

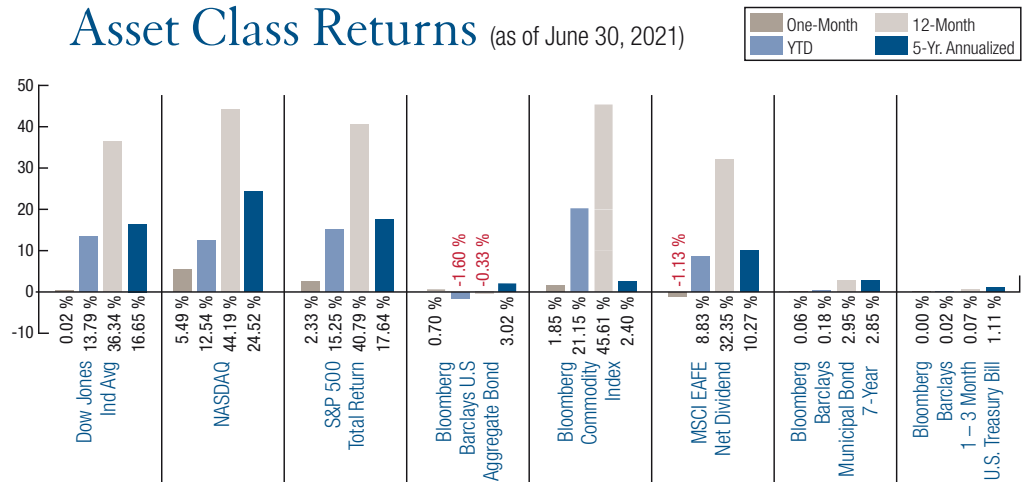
From the Office of Jeff Sgroi, CFP®



“Depend on the rabbit’s foot if you will, but remember it didn’t work for the rabbit.”

– R. E. Shay

Asset Class Returns (as of June 30, 2021)



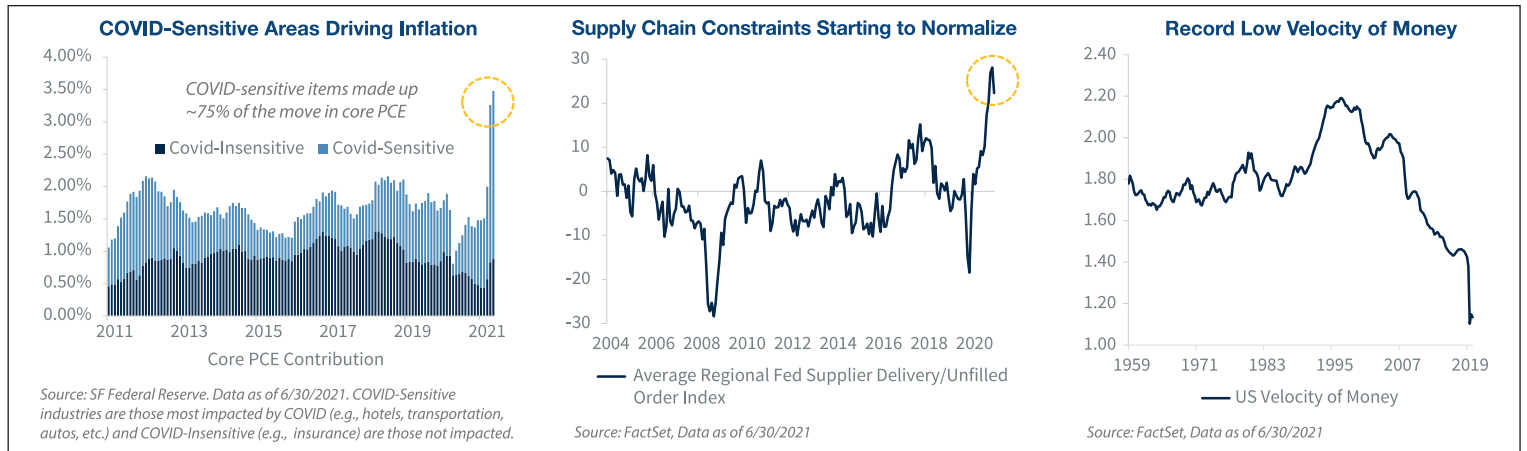
Market & Economic Synopsis

- Global oil prices slide slightly, as major producers Saudi Arabia and the UAE announce intentions to expand supply; all the while, prices at the pump remain elevated.
- Bonds catch a bid as yields slip closer to levels not seen since early 2021.
- Prices continue higher as inflation grips many markets. Automobiles, energy, lumber, and food are amongst the most affected commodities.
- Over 3.6 billion COVID-19 vaccine doses have been administered in 179 countries, although the Delta variant is raising concerns about current vaccine efficacy.
- West Coast fires lay a blanket of smoke across the United States, reaching as far as East Coast metro areas.
- The 2020 Summer Olympics are set to start one year later on Friday, July 23, 2021 in Tokyo.
- A darling investment of 2020 and early 2021 falls out of favor quickly, as Bitcoin drops below \$30,000. The European Union’s proposal to prohibit anonymous cryptocurrency transactions is further damaging upside price potential.

Three Important Themes for the Remainder of 2021

1. Inflation – A Short-Term Concern or Here to Stay?

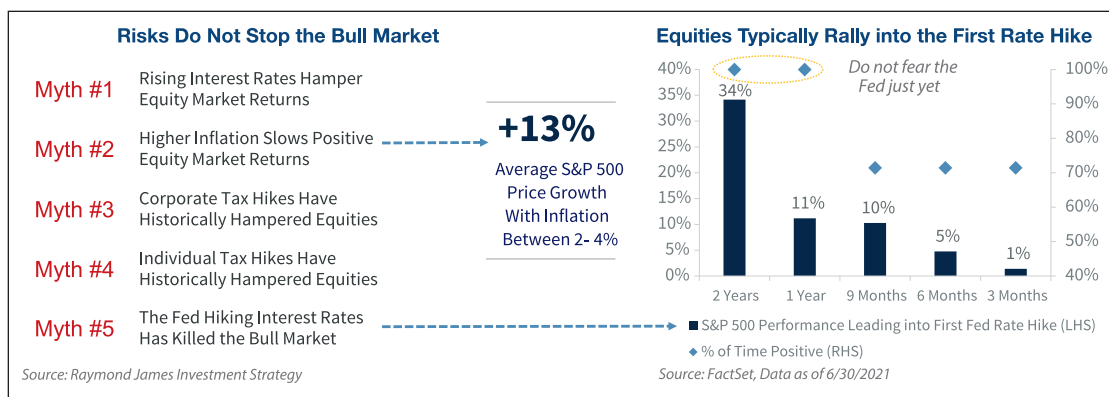
Raymond James’ Chief Investment Officer Larry Adam believes that although recent price spikes are undeniable, those movements are transitory and will fade. He offers three pieces of supporting evidence.



Mr. Adam writes, “While inflation is currently above the Fed’s target of 2%, we continue to view the recent upward move as transitory.” In addition, “The easing of COVID-sensitive areas (as most of the recent move in inflation is due to COVID-related impacts), record low velocity of money and supply chains normalizing should all put downward pressure on inflation going forward.” In short, the impact of COVID-19’s disruption to demand, supply chains, and general economic health will be phased out as the markets begin to normalize over the near term. Anecdotally speaking, I have had conversations with numerous clients and friends who have described many efficiencies borne from the pandemic — travel cost savings, technology benefitting both top and bottom lines for their organizations, and time management restructuring that should help bring costs down. Additionally, the Federal Reserve has maintained its steadfast pledge to keep interest rates low.

2. Equity Markets Rally Through Market Myths

Larry Adam has noted five interesting myths regarding market performance with data to dispel said myths.



Despite concerns surrounding higher interest rates, inflationary pressure, higher tax rates, and Federal Reserve intervention, there is evidence that these market pressures do not necessarily stop bull markets. As we have experienced this past year, markets are a forward-looking mechanism. Economic data that follows often validates what the markets already anticipated — improving economic conditions and growth.

For example, higher interest rates are often indicative of a healthy, growing economy and a stronger currency (i.e., U.S. dollar). Inflation, when managed properly (between 2% – 4%), means higher wages and better lives for workers.

3. Potential Tax Law Changes Under the Biden Tax Plan

Andy Friedman, whom we have referenced numerous times in our Market Update, recently penned a white paper titled “Wealth Transfer Under the Biden Tax Plan.” Below are a few key points that may affect markets, as well as your personal finances and tax planning strategy in the very near future.

The core of President Biden’s tax plan is to eliminate “stepped-up basis” on property transferred at death. Property may include real estate, businesses, farmland, and for many of you, stocks, funds, and similar investments.

Mr. Friedman writes, “Under his plan, unrealized appreciation would be subject to capital gains tax at the time an asset is transferred by gift or bequest. This change, which reverses a century of tax law, would have far-reaching ramifications for investors.”

“Under current law, heirs take a basis in a decedent’s assets equal to the value of those assets on the date of the decedent’s death (a stepped-up basis). Thus, an heir never pays tax on unrealized appreciation that accrued during the decedent’s lifetime.”

“Biden’s proposal would require a deceased owner of an appreciated asset to recognize capital gain and pay tax on unrealized appreciation that accrued during the decedent’s lifetime. The gain would be recognized at the time of death. Similarly, an owner of appreciated property transferred by gift would recognize capital gain and pay tax at the time of the gift. These changes would be effective for gain on property transferred by gift after December 31, 2021, and gain on property owned at death by decedents dying after December 31, 2021.”

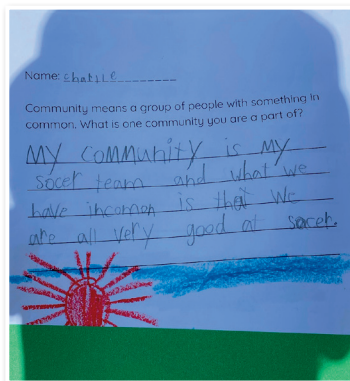
There are some important caveats within the proposal. This includes a \$1M exemption for individuals (\$2M for couples) from recognition of gain on property, provisions to exclude a taxable event to property transferred to spouses, charitable allowances, and a delay on tax payments for family owned and operated businesses.

As always, there are planning opportunities to help mitigate current or future tax liability if the proposed legislation does pass. Gifting of assets, use of the lifetime exclusion, and life insurance are a few tools to consider.

As a D.C. beltway insider, Mr. Friedman’s intuition and knowledge has been invaluable insight in the past. His belief is that Democrats are likely to muscle much of President Biden’s plan through to law, though in a watered-down version of current proposals. The reality is the ballooning budget deficits and debts need to be addressed through some legislation. We should know more before year end.

From the Homefront

Summer 2021 is off to an eventful start! The twins wrapped up the soccer season with three victories in the final tournament to keep an undefeated season intact. Their U8 team that I have coached for the past four seasons had not even registered a victory until this spring. Something came together this year, and our squad of 11 dominated. One of my player’s parents forwarded me his son’s homework assignment shortly after our season ended, seen here. Little rewards like this remind me how much of a positive impact we can have on these little ones!



We were due for some R&R so we rebooked our 2020 Spring Break trip to Mexico. It had been quite some time since we had all seen the ocean. Note to self for next time: more sun screen!



For now, it’s time to enjoy the mountains, camping, and some local fun. We hosted a block party this past weekend with 70+ folks showing up from our small neighborhood! And of course, we can expect to see more lemonade stands this summer. Lily and Hannah told me they plan to buy a pogo-stick with their latest earnings.

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