



**Dear Clients and Friends:**

Welcome to 2021, we hope you have a safe and fulfilling new year. Our holidays were spent with close family or a few friends, enjoying our covered patio here in Pasadena. Many publications make prognostications at this time of year, however you probably know by now we are not in the business of selling airtime on TV (commercials), or generating more newspaper column inches (AKA, old-fashioned ads), nor clicks on a website to generate revenue. What we are in the business to do is provide you with timely and relevant information, professional investment management and customized financial structure and strategies specific to you. We offer procedure over predictions, data over descriptions and unique solutions over universal suggestions. What specifically do we mean by these?

**Procedures over Predictions**

Our investment and financial planning process starts with a macro-economic review, and a detailed look at the investment landscape, economic trends, interest rates, currency levels, relative asset valuations, tax, cash flow and risk attributes all as applied to your particular situation. Valuations matter. Periodic rebalancing before there is a problem is crucial - this past year we rebalanced in February before we felt the pandemic's problems. Consistently applying a disciplined procedure to our practice gives our clients a much higher probability of success, that is not dependent on outsized or unattainable return and isn't based on some prediction of unknowable future events. For example, one of the macro-economic topics we review is the amount of cash available in the economy, generally measured by the FED as M2. The enclosed chart shows the M2 money supply, which took 4.5 years to go from \$12-15 trillion from 2015 to 2020 and then at the start of the pandemic, grew by \$3.8 trillion in just 9 months. That is one reason why we can be optimistic about the economy next year - vaccines are on their way and Americans are sitting on a record level of cash in the bank - dry powder for our continued economic return.

**Data over Descriptions**

The press now encompasses hundreds if not thousands of channels, outlets, periodicals, websites, blogs, etc., and the "news" coverage is too often dominated by the descriptors placed on events or themes, with little substance. For instance, many investors don't realize how extended the values are of the so-called "FAANGM" stocks (those of Facebook, Amazon, Apple, Netflix, Google, Microsoft). Three indicators to keep in mind:

- a. Since 2012 when all six of these stocks were publicly traded, this group of stocks is up more than 4.5 times the S&P 500, and
- b. FAANGM stocks now represent over 25% of the market cap of the S&P 500, and
- c. Such a concentration last existed in the marketplace in 1998-2000 right before the dot-com implosion.

We are not bringing any of this up to alarm you, just to remind you that we are closely looking at the data, and taking with a grain of salt the latest market descriptions and headlines. With people stuck at home, start-ups like Robinhood, built to trade stocks for free, (typically on a smart phone) have increased their retail brokerage accounts by +3 million accounts in one year, a 30% increase! As the terrific documentary film "The Social Dilemma" advised..."if the service is free the product is you." Margin interest, that is the cost of borrowing money to buy more stocks, is at a 20+ year record high. Many of these new investors are inexperienced, buying the same 10-15 stocks that are currently in the news, like the placement of capital is a game; as untested investors our confidence in them is low. We don't know when a CEO will abruptly retire, a quality problem will force outages, or an accounting issue will cause earnings restatements. These are all individualized risks which we seek to avoid by owning a larger set of investments rather than just a handful of companies. Though we don't have an over-concentration in these six FAANGM stocks, the market attention and resulting legal scrutiny, government or consumer focus will cause us to likely diversify even further away from the most popular stocks.

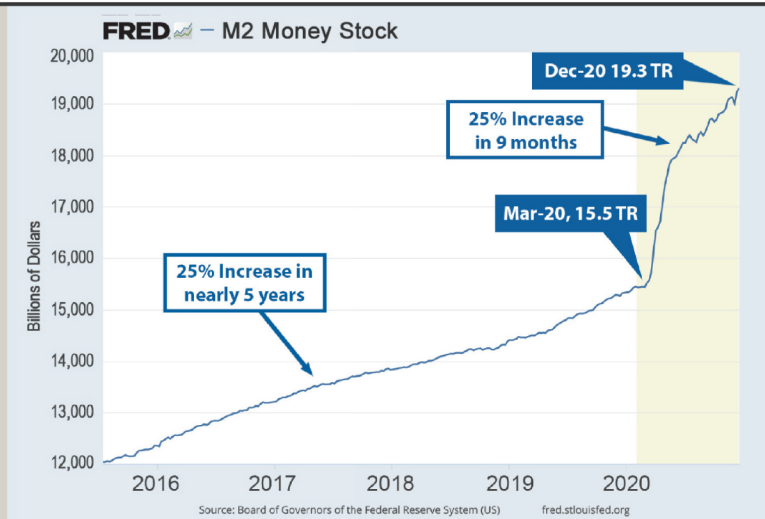
**Unique over Universal**

You are not the same as your siblings, parents, cousins or neighbors; nor is your unique set of goals and aspirations, income level, taxation, risk or investment experience the same. That is why we tailor our financial planning and investment approach to your unique situation, whether it be an IRA, trust account, retirement plan, donor advised fund or other structure. We don't have thousands of client families to know, just the unique situation of 200 or so families that we have come to know, value and respect and we hope to continue providing custom solutions for you for years to come.

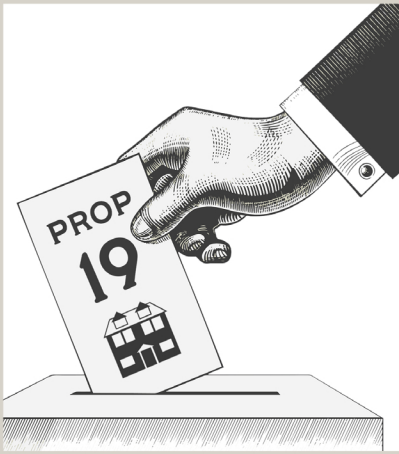
We do know there are families and businesses who are suffering and not able to cope financially - please know that if any of your friends or family need financial counseling we are here to assist those that you care about. As always, we appreciate hearing from you if you have questions or topics you would like to review. We look forward to seeing you in the new year 2021, hopefully in person!

**Best Regards,**

**Michael Hatch, CFP®, MBA, JD**







## California Proposition 19

By Michael Hatch, CFP®, MBA, JD

In November California passed Proposition 19, a constitutional amendment that implements the most significant changes to property tax transfer rules in over 20 years. Prop 19 liberalizes rules that allow property owners over age 55 to maintain their property tax base when selling and moving within California, and restricts the ability to transfer property to children or grandchildren with carryover property tax.

To understand the significance of these changes, the assessed value of a property is its initial purchase price, which can be increased by no more than 2% a year. Since California real estate has generally appreciated at more than 2% annually over the decades, the current value of a property may be much higher than its assessed value, so unless a transfer is exempted a new owner's property tax bill could increase significantly for property held a long time. The old law exempted many family transfers and certain over-55 sales from costly reassessment.

Under old rules, California homeowners over 55 who wanted to move and maintain their low property tax base were limited to a replacement property of equal or lesser value. They could use this strategy only once, and only between counties that participated in this voluntary system. After April 1, 2021 you can swap residences up to three times in your lifetime and move anywhere within California. A major enhancement is that any house value is acceptable, although if you "up-size" you will pay an incremental property tax on the amount your new home cost exceeds your old home's sales price. In addition, those disabled, or victims of a wildfire or natural disaster can now also qualify more easily.

Under old rules, a parent or qualifying grandparent could leave their primary residence of any value plus additional property of up to \$1 million historical assessed value and preserve the old property tax. After February 15, 2021, carryover tax on the primary residence is allowed only if the home becomes the child's principal residence, and the transferred tax base is limited to \$1.0 million current value – values over \$1.0 million are fully assessed. For all other property, the ability to pass on your property tax base to the next generation is completely eliminated; property transfers are fully reassessed at market value.

Those considering the transfer of property should be mindful of many other estate & tax planning elements, including gifting rules, capital gains, cost basis step up and related depreciation. The rules for primary residence transfers are effective for transfers after February 15, 2021, so with holiday and Covid-19 delays you should look into this without delay. Under the right circumstances, such transfers now may make sense but please consult a tax attorney or other expert on this topic. One resource our office has relied on is local Pasadena Attorney and CPA Steve Sorell, who is a specialist in this field. According to Steve, "This area of the law may seem straightforward but there are many unique variables to each family situation as well as numerous limitations and exceptions in the law. We highly recommend each potential transaction be examined carefully." Should you need more information on this topic please let us know if we can assist in any way.

## Is a Refinance the Best Choice for You? By Danielle Smith, CFP®

With mortgage rates at historic lows, many clients are wondering if they should refinance their current loan. While moving to a lower rate may seem like a "no brainer" it is not always the case. Below is a summary of a recent analysis we performed for a possible refinance. In this case the client was already 8 years into a 30-year mortgage loan, with an interest rate of 3.65%, and was considering a new 30-year mortgage at 2.70%, with \$4,000 in closing costs. As you can see from the summary below a refi would reduce the monthly outflow by a little over \$500/month but overall would not be saving money over the life of the loan as the total interest cost would be slightly higher due to the fact that interest on mortgages is amortized such that a much greater portion of the interest is paid up front; furthermore it would extend the term by 8 years.

There are certainly other alternatives here, as the client could look to take out a 15 or 20 year loan, or take a new 30 year loan and make extra payments, and quite possibly save a lot of money under those circumstance. Ultimately, we just wanted to remind you that while it is tempting to jump on the refinance bandwagon to get a lower rate, that may not be the right solution for you. Every situation is unique, few mortgage companies can quote you a reliable rate until the entire file has been underwritten, and it is important to consider what the goals are for refinancing. If you have questions regarding a possible refinance, we can assist with a customized analysis based on your needs.

CURRENT LOAN SUMMARY		NEW LOAN SUMMARY	
Original Loan amount	\$ 447,200	New (refinanced) Loan amount	\$ 377,000
Annual interest rate	3.65%	Annual interest rate	2.70%
Loan period in years	30	Loan period in years	30
Number of payments per year	12	Number of payments per year	12
Start date of loan	1/1/2013	Start date of loan	1/1/2021
Current Balance	\$ 373,000	Current Balance (add \$4K closing costs)	\$ -
Monthly Payments Remaining (22 years)	264	Monthly Payments Remaining (30 years)	360
Scheduled Monthly payment	\$ 2,046	Scheduled Monthly payment	\$ 1,529
Total Remaining Payments	\$ 540,081	Total Payments	\$ 550,477
Total Remaining Interest Payments	\$ 167,081	Total Remaining Interest Payments	\$ 173,477
Total Remaining Principal Paid	\$ 373,000	Total Remaining Principal Paid	\$ 377,000
Final Payoff Date	12/1/2042	Final Payoff Date	12/1/2050



## Healthcare Trends

By Berkeley Harrison, CFA

In mid-December, the first vaccinations for COVID-19 were provided for front line healthcare workers. If successful, this vaccination would represent a huge leap forward in disease analysis, vaccination development and distribution, as well as worldwide cooperation. COVID-19 vaccinations are a small part of a huge healthcare industry that is vital and dynamic, with ever-evolving trends and solutions, many of which are technology-driven.

In healthcare, there is an insatiable demand for innovation, treatment outcome improvement, quality, accessibility, and affordability. As a result, it is an industry that is full of new opportunities and innovations. Current trends include Telehealth, Digital Health, Data Science and Predictive Analytics, Artificial Intelligence, Leveraging 5G, and Augmented / Virtual Reality.

### Telehealth

Telehealth will dramatically aid urgent care facilities, whether located in remote areas or within a denser metropolitan area. Telehealth leverages knowledge workers such as a lung cancer physician in a regional research hospital, who could follow up and treat several patients at satellite locations going through pre/post chemo cancer rehabilitation. Telehealth saves time and lowers the stress of physicians and patients, as potentially problematic diseases can be identified and treated sooner.

### Digital Health to the Rescue

Wearables and smart devices (e.g. FitBit and iPhone) can track patients' movements such as sleep patterns, heart rate, caloric intake, or time span of exercise. Patients no longer must arrange for an overnight sleep study at an outpatient clinic, they can perform the sleep study at home. Cardiologists closely watching a particular patient could be notified when an unusual electrocardiography pattern appears, potentially avoiding a life-threatening event.

### Improvement in Data Science and Predictive Analytics

While the codifying of illnesses began in the 1980s with diagnostic related groups as a way of standardizing Medicare payment to hospitals, faster computers and deeper databases were needed to make the information useful for healthcare workers beyond billings. Now data scientists collect and analyze information, such as medical records, family histories, insurance claims or billing information, then identify patterns or trends in the data that can be used practically. For example, roughly 600,000 people suffer sudden heart stoppages in the US every year; data scientists working closely with cardiologists might soon be able to anticipate a building problem and send out an alert to potentially save thousands of lives each year.

### Impact of Artificial Intelligence

Artificial intelligence has the potential to revolutionize medical care in this country. Automated physician assistance could dramatically improve diagnostic precision. Leveraging artificial intelligence could optimize the operations of most medical clinics, as well as improve both imaging capture and interpretation.

### Leveraging 5G Networks

The quality and speed of healthcare networks (hospitals, healthcare providers, physicians' offices) has been greatly enhanced in recent years, allowing for telehealth and treatments using Augmented and Virtual Reality.

### Virtual / Augmented Reality

Virtual and augmented reality (VR or AR) has already proven useful for training and surgery simulation, as few students could "look over the shoulder" of the seasoned surgeon without it. Medical students learning with VR or AR tend to be faster and more accurate when performing surgeries than their traditionally trained counterparts. Virtual reality can be used to help relax otherwise anxious patients. Stroke and traumatic brain injury patients have a better chance to successfully regain lost motor function as physical therapy becomes available through VR or AR.

### Investment Implications of these Trends

While it is possible for an investor to focus on one sub-sector of the quickly evolving healthcare industry, such as biomedical devices (e.g. prosthetics, artificial hearts) or healthcare providers, we felt it prudent to invest in a growth-focused strategy that more broadly covered this exciting industry. In mid-November, we rebalanced client portfolios, reallocating funds into a diversified health care sector strategy.





225 South Lake Avenue, Suite 600  
Pasadena, California 91101

## BUILDING TRUST OVER GENERATIONS™

Investment advice offered through Sterling Financial Group, Inc., a Registered Investment Advisor and separate entity from LPL Financial. Financial Advisors are registered with, and securities offered through LPL Financial, Member FINRA/SIPC.

### Some Interesting Facts:

- Car and light truck sales in the US were in the 16-18 million range each year from 2014-2019. At the height of the pullback, vehicle sales dropped to 9 million units in April 2020 but recovered back above 16 million units by September.
- Total railroad car traffic for all of 2020 is likely to be down about 7.4% over 2019, while truck tonnage hauled is down closer to 6%. Both are near levels last seen three years ago in January 2018.
- The S&P CoreLogic Case-Shiller Home Price Index reported a nationwide 8.4% annual gain over the prior 12 months ending October 2020, the fastest rate of national housing price increases in 6 1/2 years.

*Investment advice offered through Sterling Financial Group, Inc., a registered investment advisor and separate entity from LPL Financial. Financial advisors are registered with, and securities offered through LPL Financial, Member FINRA/SIPC. Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.*