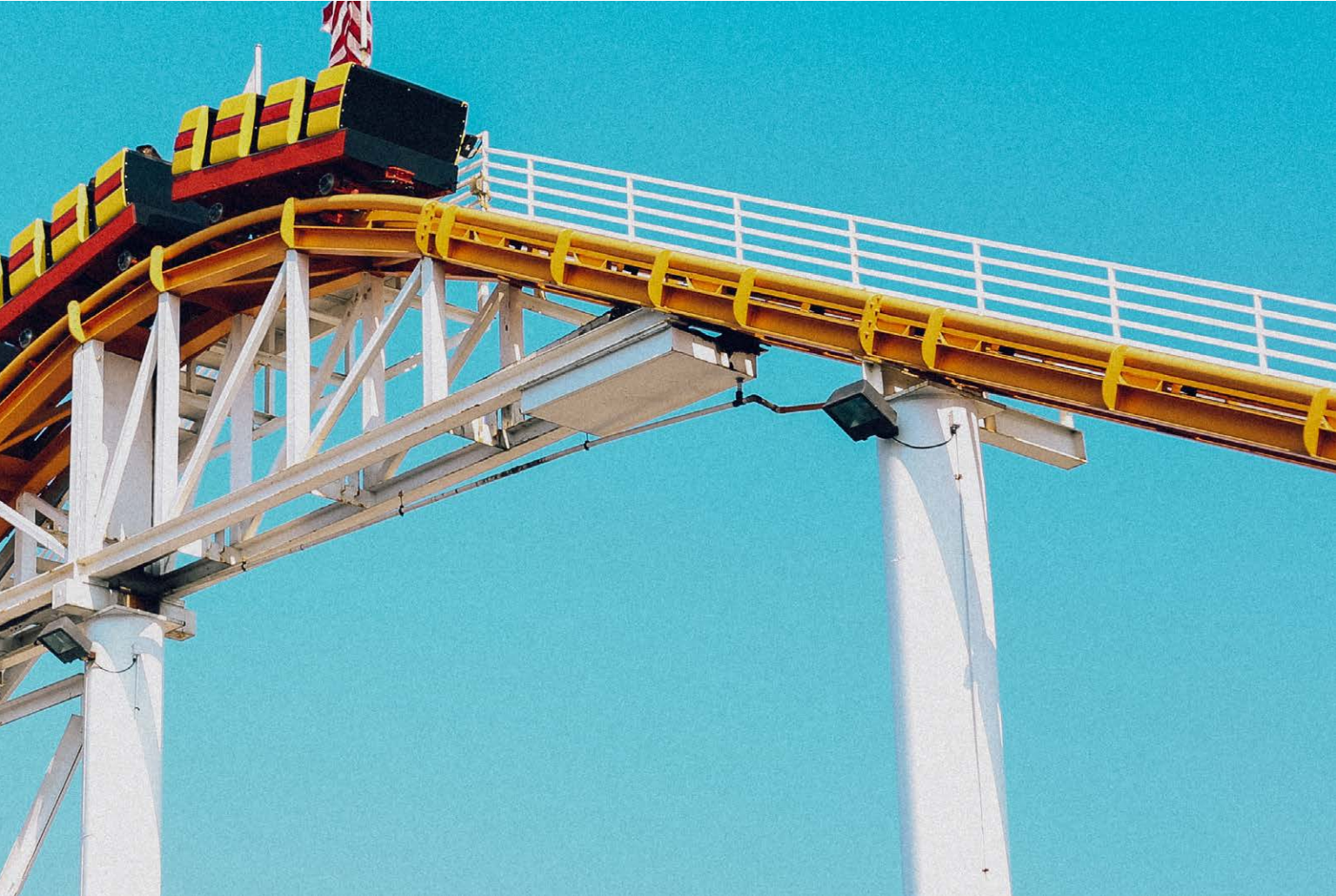
We recommend that investors remain at their long-term target allocations and rebalance when necessary. This allows portfolios to stay in line with appropriate levels of risk versus trying to time short-term peaks and troughs (which is always extremely difficult). It's important to stay disciplined. Be mindful of the emotions of fear and greed, which can lead you astray from reaching your goals. Long-term investment success does not require precisely picking market tops and bottoms. That's gambling on a moment in time, whereas

investing should always be a process over time.

If you haven't already done so, don't forget to check out our blog (bcsworld.com/blog-2/) and social media outlets. There we post coverage of office happenings, thoughts on the markets, and relevant new legislation that can potentially affect you.

On behalf of the BCS Wealth team, thank you for your continued trust in us. We hope you and your families are healthy and safe.

“We recommend that investors remain at their long-term target allocations and rebalance when necessary.”





Emotional Investing vs. Disciplined Investing

By Nick Clay

Psychology reveals that our emotions can be either an asset or a liability depending on the circumstances and our reactions. When it comes to investing, especially in volatile times, it is important to not allow our emotions to become a liability. This is easier said than done. The reality is investing has implications to many areas of our lives and wellbeing, so it is easy to let emotions dictate critical decision making.

Strong emotions can cloud an investor's judgment, resulting in costly errors. Two primary emotions, fear and overconfidence, are at the core of many investing mistakes. A fearful investor might panic and sell out of their investments just before the market rebounds. This is rarely a wise move for long-term investing. We've discussed with many clients and on our blog that some of the best days of the year are often right on the heels of some of the worst. Long-term performance can be crippled by missing out on some of the best days. You can read a couple of these articles here:

<http://BCSwealth.com/2020/02/28/>

[the-late-february-2020-stock-market-correction/](http://BCSwealth.com/2019/03/27/negative-markets-and-volatility-create-a-perfect-storm-for-investing-mistakes/)

<http://BCSwealth.com/2019/03/27/negative-markets-and-volatility-create-a-perfect-storm-for-investing-mistakes/>

On the flip side of fear is overconfidence. Investors often show misplaced confidence in the most recent best-performing stocks, sectors, or funds. Last year's "hot" investment absolutely does not guarantee it will be this year's. For example, emerging market stocks were up almost 40% in 2007, and many analysts continued to recommend this asset class for continued outperformance. What happened the following year? Emerging market stocks were down 53%! There are numerous examples of in-favor and out-of-favor investments surprising even the most seasoned investment analysts.

There is no assured strategy to constantly enhance your returns without adding risk, but you can take a disciplined investment approach and lean on your financial advisor to help take the emotions out of your investment plan. Reaching for an extra 2-3% per year by trying to time the market can prove very costly. However,

there are some prudent strategies which have been proven to add value, returns, and increased withdrawals over time. These strategies are noted in studies by Morningstar (Blanchett and Kaplan, 2013) and Vanguard (Kinniry, et al., 2016). The strategies include a suitable investment allocation; cost-effective implementation; portfolio rebalancing; behavioral coaching; allocation across accounts; withdrawal strategy and sourcing; total return vs. income investing; and Social Security timing strategy.

The Vanguard study estimates that working with an advisor to implement these strategies can add about 3% per year to returns, and Morningstar estimates an extra 2.39% per year plus increased withdrawal amounts over time. By making smart, research-proven decisions on a regular basis you can expect to be rewarded in the long term. While it may not seem like it in the moment, a focus on the bigger picture and playbook far outweighs focusing on the day-to-day news and market movements.



Planning for Long-Term Care Expenses



By Paul Hoilman & Scott Hoilman

With continued advances in healthcare, seniors' ability to sustain a high quality of life seems to improve each year. Thanks to advances in prescription medicines, therapies, and treatments, our elders are entering a unique time when healthcare and caregiving are able to improve and prolong their quality of life longer than ever before. Not surprisingly, the expenses associated with caregiving, healthcare, prescription medicines, assisted living, and long-term care facilities are also trending up.

Long-term care planning is a topic many would like to ignore, but the prevalence of such care is growing at a rapid pace. Data from the Administration on Aging says that someone turning age 65 today has nearly a 70% chance of needing some type of long-term care services. Furthermore, while most long-term care needs last only two to three years on average, approximately 20% of today's 65 year-olds will need long-term care services for more than five years.

Whether a person simply needs occasional help around the house with daily activities, relocates to an assisted living facility, or needs around-the-clock skilled nursing care, long-term care services can have a major impact on the

person in need, as well as their close family members and friends. Do you have a close family member or friend that would be willing, available, and able to care for you? If so, do you want to burden that person with the sole responsibility of your care when needed?

How do we respond to this? For many, self-insuring is the default – that is, they hope for the best and plan on using accumulated life savings to help cover any necessary expenses. This strategy makes sense for some – particularly the uninsurable, those with caretaking family members nearby, those without intended beneficiaries, or those with a high risk tolerance. However, self-insuring is an unsettling thought for most. Morningstar reports that at least 15% of people turning 65 between 2015 and 2019 are expected to spend more than \$250,000 on long-term care during their lifetimes. Moreover, in 2019, the median annual cost for an assisted-living facility was \$48,612, while the median annual cost for a private nursing-home room was \$102,200.

Another option to help manage this risk is to add a long-term care rider to a life insurance policy. In this manner, a person can leverage the premium of one policy to provide coverage for themselves and their families. With hybrid

life and long-term care policies, the premiums are 100% locked-in, and the long-term care benefits can be accessed on a tax-free basis once needed. If the insured person does not consume the long-term care benefits, then his or her family would receive the tax-free death benefit.

A final option is the traditional, tax-qualified long-term care policy. Similar to the hybrid policies, traditional long-term care insurance provides a tax-free monthly benefit when long-term care services are needed. Unlike the hybrids, premium payments may be tax deductible with traditional long-term care insurance. These policies are guaranteed renewable, meaning the insurance company can never cancel your policy.

What's right for you? Unfortunately, there's no easy answer. None of us have a crystal ball, yet we all face a similar risk. For many, a combination of strategies may be prudent to help manage and mitigate your financial risk. Consider your family history, the availability of family members to provide care, your expected financial situation, and your legacy plan. Feel free to give us a call for more information or if you have questions.

BCS Wealth Management is an independent financial planning firm in Johnson City, TN. We help individuals, families, and businesses reach goals important to their financial wellbeing. We provide investments and financial planning, insurance, and group benefits.

Thanks to All Who Joined Us for Ice Cream!

We are looking forward to more events this year and hope to see you!



BCS Wealth's Business Services Mentioned in Industry Magazine

BCS Wealth Management gained mention in a *Citywire RIA* magazine article published on June 22. *CityWire RIA* delivers analysis and resources for Registered Investment Adviser (RIA) firms. The article introduced three independent financial planning practices from across the country, among which BCS Wealth Management was one.

The article highlighted the ways these firms help small businesses manage their employee benefit offerings. The magazine interviewed Nick Clay, Managing Partner, about BCS Wealth Management's business services. Nick explains, "Our business services division works with owners to design, implement, and manage benefits. We form retirement plans, group health plans, group disability, group life insurance, and group 529 plans."

Isaiah Green of *Citywire RIA* writes, "From assisting in the development and implementation of group benefit plans to providing tax guidance to owners facing major liquidity events, these RIAs have carved out a niche with clients who require a unique wealth management experience."

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