THE
Retirement Report
Retirement Transition Planning

POLARIS ADVISORS, LLC.

508.481.2299 www.polarisadv.com Second Quarter 2021

What's The Risk Of A Market Melt-Up?

The Standard & Poor's 500 stock index repeatedly broke records for months and the risk of a market melt-up should be considered. Are stocks fairly priced? For the answer, we turn to Jerome Powell, the U.S. Federal Reserve Bank chairman.

Fed chairmen generally avoid talking the stock market up or down. However, at a press conference in December 2020, Mr. Powell was asked specifically about the fact that stocks are highly priced by traditional valuation standards, like price-to-earnings (P/E) ratios. Mr. Powell's answer is important to investors, though it did not get much press.

That day, the East Coast faced the worst winter storm in years and a lot of things were going on, as always. But here's what Mr. Powell said: "Admittedly, P/Es (price/earnings ratios) are high, but maybe that's not as relevant in a world where we think the 10-year Treasury is going to be lower than it's been historically."

The Fed chair is saying stocks are not overpriced compared to bond yields, which are going to be low for a sustained period. The Fed is saying, pay no attention to the market's P/E ratio; it's more relevant in the current conditions to value the market's P/E ratio relative to bond yields. On that basis, stocks aren't expensive.

Mr. Powell was saying that the traditional valuation measures, including P/E ratios, may not be so relevant right now because of the low-interest rate situation worldwide. He's saying that what's most important in the current financial economic conditions, is the comparison of the P/E ratio to bond yields.

Just as you would not use a sledgehammer to drive a nail, the valuation method commonly used to measure current stock prices – P/E ratios – is the best tool for this situation. The current situation is uncommon, and it makes sense to use a tool to measure

(Continued on page 4)

Whither The Market From Here? Who Could Know?

This quarter's newsletter posits that we should consider the possibility of a "market melt-up." That's the opposite of a "market meltdown," like in 2008.

Arguing for the melt-up, Jerome Powell, Federal Reserve Bank Chairman, pointed out that although stock prices are high, "normal" valuation measures aren't appropriate in the current uber-low interest rate environment. Valuations for stocks are relative to today's interest rates.

We are not as sanguine as Mr. Powell, but we do agree that prices (of both stocks and houses) are strongly affected by interest rates. It's clear to all of us that both are now elevated. However, interest rates can change, and a different metric would then apply.

Our view is that stock prices can go either direction from here. This discourages a strategy like "Sell in May and go away." The possibility of a market melt-up could make such a move look foolish. No one can predict when rates will go up and/or stocks will go down. If we choose to bet against the market, we could run afoul of another well-known investment adage: "The market can stay irrational much longer than we can stay solvent."

One of the hardest investment tasks is to "get back in" after we've gotten out. Investors waiting on the sidelines for lower prices might be there for a decade, all while earning 0.5% interest! Better to balance and ride it through. Melt-up or meltdown? It's impossible to know in advance!

Stay well,

Ric and Trang

Do The Top 1% In Income Pay Enough Income Tax?

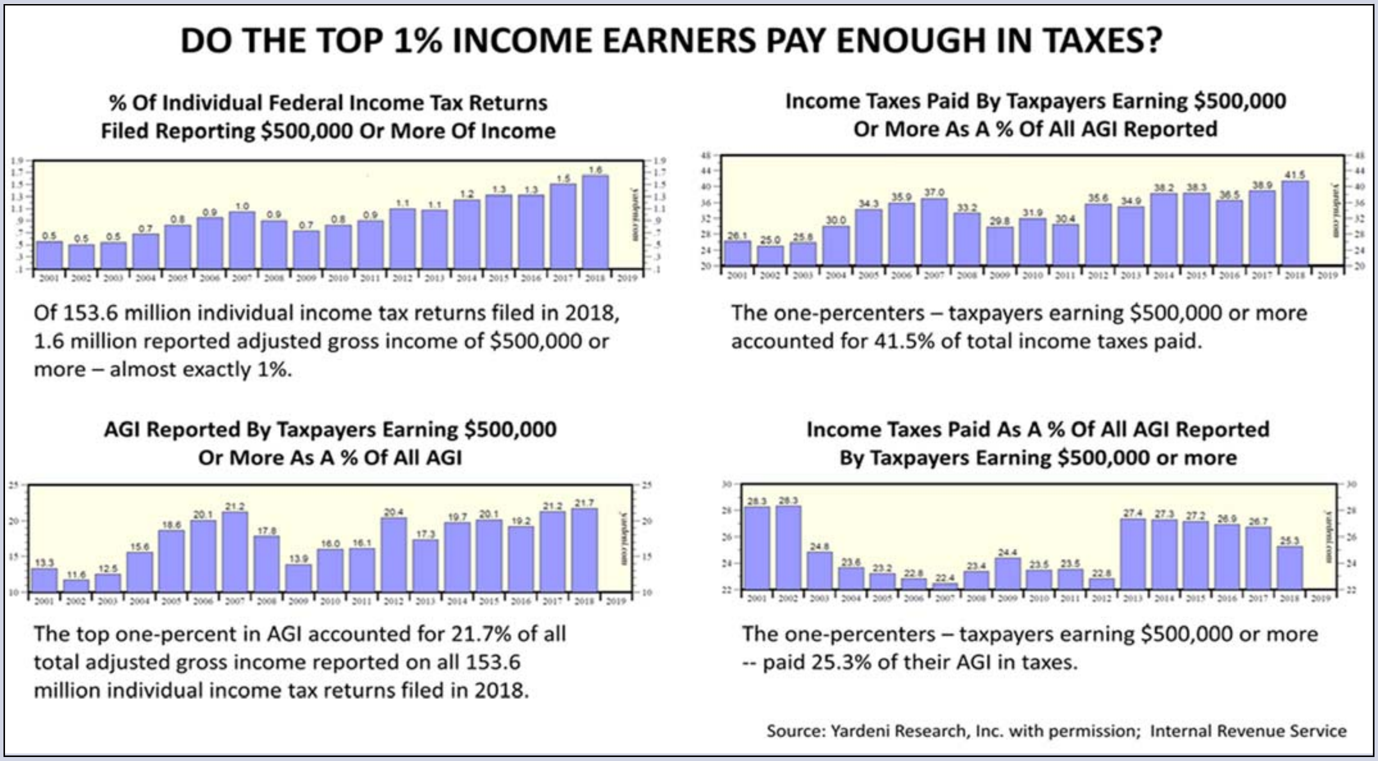
Do the top 1% in income in America pay enough income tax? Here are the facts to decide.

In 2018, the latest data from the Internal Revenue Service show 153.6 million individual income tax returns were filed. Of those returns, 1.6 million reported adjusted gross income of $500,000 or more. Thus, almost exactly 1% of individual returns filed in 2018 reported income of $500,000 or more. Using income as a gauge of wealth, rather than net worth, these are the “one-percenters.”

The one-percenters – taxpayers earning $500,000 or more in adjusted gross income – accounted for 21.7% of total adjusted gross income reported on all 153.6 million individual tax returns filed.

The one-percenters accounted for 41.5% of total income taxes paid and they paid 25.3% of their adjusted gross income in taxes 2018, which was less than they paid before the tax cut of signed into law in December 2017.

Was that enough? We will leave it to you to decide, but those are facts. No matter your answer, tax hikes on income and wealth are almost certain to be enacted in 2021. You can count on us for advice as well as the facts in dealing with your personal situation. ●

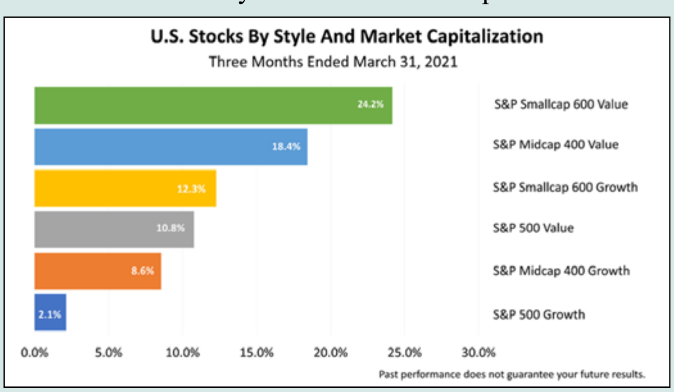


Stock Market Trend Report

While a single quarter of data is usually not elucidating – it’s just not enough time and data to make a sweeping conclusion – sometimes a single quarter tips you off to a shift in investor preferences. That’s true in this three-month snapshot. It shows the stock market investments classifying companies by market capitalization and style.

The fact that small-cap value led the market last quarter marked a reversal of the pandemic boom in which the super-cap growth stocks, like Amazon, Apple, Facebook, Microsoft, Netflix, and Google, dominated returns and temporarily distorted the performance of the S&P 500 index.

Many stocks in the blue-chip Standard & Poor’s 500 index were weak relative to the tech giants earlier in the pandemic. The tech giants grew stronger during the pandemic because their solutions were used more than expected, triggering larger than expected profits in a handful of super-large cap stocks.



Since the S&P 500 index is market-weighted, the price surge in the super-large tech companies became more influential in the S&P 500 index. That trend was reversed last quarter and again in the first quarter of 2021 ended March 31, 2021.

Since the election, the bull

Going Out On Your Own Terms: Six Key Documents In An Estate Plan

Everyone's estate plan is unique, but these six documents are key in ensuring your final wishes are carried out and you end life on terms you have set out.

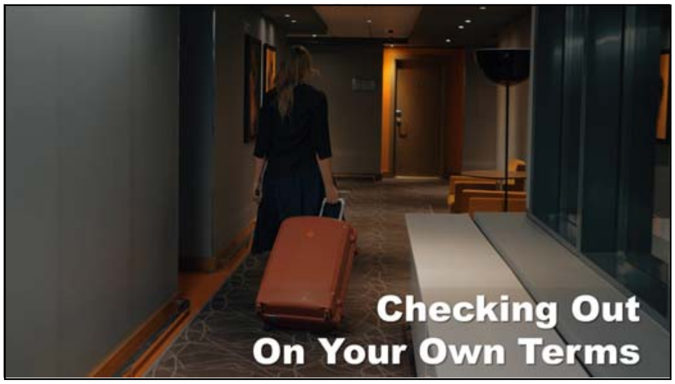
1. Financial power of attorney. This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers. They may be enabled to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

2. Health-care power of attorney. This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

3. Living Will. While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.



4. Trusts. There are many reasons for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will. Because assets in a living trust don't go through probate court proceedings, it keeps the disposition of your final affairs private and asset transfers through a trust are harder to contest than assets that go through the public probate process. The probate process can also be lengthy.

Though there are a myriad of variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. While that's not the case with an irrevocable trust, it can protect assets from creditors and remove them from your taxable estate.

5. Final Letter. A final letter can be used to write down a plan for your funeral arrangements, who is to inherit precious family heirlooms, works of art, personal items, and to bestow final blessings and salutations to the people who matter most to you.

6. Will. Your will establishes how your assets will be distributed after you die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

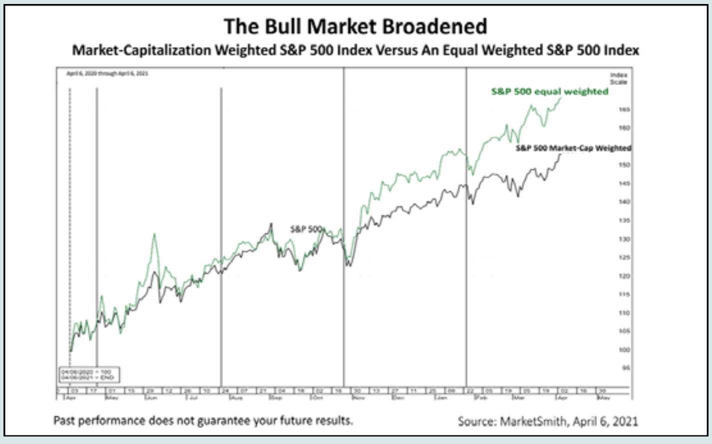
If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you can't be without.

Drawing up documents is left to legal professionals but coordinating the drafting of these documents with your attorney to ensure your final objectives in life are met after your death is often the province of a trusted financial advice professional, as is assuming powers over your financial affairs should you ever become incapacitated and quarterbacking a team of professionals.

How to best invest your final assets in the people and beliefs you hold most dear requires your most careful consideration and planning and is not a responsibility we take on lightly. If you have questions about going out on your own terms that you set out, please don't hesitate to contact us. ●

market broadened out. Value and small-cap stocks have surged. In this chart, the equal-weighted Standard & Poor's 500 stock index is outperforming the market-capitalization weighted S&P 500 index, which is commonly quoted and the main benchmark of U.S. stock performance.

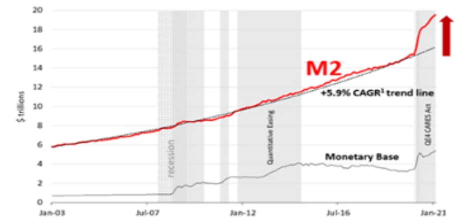
Investors have viewed the election of President Biden in very positive terms, undoubtedly because of the enormous fiscal stimulus the new administration is pursuing. The larger role played by the government in responding to the Covid economic crisis will be subject to political debate. No matter your politics, however, the broadening of the bull market is a good trend for stock market investors. ●



Market Data Bank: 1st Quarter 2021Ψ

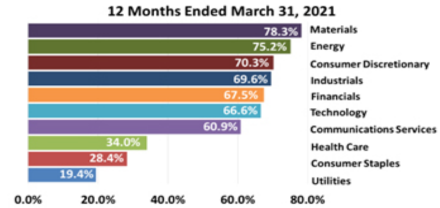
S&P 500 SOARED AGAIN

Stocks posted a +6.2% gain in 1Q2021, after a +12.2% gain in 4Q2020, an +8.9% gain in 3Q2020 and a +20.5% surge in the second quarter of 2020, which followed the COVID bear market loss in 1Q2020 of -19.6%. Not only did the S&P 500 recover from the -33.9% COVID bear market loss, but it broke its pre-pandemic high.



COVID AID SENDS SAVINGS SKYWARD

M2, currency held by the public plus checking, savings and money market accounts, shot up like never before after unprecedented US stimulus and aid payments in response to the pandemic. Unlike previous "quantitative easing" when the Fed bought US long-term bonds, Americans are loaded with cash to spend.



ENERGY WAS NOT WORST SECTOR AGAIN

Not that predicting which sectors perform best is possible, this bar chart shows slow and steady sectors definitely did not win the 12-month race, with utilities and consumer staples trailing growth-sector returns sharply. After six straight quarters in last place, energy-sector stocks came in at the No.2 slot.

INDEXES TRACKING 13 ASSET CLASSES

US stocks returned 10 times more than bonds in the five years ended 3/31/21, while US large-company stocks returned twice as much as foreign stocks. US stocks are the growth engine of a prudent portfolio, which makes the outperformance by stocks fantastic news for retirement investors guided by modern portfolio theory.

S&P 500 Total Returns For The Past 25 Quarters

	1Q	2Q	3Q	4Q
2021	+6.2%			
2020	-19.6%	+7.5%	+8.9%	12.2%
2019	+13.7	+4.3%	+1.7%	+9.1%
2018	-0.8%	+3.4%	+7.7%	-13.5%
2017	+6.1%	+3.1%	+4.5%	+6.6%
2016	+1.4%	+4.0%	+3.9%	+3.8%
2015	+1.0%	+0.3%	-6.4%	+7.0%

HOW GOOD IS A +6.2% QUARTERLY RETURN?

The green boxes highlight the nine quarters, of the past 25, when the S&P 500 returned +6.2% or more. How good is +6.2%? It's extraordinary! Six years and three months of bull market gains interrupted by the February-March 2020 -33.9% bear market plunge. And the M2 surge could keep the bull running.

WHAT TO EXPECT

It generally takes a recession to cause a bear market in stocks. The big downturns in the stock market almost all occurred concurrent with recessions. We're almost certainly not headed for another recession right now. In fact, because of the surge in M2, we're in an unprecedented boom!

Past performance is never a guarantee of your future results. Indices and ETFs representing asset classes are unmanaged and not recommendations. Foreign investing involves currency and political risk and political instability. Bonds offer a fixed rate of return while stocks fluctuate. Investing in emerging markets involves greater risk than investing in more liquid markets with a longer history. Indices are unmanaged and not available for direct investment. Investments with higher return potential carry greater risk of loss. Actual annual sector performance data from Standard and Poor's; equity risk premium data ©2021, 7Twelve™ Portfolio, Craig Israelsen.

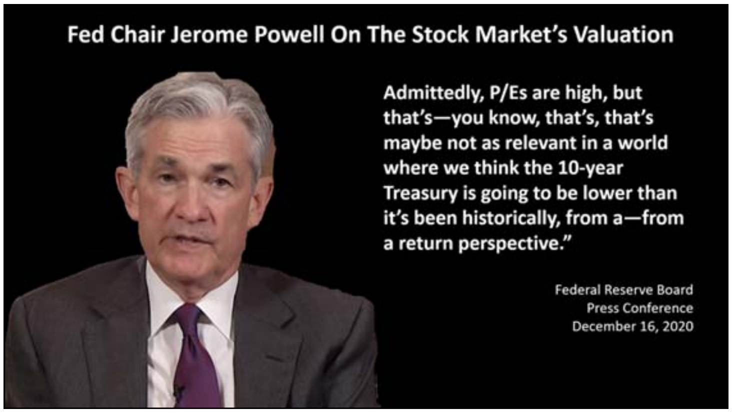
The Risk Of A Market Melt-Up?

(Continued from page 1)

valuations in the context of the currently low interest rates.

It's important because, to the extent that the Fed chair believes that current conditions, which are unprecedented in history, then he's going to remain accommodative and keep aiding and abetting the Treasury in creating money. This would continue to support stocks, as well as the economy, for the foreseeable future.

In contrast to former Fed chair Alan Greenspan, who warned stock investors were growing irrationally exuberant in 1996 – four years before the peak of the great bull market, remembered in history as the tech stock boom – Chairman Powell is saying: pay no attention to P/E ratios, the traditional valuation benchmark of stocks; what matters more is the P/E ratio compared to the 10-year bond yield, and, that bond yields are expected to remain low for the foreseeable future because of population trends in developed and developing nations, improvements in technology, and other fundamentals.



If the Fed thinks high price-to-earnings ratios are less relevant and that bond yields relative to stock prices are the important measuring instrument under current economic conditions, then that leaves leeway for stocks to rise without Fed action to quell an exuberant stock market. Thus, the risk of a market melt-up is a real thing.

If you fear missing out on a market melt-up or worry about being overexposed to stock risk, the right tool is a core portfolio diversified across low expense assets and professionally managed. ●

Polaris Advisors, LLC • www.polarisadv.com
550 Cochituate Road, East Wing, 4th Floor, Suite 25, Framingham, MA 01701 • P (508) 481.2299 • F (508) 655.4066
P.O. Box 3036, Wakefield, MA 01880