

A New Year

January 2021

Life in a pandemic is different. No matter your personal situation, life has been forced to change. Things we thought were important last January turned out to be somewhat inconsequential. Unfortunately, life does not come with a standard script that we all must follow. There will be highs and there will be lows. 2020 was no exception. Individuals must be prepared for various events and then be willing and able to adapt.

With this week's Georgia Senate results, there is more certainty regarding our federal government leadership for the next two years. The Democrats will now control the Presidency, Senate and House. This will obviously change the direction of policies from the previous few years. However, change is nothing new. Policies are always evolving given the changing environment that we live in. For example, the tax legislation passed in 2020 was very different than legislation passed in 2017, 2018, and 2019.

It is helpful to keep in mind that not all Democrats have the same view. Just as we have seen that not all Republicans have the same view. If the past is any indication of the future, any controversial Democrat/Republican issue will need all 50 Democrat Senators to agree in order for it to pass. That means legislation will need to be closer to the middle than most people initially presume. Congress Representatives from "purple" states will face re-election in two years, so there is usually hesitation in moving too far in one direction.

Being successful through change requires some preparation for the road ahead. Also, the flexibility to change mid-journey if the facts adjust. To that end, we have prepared some thoughts on things that might be changing in the next few years based on policy previously communicated by the next administration.

Taxes

The Biden administration has indicated that they would like to keep the current rate structure for those families earning under \$400,000. That would mean the 10%, 12%, 22%, 24%, and 32% brackets are likely to stay the same. For those earning over \$400,000 the rates may go back to the top pre-2017 rate of 39.6%. High level rates are a great place to start the discussion. However, as we know many of the tax increases/decreases are hidden in the other thousands of pages of the Internal Revenue Code.

Some of those other income tax areas that we think might change are around:

- Families with young children (childcare deductions/credits),
- Families with college students (college education credits/loans), and
- Individuals living in high tax states (changing availability of real estate/state income tax deductions)

For those with income over \$400,000, there are additional adjustments being proposed. These are:

- Capping itemized deductions at 28% instead of your regular ordinary rate
- Capital gains rates changing to ordinary rates for those earning over \$1 million in a year

The estate tax rules have also been discussed as a change item. The biggest changes we could see being made are:

- Loss of step-up in basis at death and
- Lowering of estate tax exemption from current \$11.7 million/person to ~\$5 million/person

These are just a few areas that we are monitoring as places where the tax law could change. Obviously, after the current administration gets going we will know more. However, preparing for these possibilities now could be helpful as decisions are being made.

Investments

It is natural to assume that a new administration will have drastic consequences for future investment returns. One way for the media to get people's adrenaline elevated is to tell them their net worth is going to be increased or decreased based on who is in office. In reality, the world is much more complicated than that. Are there incremental changes to the economic environment based on certain policies? Yes. Are there many factors outside of the policies that improve or deter the economic environment? Yes. This change in administration is no different.

2020 was a memorable year for many reasons. One of which was the overall movement in stock prices. We saw a devastating drop off in March. The fastest decline we have ever seen. This was followed by the quickest recovery we have ever seen. All the while, the pandemic continued to halt normal life, many businesses were told they had to operate with restrictions, social justice issues consumed our country, and a contentious Presidential election. In spite of all of this, stock prices are again at all-time highs.

We say this only to show that predicting the future is difficult. No one would have guessed all of this at this time last year. If we were given half the story, we probably would still get the conclusion wrong.

So what do investors do? When the future road is uncertain and your goal is to stay on that road well into the future, diversification continues to be our prescription. Placing too many bets in one bucket can be fantastic if you guess right. However, the devastation will be much bigger if you don't. 2020 investing-success was as much about trusting the diversification process as it was picking the right stock at the right time. We continue to believe this process will be well suited as we brace for whatever 2021 has in store for us.

Health and Happiness in 2021

2020 taught us many things. Maybe no more important than appreciating good health and being around people that you love. Investments are important, but they lose their meaning without our health and those around us. Hopefully this caused many to revisit and, maybe for most, just reconfirm what their goals are. It is easy to take health and relationships for granted during the everyday hustle and bustle. However, it only takes one pandemic to quickly take those away and for us to realize the importance.

We look forward to the day when we can see everyone in person again. We are here for you so please contact any one of us as needed or just to talk. In the meantime, please stay safe, be well, and continue to lean on those important relationships to get everyone through to the other side.

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