

Comprehensive Investment Management, LLC
Fee Only Personal Financial Planning
Summer 2021

A Review of the Financial Markets at June 30, 2021

Stocks closed out the first half of the year with double digit gains powered by an economic recovery that had been expected based on the prediction that vaccinations and warm weather would put the pandemic behind us. The S&P 500 closed out June at an all time high, up 14% in the first half of 2021. The unfortunate truth is that the pandemic is not behind us. Not in the US and certainly not in other countries. In recent years the center of growth has been Asia, where limited vaccinations brought economic activity to a crawl. Our border with Canada, our biggest trading partner, remains closed. Australia, an important US investment partner, is in lock-down with only 5% of its population vaccinated. It's expected that in the fall the US will see a virus resurgence driven by the delta variant of Covid and cold temperatures again driving people inside. A bright spot for the US is it has one of the highest percentage of vaccinations in the world, primarily because the two most effective vaccines were developed by US companies.

Recent market and economic activity is newsworthy and demands attention. However much of it is transitory, that is, changeable. It is often described as "noise" that can and should be ignored by a long term investor. Asset performance over longer periods, while not predictive, is significantly more meaningful.

The continuing pandemic is tragic, of course, and seriously troubling in every aspect. Investors have the additional concern as to whether the economic impact will put their financial assets at risk. In 2020 the US Congress and the Federal Reserve took extraordinary steps that played a major role in seeing the S&P 500 stock values recover from a 34% drop at March 23rd to a new high by August 18th. If there was any good news about the pandemic between those two dates I must have missed it. As indicated in the chart below, despite everything, the past twelve months have been a straightforward win with nothing interfering with the rise of stock prices.

Additional huge amounts of fiscal stimulus directed at pandemic recovery is unlikely. It would be hard to top the American Rescue Plan, which at \$2 trillion dollars is the most expensive in US his

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Average Annual Returns of CIM Select Mutual Funds							
At June 30, 2021	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Large Cap Stocks	6.1	16.9	45.2	16..5	18.0	14.8	11.7
Mid Cap Stocks	7.0	14.9	46.8	16.9	19.3	15.9	12.6
Small Cap Stocks	4.3	10.3	45.6	15.6	18.5	14.4	12.1
Healthcare Stocks	10.3	10.0	26.8	17.7	15.2	17.1	14.2
Foreign Stocks	6.2	8.9	48.4	17.3	18.4	12.2	9.9
Short Term Bonds	.5	-.1	1.1	3.8	2.4	2.2	3.1
Intermediate Bonds	2.5	-.7	2.0	6.3	3.6	3.8	4.8
High-Yield Bonds	2.4	2.3	11.5	7.0	6.4	6.1	6.5

The Financial Markets (from page 1)

tory. The Federal Reserve has said it's surprised at how well the economy is doing and will probably ease its bond buying sooner than planned. That's good news for those concerned about unbridled inflation. Even so, projections show it running higher than it has in many years, perhaps above 3%. There are plans to pump an enormous amount of money into the economy, although most will be stretched over years. The Biden administration has a \$4 trillion dollar agenda. The first step was a bi-partisan agreement on a one trillion dollar physical infrastructure plan for bridges, roads, electric grids and such. The rest of the agenda is for things like preschool, community colleges and climate change. It's unlikely the full plan will pass into law any time soon. Meanwhile the Biden administration is taking other steps through executive action. That includes drug prices, labor rights and consumer protection. No congressional agreement required.

Market watchers are having trouble taking all that in, so they are starting to turn their attention to 2022. Some see the prospects for the bursting of a housing bubble. Price indexes are up the most in 30 years. We are still down almost seven million jobs from pre-pandemic and it's believed as many as two and half million Americans may have retired or are thinking about it. Fewer workers means less growth.

In the near term a growing concern is that markets are priced for a goldilocks scenario, one in which the economy is running not too hot and not too cold. It won't take much to spark a downturn. It's been a great run. The current streak of no decline of 5% for 285 days is the longest since 1986. Not that 5% is anything to panic about but a correction on some level should be expected sometime in the next twelve months. An announced cutback in the Federal Reserve's aggressive monetary policy alone could trigger that.

Is investing in stocks worth dealing with all the ups and downs? Recent returns are distorted even more than usual, so let's focus attention where it should always be, which is longer term. How have stocks performed compared to bonds over the last five, ten and fifteen years? If you average the annual return of the stock funds in the chart on page one, at five years it is 18.6%, ten years 15.0% and fifteen years 12.1%. Over the same period intermediate bonds returned 3.6%, 3.8% and 4.8%. On a \$100,000 investment after five years the stocks would have grown to \$243,000 and the bonds \$120,000. Over ten years stocks are at \$439,000 and bond funds \$146,000. Over fifteen years stocks grow to \$609,000 and bonds to \$205,000. So yes, it was a good idea to be in stocks.

According to Vanguard from 1926 to 2015 a portfolio of 100% bonds returned 5.4% and a portfolio of 100% stocks returned 10.1%. Half stocks and half bonds returned 8.3%, which CIM finds to be a comfortable middle ground recommendation for most of its clients.

A diversified portfolio that is rebalanced annually to maintain a stock/bond allocation that suits the investor's risk tolerance and goals is the best antidote to overcome concern about a goldilocks scenario turning into one where the bears come home even earlier and aren't quite as forgiving as those in the fairy tale.

Annual Return of Vanguard Balanced Funds With Opposing Bond/Stock Allocations						
At June 30, 2021	Quarter	1 Year	3 Years	5 Years	10 Years	15 Years
Wellesley 65% bonds	4.0	13.5	9.8	7.4	7.8	7.5
Wellington 65% stocks	6.3	26.1	13.4	12.8	10.4	8.9

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IT'S TIME

Several CIM clients are already on Vanguard's brokerage-based platform, but the great majority are not. Vanguard has continually been after the rest of us to make the transition. Why ask us? Why not just make the change? I've never gotten an answer to that. My guess is the older platform has provisions that Vanguard is stuck with unless its customers "voluntarily" give them up. One example may be the availability of checkwriting on many different funds. On the newer platform checkwriting is available only through a federal money market account. Checkwriting on all other funds is terminated upon transition.

In its messages Vanguard says *"you may need to reestablish some services, such as direct deposit, automatic money movement and checkwriting if you still want them."* That's an attempt to make it seem that the termination of those services is no big deal. If we have them why wouldn't we still want them? Further there is no mention of Agent Authorizations, which are also terminated. The Limited Authorization you granted to CIM can be reestablished on line. But if Full Agent is lost, restoring it requires notarized paperwork. We understand a recent provision was added that Full Agent can be carried over. To do the carryover Vanguard recommends the transition be done by phone with both the owner and current agent on the call.

It's time, because Vanguard had said it will close down the old platform sometime in 2021. Recently with short notice it took away checkwriting from what over the years had been its most popular money market fund. I suspect it's about to do that for checkwriting on bond funds.

In the near future CIM will contact affected clients individually to talk through the process. The plan is for me to transition my accounts first, which I expect will delete all my limited authorizations. As each client transitions their accounts, my authorization can be reset on line.

CUSTODIAN REVIEW

It's also time for CIM to undertake a review to consider if clients may be better served if their investments were moved to a custodian other than Vanguard. It's no secret that Vanguard's customer service has seriously diminished. Because of service problems, a few years ago Dan Weiner recommended Fidelity over Vanguard. That was like Henry Ford recommending a Chevy. Dan is the founder of the Independent Vanguard Advisor and for thirty years built his entire newsletter, advisory and money management company around Vanguard mutual funds.

The review of custodial candidates, of which there are many, will be thorough and will take sometime. Fidelity, Vanguard's biggest rival, would be one of those considered. Any move of client investments to another custodian would, of course, be voluntary. CIM will still be available to provide services to clients who want to keep their accounts as they are now. Ironically, Vanguard is currently considering offering the kind of custodial services CIM will be looking into. It had provided the service to advisors but suddenly ended it in 2003.

The change in custodians would not preclude investing in the same funds we are in now. Actually the majority of our current stock investments are not in Vanguard funds. Through another custodian the same funds available now will still be available. A transfer would not require the sale of any current investments.

A major set back working around service problems is Vanguard's recent decision to no longer offer a designated staff contact. CIM had a designee dating back to 2003. In recent years I have written to the CEO but have never received an acknowledgement, let alone a response. In March I wrote to request the restoration of a contact person, pointing out that with the wide spread publicity about the service problems, it was a strange change to make at this time. I wrote that we want to stay with Vanguard but we need to know Vanguard wants us to stay. The silence is deafening.

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Investment Management &
Personal Financial Planning Services

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The CIM investment strategy:
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We Get Letters

Q: I recently read that it is estimated that Americans over 70 have a total net worth of nearly \$75 trillion dollars. Assuming boomers don't figure a way to take it with them, where will that money go over the next twenty or so years.

A: I saw that article as well. At no time in modern history has so much wealth been in the hands of older people. That's thanks to generally strong economic periods since WW II, declining tax rates, the introduction of tax deferred savings through 401K's and IRA's and rising real estate and stock market values. Combine that with an understandable concern about some day running out of money and you have all the ingredients for a bias toward wealth accumulation.

Some are not waiting to pass on a portion of their assets. The IRS reports that in 2016 reported gifts increased from \$45 billion in 2010 to an inflated adjusted \$75 billion in 2016. Considering that most Americans aren't aware that most gifts in excess of \$15,000 are supposed to be reported to the IRS, that number is certainly understated.

One traditional area for gifting is assisting with the cost of the education of grandchildren. Some seniors could argue that they paid for their kids' education, so why can't the kids pay for their kids' education? The problem is that the increased cost at all levels of education have far exceeded the general rate of inflation. It's not an apples vs. apples situation.

Government deficits have intensified interest in adjusting the current tax regulation that sets the tax cost basis of inherited non-tax deferred assets at date of death value. It's estimated that this step-up in basis saves heirs \$40 billion annually. Under a current proposal the unrealized gains would be taxed as a capital gain in the year of death. There would be a \$1 million exemption, plus up to \$250,000 if there is a gain on the sale of the deceased's principle residence. So to the government is one place some of the money will go.