HMV WEALTH ADVISORS

Monthly Client Letter
December 2020

Can you think of a crazier year than 2020? The beginning of this new decade has injected a substantial amount of uncertainty about what the future holds and how we can best navigate it, and financial markets have been quick to price, and reprice, the barrage of new information. Let's look at two considerable sources of uncertainty and how they might affect your portfolio going forward.

The COVID-19 pandemic continues to circulate among the global population and is accompanied by renewed government efforts to taper its spread. The COVID-prompted lockdowns earlier in the year caused historically high levels of market volatility, and we have continued to see tremors of similar activity through the end of the year. These measures have had widespread impacts, including societal, economic and health. In terms of how this all relates to your portfolio, the important thing to remember is that has been a clear manifestation of market efficiency. Global securities markets continue to price in new information as it becomes available: if that information is worse than markets originally anticipated, we see prices decline—sometimes sharply. But the opposite effect is also possible. For example, we saw Pfizer announce in November that it was in late phase trials for a vaccine said to be 90% effective, and Moderna announced within weeks that they had developed a vaccine with an efficacy rate close to 95%. That information evidently exceeded market expectations at the time and was quickly priced into staunchly positive performance.

Black Swans—rare but negative market events like COVID — remind us all that market volatility and uncertainty are painful but necessary ingredients for overall, long-term market growth. Because without market risk, there would be no reward.

Another source of uncertainty in 2020 was the latest U.S. election cycle. The hotly contested races had voters turning out in record numbers across the country. Next month, special runoff elections in Georgia will determine the winners of the last two U.S. Senate seats and if Congress will be split party or controlled by the Democratic Party. If the results match current market expectations, control of Congress will remain bipartisan. Some associate a divided Congress with unproductive gridlock, but historically a split Congress has been more successful in passing long-lasting legislation. For example, republicans and democrats could not be further apart regarding tax policy. In a divided Congress, it is very unlikely that sweeping, progressive tax bills are passed. Instead, this sets the table for sustainable, incremental tax reform to occur because it will have been based on compromise. This is a possible alternative to the unilateral changes enacted by single-party Congresses that tend to be repealed and replaced by future administrations.

All the above and more can, will and almost certainly has affected your portfolio this year. But what is paramount to achieving your long-term goals is simply controlling what you can control. We don't know how future tax policy will unfold under a new presidential administration, for example, but we do know what tax rates are now. So, if you find future tax rate possibilities to be concerning, you can take advantage of the currently low tax environment by pulling future income streams into today through options like Roth conversions and exercising stock options. And if this year's uncertainty has left you with a sizeable pit in your stomach, let's talk about that. The winning strategy to investing is often not trying to uncover the next big thing, but rather to limit your mistakes.

When you have any questions about your investments, need to inform us of family or work-related changes, or want to discuss your financial planning needs, please reach out. We are ready to help.

Sincerely,

HMV Wealth Advisors, LLC

Message to clients: Please contact us if there have been any changes in your financial situation or investment objectives (or investment restrictions that you may wish to impose) that may affect our management of your accounts.