VIEWPOINTS

1ST QUARTER 2021	ADVISORY NEWSLETTER

MARKET COMMENTARY **FREDRIC W. WILLIAMS**

What A Difference A Day (Year) Makes…

Borrowing a bit of poetic license from Dinah Washington's Grammy-winning song featured in 1961's "Breakfast at Tiffany's" (which starred Audrey Hepburn and George Peppard) we've experienced quite a year to remember – even if not necessarily in an entirely positive light. Just over twelve months ago the global capital markets had responded to unprecedented pandemic fears, and were in the throes of a decline from a February 19th peak to a March 23rd trough, after which a rebound began to take hold – but one that highlighted volatility, and showcased some of the best and worst percentage trading days in market history, sometimes on successive days. Absent any framework as to how the world might be impacted by economies being shut down, travel grinding to a halt and health care systems being pushed to their limits, the investor mindset was both clouded, and often fearful.

Yet here we find ourselves a year later, albeit after numerous, and fitful, starts and stops, with the domestic equity markets touching all-time highs while the economy gradually emerges from a self-imposed socially distanced coma, and the world continues to battle a stubbornly persistent virus with evolving vaccines, therapeutics and ongoing safety protocols.

In fact, the rebound has been so robust that retail-investor enthusiasm, perhaps spurred on by stimulus funds looking to be "spent" while in lock-down, has spilled over into non-traditional venues that may signal a hint of "irrational exuberance". Cryptocurrencies, non-fungible tokens, digital art and "meme" stocks driven by social media commentary (think Gamestop) became the chatter from Robinhood to Reddit during the opening quarter of 2021. And all of which stood in stark contrast to where investor's heads were at a year ago, and might suggest that the bottom half of the punchbowl was starting to get tapped.

But as we might recall from the popping of the dot.com bubble at the start of this century, today's "buying raids" are merely the current iterations of yesteryear's day traders, and likely both more closely resembled speculative trading mechanisms rather than prudent long term investment strategies.

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One of the reasons for this apparent Jekyll & Hyde transformation has its roots in a behavioral finance concept referred to as recency bias, wherein forward-looking investment decisions are influenced by recent events rather that by any objective metrics.

> *"When making investment decisions, it may seem like we have to predict the future. Unless you have a secret time machine, it's an impossible task. When we're faced with difficult decisions, especially during times of uncertainty and volatility, our minds take shortcuts. For example, when we are trying to predict the future, our minds naturally reach for what has happened most recently – that's called recency bias.*
>
> *"As humans, we have an easier time remembering what happened most recently. This shortcut serves us well in other aspects of our lives, but it can hurt us when making investment decisions. Recency bias can prompt us to place undo importance on recent events."*
>
> \- *S. Lamas, Morningstar 4/27/20*

An updated, and more direct causative relationship was outlined in SpringTide Partners Q1 2021 market commentary:

> "*…this bias can have extremely damaging consequences as it distorts our perception of what has happened in the past and our expectations for what may happen in the future. What happened in the recent past may not repeat tomorrow.*
>
> *"During bear markets, falling stock prices lead to panic selling on the view that because stocks have declined, they will continue to decline and never recover.*
>
> *"Conversely, in bull markets, investors will often forget about bear markets. The most recent experience is that stocks rise and so they are expected to continue to rise. The implication is that investors should buy more stocks as they will surely continue to rise."*

One might argue that both of these personality-trait extremes have made appearances within the last twelve months, which could suggest that merely following the herd might be better augmented with the inclusion of objective and relative data so decisions can be made within a more rationally appropriate perspective.

Another change from last year's investment dynamics has been the return, after a significant hibernation period, of value stocks and their relative outperformance over their growth-oriented brethren. Signs of this began to appear during the last quarter of '20 as hints of higher inflation and interest rates began to compress the possible future earnings multiples of growth stocks. This continued into 2021 with value beating growth (as measured by the respective Russell indices), and small companies outperforming larger ones, by significant margins. And with the domestic indices at new highs, these arenas may provide relative shelter from any pull-back storm as we continue to gradually navigate our way out of the pandemic towards some semblance of societal and economic normalcy.

> *"Rising interest rates have been a major catalyst for the shift toward value. But valuations, a recovery in profits, and portfolios that are underweight value stocks could keep the momentum going."*
>
> \- *R. Kapadia, Barron's 04/01/2021*

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Index Returns			
Equities	*Percentage Change for the 1st Quarter*	*Percentage Change for the Year*	*Annualized 10-Year Returns*
S&P 500	**6.17%**	6.17%	13.91%
Bloomberg Commodity Index	**6.92%**	6.92%	-6.28%
MSCI EAFE*	**3.48%**	3.48%	5.52%
MSCI Emerging Markets*	**2.29%**	2.29%	3.65%
FTSE NAREIT Equity REIT Index	**8.87%**	8.87%	8.56%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	**-3.37%**	-3.37%	3.44%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	**-1.47%**	-1.47%	3.44%

Source: BlackRock, Bloomberg, FTSE™, NAREIT®.
*Returns are calculated with net dividends in USD

Index returns are for illustrative purposes only and do not represent actual performance of any investment. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Domestic and Global Market Recap…

FRANCIS J. DAVIES, III

"This Time is Really Different"

U.S. stocks continued to gain during Q1, 2021, encouraged by wider vaccination distribution (150 million doses have been administered), $1.9 trillion in fiscal stimulus and a proposed $2 trillion infrastructure bill. Global equities had a positive quarter while slightly higher rates depressed bond returns. The quarter also saw the Suez Canal blocked for 6 days, tangling worldwide distribution channels. The massive container ship has been seized by Egypt to cover the $900 million bill. SPACs - special purpose acquisition company – were also a hot topic. These vehicles raise money to buy another company. The money is raised first, then the acquisition is found which seems rash, but not nearly as reckless as the action in the meme stocks (like Gamestop) which came boiling out of Redditt. It was a quarter that had it all, including a 100% gain on Bitcoin.

The last global pandemic coincided with the ending of World War I in 1919, so it is difficult to base any economic forecasts on that period of history. Obviously, the world was profoundly different, still, the United States did bounce back from war and pandemic in short order. The Spanish flu was over by 1920 – when unemployment was 11.7%. A rapid recovery was driven by technology - automobile production and electrification – that changed the way we lived.

A hundred years later, we do not have equivalent transformative inventions. This expansion depends to a large extent on government monetary and fiscal stimulus. The first fiscal step was the $1.9 trillion COVID bill. We have a pressing need for massive infrastructure repair, including expanding broadband to everyone. The stimulus from the infrastructure would be huge and costly. Monetary stimulus from the Fed is ongoing; near zero interest rates, massive purchases of securities, encouraging banks to lend, and facilities to support corporations, consumers and state and municipal governments. Chairman Powell stated that this massive accommodation will continue until we see sustained inflation over 2%.

Domestic stocks saw a continuing rotation into the segments of the market that typically perform well during the economic rebound, with value outperforming growth and small-cap favored over large-cap. The S&P 500 gained just over 6%, while the Russell Microcap was up 23.9%, and the S&P Midcap 400 rose 13.5%), and Russell 2000 (+12.7%) were the top performers. The Russell 1000 Value Index (+10.7%) surpassed the Russell 1000 Growth Index (+0.7%) by 9.9 percentage points, the largest differential in 20 years.

Market performance generally reflected local vaccination rates. In the Eurozone, gained 3.4% with strength in energy and financials. UK equities were up over 6% with strength also found in energy and financials. Japanese equities rallied on strong corporate profit reports. Limited access to vaccines dampened emerging markets with a gain of just over 2%. There is a large and growing discrepancy between the growth of countries with access vaccines and those without a supply.

Treasuries had their worst quarter in years as investors need to be compensated for the higher inflation risk. The 10-year Treasury yield surged from just under 1% at the start of the year to end the quarter at 1.74% while the 30-Year Treasury bond yield increased 75 bps to 2.39%. Intermediate-term corporate bonds declined 2.19%. Overall, the Bloomberg Barclays U.S. Aggregate Bond Index lost -3.4% for the quarter.

Reopening of economies generated demand for raw materials and commodity prices were strong, with the Bloomberg Commodity Index Total Return returning 6.92% for the first quarter of 2021. There was plenty of inflation to be found at the pump and in the grocery store. Energy was the best-performing index component, driven by strong performances from unleaded gasoline (+29%). The agricultural sector saw large rises in corn and soybeans and lean hogs (+27.5%) while industrial metals, including aluminum and copper, had strong returns. The precious metals component was lower, with gold down 9.82% and silver fell 7.25%.

The situation is unique. A pandemic recovery leveraged upon government stimulus with a GDP forecast of 7%, the highest growth since 1984. Unemployment is expected to drop towards 5% by the end of 2021. The U.S. should have a reasonable summer, but most of the world is at least a year behind us, delaying a full domestic and global recovery.

The stimulus is massive – equal to 25% of GDP, as is the vaccine rollout - 30% of U.S. population and rising. Both are larger and faster than expected three months ago. Market valuations are significantly higher than historical norms, but both corporate and individual balance sheets are in good shape. Should be interesting.

US stocks continued their move higher from last quarter, climbing 6.2% higher during the first quarter of 2021. Every sector was again positive with Energy continuing on a tear, gaining 30.9% during the quarter. Sector return dispersion and valuation dispersion are still at historical levels. Also, the shift to Value and Small caps continued this quarter with Value easily outperforming Growth and Small caps outperforming Large. Leadership among the sectors has also changed dramatically. As measured pre-November 6, 2020 and post November 6, 2020, Technology and Consumer Services have been supplanted by Energy, Financials and Industrials.

Energy Sector

Energy stocks continued their impressive performance adding on 30.9% during the first quarter on top of last quarter's 27.8%. Two factors seem to be responsible for the turn-around: oil prices and vaccine related optimism. Oil prices continued their year-end rise, rising this quarter to a two-year high in March. Energy stocks that are sensitive to the price of oil rose particularly well. Vaccine related optimism also helped drive the demand for energy stocks, as the outlook for travel and just getting out of the house is positive!

Financial Sector

Financials were the second-best performer during the quarter with a 16.0% return. The primary reason for Financials great performance was the rise in interest rates. Longer-term interest rates as represented by the 10-year U.S. Treasury bonds have recently climbed to over 1.6% from an average of 0.86% in the fourth quarter of 2020. With the last two quarters of performance, the Financial sector is now no longer under-valued as a whole. Financials should continue to do well going forward as their business models perform better in a rising interest rate environment, one of the reasons they have seen large earnings estimate increases.

Healthcare Sector

Healthcare stocks underperformed the market during the first quarter but were in the middle of the pack as far as sectors went, with a 3.2% return. The Healthcare sector has been stuck impacted by a range of factors. The stocks are evenly split between growth and value styles, but the sector as a whole is still undervalued. The Healthcare sector has the second highest expected dividend growth rate yet is in the bottom third regarding a price recovery from the market lows in March of 2020. The pandemic has caused supply chain issues, manufacturing issues and employee/workplace issues. Technology within the sector has adapted to the changes but that takes time to filter its way into earnings. Healthcare should continue to improve as the rollout of vaccines helps to get the nation/world back to a semi-normal state. Healthcare policy changes seem to have taken a back seat for the time being.

FIDUCIARY CORNER — STEPHEN L. EDDY

Revisiting the SECURE Act of 2019

Over a year has passed since the enactment of the SECURE Act and its subsequent overshadowing by the pandemic and the emergency CARES Act. Now seems like a good time to revisit the implications that the SECURE Act will have on the retirement plan marketplace, specifically lifetime income options embedded within plans.

Designed to encourage retirement plan access for as many people as possible, the SECURE Act offered among its many features the following enhancements for retirement plans.

- Open participation in Multi-Employer Plans (MEP's)
- Qualified Automatic Contribution Arrangement (QACA) Limit Increase
- Small Plan (<100 employees) tax credits
- "Permanent" part-time employee participation
- Qualified distributions for birth or adoption (limit $5,000 per occurrence)
- Required Minimum Distributions (RMD) age change
- Increased filing penalties for late 5500's etc.
- Natural Disaster loan provisions and relief
- Lifetime income options for 401k plans

The two most immediately impactful components above were the change in the RMD age from 70½ to 72 and the Natural Disaster loan provisions and relief. The former changed financial plans everywhere; the latter was the basis for the CARES Act and enhanced participant access to retirement plan assets to offset costs from a natural disaster, in this case COVID-19. Now that the dust has partially settled on the pandemic, the feature in the SECURE Act that will likely garner the most attention is the tacit approval of lifetime income options in salary deferral plans.

First, a little background. Defined benefit (DB) plans of a generation ago provided participants a stream of income upon retirement to help supplement social security income. As DB plans became very expensive to maintain, fewer and fewer have been implemented and the plans implemented usually come in the "cash balance" hybrid flavor of plan design for very small companies with high wage earners; most non-union DB plans are frozen or terminated while union DB plans are frequently subjects and targets of the negotiating table. 1986 brought about the creation of the IRS Section 401(k) tax deferred salary deferral plan option – simply "the 401k", designed to enhance participant contributions to profit sharing plans to increase balances in those plans.

A 2017 Wall Street Journal article that interviewed many early proponents of the 401(k) recorded their subsequent misgivings, specifically as they related to DB plans: *"…the tax-deferred savings tool would largely replace pensions as big employers looked for ways to cut expenses. Just 13% of all private-sector workers have a traditional pension, compared with 38% in 1979."*

As part of that backdrop, enter the SECURE Act of 2019. The proponents of lifetime income options for 401(k) plans (read: insurance companies) lobbied hard for this feature. Who better to provide annuities to the 401(k) plan participants? The concept is pretty simple. The income for life investment option sits in the mutual fund lineup alongside the other funds and would be considered a balanced fund, in the mold of a target date fund and is invested in stocks and bonds. As the participant nears retirement (age 50-55), the income for life fund gradually converts to an annuity that comes with a guaranteed income rate (5% for example) and mimics the monthly lifetime payment of a DB plan. There is seemingly little downside for the participant that wants to create an income stream.

We are in the infancy of this feature within a 401k (or 403b) plan. This could be a useful tool for participants in certain situations, but buyer beware. In a future article I will drill down into the mechanics of the income for life investment option. For now, two things are clear. One, lifetime income options are expensive (1.25%-2.5%) as compared to other available fund options in the plan – the insurance companies will tell you it is because they are bearing the risk. Two, lifetime income fund options begin to close the circle, removing the burden of funding retirement from the employer, and placing it squarely on the employee.

PLANNING CONCEPTS

The PEGS of college planning — ***Ben Daigle & Jake Kenyon***

"You can't fit a square peg in a round hole" is a popular saying for taking a unique situation and trying to force it into a circumstance that isn't the best solution. This scenario happens a lot with college planning because each family has their own differing needs and wants. With no standard roadmap to identify the best school for their student, families are often left unprepared and underserved as they navigate the all-important college search. This unpreparedness can result in families overpaying for college, taking on too much debt, or hurting their personal and retirement savings plans. That's why when planning for college it's crucial to know the PEGS.

We've all heard a college education is an expensive investment and that college loan debt is growing. At the present time 45 million American borrowers owe over $1.71 trillion in student loan debt and it's growing significantly each year. The average student from the class of 2019 graduated with over $29,000 in debt and over 3 million people over the age of 60 are still paying off either their own or their child's college loans.

An important part of late-stage college planning is not only knowing your target region and preferred major - you must know what makes up your student's PEGS! By understanding the PEGS, you can attempt to maximize your college funding resources and minimize the total cost your family pays for higher education.

Most everyone wants to get the "best deal" when applying and paying for college, so you're probably asking yourself, what exactly are the PEGS of college funding? Well let's find out below:

Price – Learn to use net price calculators to discover a school's true cost

- Net price calculators provide personal estimates of what one year of college will cost. The net price represents what a student will have to pay after scholarships and grants from the school and federal and state governments are subtracted. The net price equals the true price of attending a specific college because it only considers free money available to students and their families and disregards loans.

- Federal law requires that colleges offer net price calculators to all freshman, but you'll find that these are often buried on their website and can be difficult to understand and complete.

Expected Family Contribution (EFC) – How much you're expected to pay

- Your family's EFC is a financial aid formula tied to the Free Application for Federal Student Aid (FAFSA). It factors in your family's income, non-retirement assets, family size, marital status, and number of kids in college. The EFC helps determine what types of aid you and your child will qualify for and isn't the actual dollar amount that you'll pay.
- To receive your family's EFC and to qualify for any federal, state, or institutional aid you must complete the FAFSA application. It is very important to file as early as possible. The first date you can file is October 1st of your child's senior year in high school. Filing early will provide you with the best opportunity to receive the maximum aid available since some programs are on a first come first serve basis and can run out of money.
- Your family's EFC will be expressed as a dollar sign with $0 EFC being the lowest. The higher the EFC, the more you'd be expected to pay. When need-based aid is out of the question you'll want to target schools that provide merit-based aid to affluent students.

Graduation Rate – Percent who graduate and how many years it takes

- Most parents assume that their children will graduate in four years, but this isn't always the case. According to federal statistics, the four-year grad rate for private colleges and universities is 55% and 39% for state schools. It's important to check the four-year grad rates for schools your child is applying to because a delay in graduation can significantly increase the cost of college.
- A great resource for researching four-, five-, and six-year graduation rates at targeted schools is at www.collegeresults.org.

Salary – Compare projected school prices versus schools' starting salary data

- The last part of your student's college evaluation process should be focused on a school's salary outcomes compared against the total cost of that college degree. The idea of "return on investment" (ROI) should certainly be a factor to consider when looking at future employment opportunities and your student's ability to pay back any college debt.
- Higher priced, brand name schools rarely translate into life experience and higher starting job salaries but instead usually mean higher loan balances and larger payments. Thus, the adage "you get what you pay for" doesn't necessarily apply to college degrees and salaries.

- The place to research average salaries, by major, of graduates of a certain institution 10-years after graduation is www.educatetocareer.org . As you're weighing accepting one college offer over another, this can be an effective tool to help look at the return on investment (ROI) of one versus the other.

Now that we've reviewed the PEGS of college planning and know that college selection and funding will be unique and different for each family, it's time to identify the shape of your student's PEGS and see what college fits best. Armed with this knowledge you'll be able to act as an informed consumer and help your student get the best education at the lowest cost while minimizing the risk of overpaying and damaging your retirement savings.

If you would like help, please reach out to us at Old Port Advisors to start the late-state college planning discussion and make use of our tools to help identify your student's personal PEGS.

OPA NEWS & COMMUNITY EVENTS

OPA & MORE PANDEMIC PERSPECTIVES:

As mentioned previously, this space is usually filled with the event calendars for a variety of the non-profit and cultural organizations that we as a firm, our employees, clients or colleagues are involved with. It's through these events, annual or otherwise, that they further their fundraising efforts and support the ongoing delivery of their missions.

A couple of events, although not a complete listing of the virtual events that are starting back up again, but two that OPA is currently involved in:

ONLINE ICE BAR 2021 - Portland Harbor Hotel's annual party has drawn crowds and raised thousands of dollars for local charities for many years. This year's virtual event is raising money for Full Plates Full Potential (https://www.fullplates.org/), whose mission is to end child hunger in Maine. Donate and enter to win three- and two- night getaway grand prizes at https://www.portlandharborhotel.com/online-ice-bar-2021.php . The drawing is scheduled for September 6th!

CLASSICAL UPRISING – On February 6th there was a livestream of *Amazing Grace: The American Spiritual* - a Maine-based multimedia concert that traces the history of Black spirituals from Pre-Emancipation folk singing to the Black Lives Matter movement featuring the Oratorio Chorale and renowned activist-musicians Reginald Mobley, Jonathan Woody, Samuel James,and Janae Sound.

The event can be found at https://www.classicaluprising.org/amazing-grace, and an abbreviated overview at Amazing Grace Sponsorship Video.

THE OPA TEAM:

JAKE KENYON - We are pleased to announce that Jake has passed the CFP® exam and is currently in the process of finalizing his registration with the Certified Financial Planner Board of Standards (CFP Board). The CFP® marks identify those individuals who have met the rigorous experience and ethical requirements of the CFP Board, have successfully completed financial planning coursework and have passed the CFP® Certification Examination covering the following areas: the financial planning process, risk management, investments, tax planning and management, retirement and employee benefits, and estate planning. CFP® professionals also agree to meet ongoing continuing education requirements and to uphold CFP Board's *Code of Ethics and Standards of Conduct,* and *Financial Planning Practice Standards.*

Jake has been with the company since 2019, is a graduate of the University of Maine at Machias, and currently resides in Old Orchard Beach with his wife Isabel.

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