POLARIS ADVISORS, LLC.

THE Retirement Report

Retirement Transition Planning

508.481.2299 www.polarisadv.com Third Quarter 2021

Confounding Valuations Of The Largest Five Companies In S&P 500

The most important measure of the financial strength of the United States is the Standard & Poor's 500 stock index. It's widely watched but constantly surprising.

Of the 500 companies in the S&P 500, the five largest account for 21% of the total value of the much-watched index. You won't believe where they are currently valued!

Ranked by market capitalization, the five companies are: Apple, Microsoft, Amazon, Google, and Facebook. The Big Five are trading at low PEG ratios, relative to the other 495 stock stocks in the S&P 500 index.

The average company in the S&P 500, as of July 9, traded at a PEG ratio of 3.3%, while the Big Five traded at a PEG ratio of just .98% -- a large discount to the other 500 companies in the S&P 500.

Wikipedia attributes development of the PEG ratio to Mario Farina in a 1969 book. A PEG ratio is a company's price/earnings ratio divided by its earnings growth rate for the next year. A PEG ratio adjusts the traditional price/earnings metric for valuing a company's stock by accounting for its expected earnings growth rate.

These five stocks may appear expensive relative to the S&P 500's average P/E ratio of 22.8, but their earnings growth rate is reflected in the PEG ratios, and they are cheap by this important metric relative to the other 495 companies in the index.

For example, the expected earnings growth rate for Amazon is

VALUATIONS OF "THE BIG FIVE" VERSUS S&P 500

	Price	Earnings Per Share 2021 (Est.)	Price/Earnings Ratio 2021 (Est.)	Earnings Per Share Growth (%)[1]	Price/Earnings/ Earnings Growth	Mkt Cap
AAPL	$145	5.14	28.2	26%	1.1	$2.4T
MSFT	$278	8.07	34.4	25%	1.4	$2.1 T
AMZN	$3,719	55.85	66.6	73%	0.9	$1.9T
GOOG	$2,591	88.17	29.4	32%	0.9	$1.7T
FB	$350	13.12	26.7	46%	0.6	$994B
S&P 500	**$4,370**	**191.37**	**22.8**	**7%**	**3.3**	

[1] Three-year average annual EPS growth from 2019 through 2022.

Source: Advisors4Advisors; Fritz Meyer, economist; MarketSmith, July 9, 2021.

(Continued on page 4)

A Financial Plan For The Government?

What if we did a financial plan for our government? One thing would become immediately clear. Over the years, Congress has been busy spending a lot of money and, unfortunately, running up the country's debt. Since the arrival of the Covid-19 crisis, new debt levels have exploded.

It seems not to matter which party is in charge. Past excursions into military conflict cost trillions and never produced the positive results the government described. The current round of budgetary negotiations focuses on social programs and global warming, but notably seems to ignore the dire financial condition of Social Security and Medicare. Tax proposals do not cover the costs of the new spending, so it looks like more debt is on the way even before we fix these existing programs.

Back in 1997, under the Clinton administration, Congress passed the Balanced Budget Act, resulting in at least one year of a balanced budget. But in 1999, the act was modified so that spending proposals no longer had to be balanced with taxes. Absent that discipline, both spending and debt began to grow.

If the government were a financial planning client, we'd tell it to be much more prudent and careful with the money, and to look ahead to existing future obligations before creating new ones. Unfortunately, without the Balanced Budget Act, there's little chance our advice would be followed.

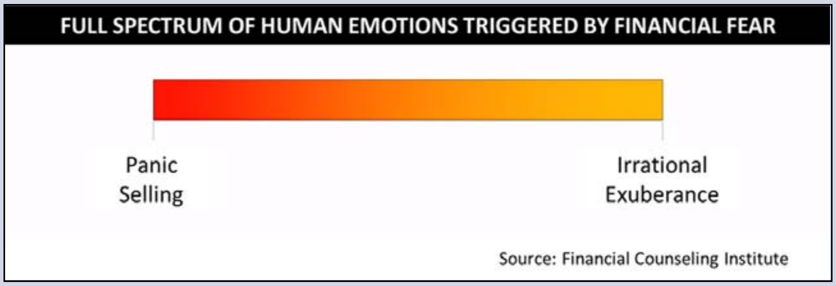
Stay well,

Ric and Trang

Dealing With Financial Fear

If you suffer from financial fear and anxiety, talking about it is likely to help.

In talking about it, according to Dr. Frank Murtha, a financial psychology expert, you go through a process of recognizing, understanding, and constructively reacting to your fear, rather than keeping it inside you and causing anxiety.



Whether your fear is running out of money in retirement, paying back a large debt, or caring for a family member with special needs, Dr. Murtha says personal financial issues evoke the full spectrum of human emotions -- from panic to irrational exuberance and everything in between -- but fear is the emotion that stands out as most impactful.

Professors Daniel Kahneman and Amos Tversky, founding fathers of the burgeoning social science of behavioral economics, famously discovered that people do not fear risk in investing; people fear a loss, specifically, a loss of control of the future.

In fact, investors who have suffered an investment loss or financial setback often will actively seek out risk to break even and avert the loss. Of course, "doubling down" may actually compound a financial problem.

How we experience fear is partly dependent on physiology -- your brain chemistry. The fear center of the brain is called the amygdala and it triggers several instinctual reactions to fear. The "fight" instinct can be evoked. Although this reaction may come in handy when you're getting physically attacked, it is not helpful in financial dealings.

A more common reaction to fear is flight -- the desire to remove the reason for experiencing fear, to retreat to safety and get back in control of your situation. In financial terms, the flight instinct may make you want to sell a losing investment at the height of a pandemic or amid a global financial crisis.

The other lesser-known neurobehavioral fear reaction is another F word. Can you guess what it is? The answer is "freeze." Freezing is a typical reaction in times of rising fear. You become too afraid to do anything! "People get stuck, unable to make a decision to change a situation and they let anxiety get the best of them," says Dr. Murtha. "A big part of dealing with financial anxiety is simply getting unstuck."

Talking about financial anxiety can help you unburden yourself and that is often the first step toward re-instilling a sense of control, which is the key to fighting fear. ●

John Oliver's Economic Analysis Is No Joke

Comedian John Oliver's analysis of the impact of the mushrooming federal debt is no joke.

Mr. Oliver, a pioneer of the satirical TV news genre, was senior British correspondent at The Daily Show from 2006 to 2013. Since 2014, his Sunday, 11 p.m HBO show, Last Week Tonight With John Oliver, has won 13 Emmy Awards.

Moreover, the Peabody Awards, which recognizes distinguished achievement and meritorious public service in mass media, was awarded twice to Last Week Tonight in the past six years. That's serious!

Mr. Oliver has taken satirical news to a sublime level. In keeping with today's confusing times, he's making fake news really serious but funny. With more than four million viewers weekly, it is a sign of the times that "fake news" has become a source of real news about economics.

The exploding government debt is not funny. The long-term debt of the United States, in the 12 months after Covid hit, soared from $21 trillion to $28 trillion. Larding debt on generations to come is obviously nothing to laugh about, but it's also not so grim, which was Mr. Oliver's main point.

There is some really great news about the government's soaring debt: the expected cost of servicing the interest on the debt is not growing as fast as the economy overall. According to Secretary of the Treasury, Janet Yellen's Congressional testimony on March 24th, when the cost of debt results in growth to the economy, debt is a good investment.

This is incredibly unfunny. The U.S. debt is boring and complicated. Moreover, given the human proclivity for avoiding bad news – and debt is most definitely bad news – Mr. Oliver, despite sometimes outlandish political views, is no joke.

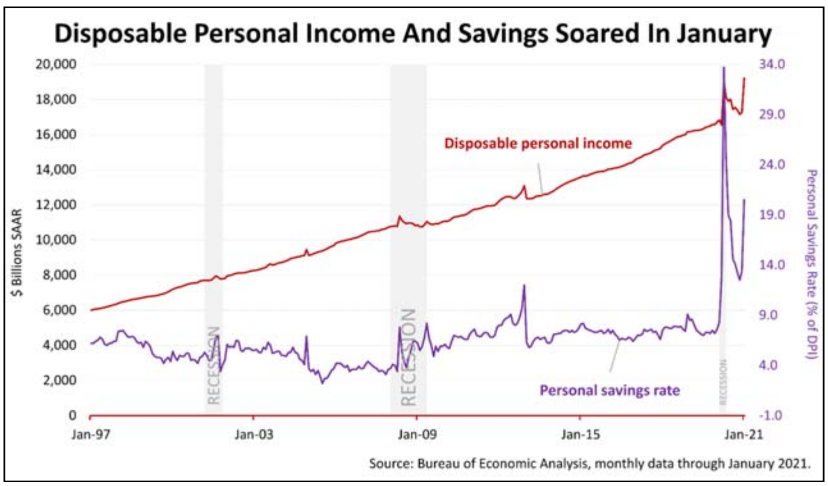
Last Week Tonight is not as funny as it used to be, but it is hilarious for a serious news show. ●

The Cost Of Not Having A Financial Plan Is Surging

With the cloud of the Covid pandemic still hanging heavy across the nation, Americans are sitting on an unprecedented mountain of cash while income, estate and gift tax rates are changing. Financial planning in the current environment of accelerated change is suddenly much more important.

If ever there were a silver lining, it's that staying at home has enabled Americans to amass a cash reserve as never before. However, the speed of change has accelerated rapidly, driving up the cost of failing to update a personal financial plan. What's going on?

The pandemic has spawned federal payments to Americans at a level never seen before. Here's the latest snapshot of the unprecedented change in disposable income and savings under way, according to the latest data from the U. S. Bureau of Economic Analysis.



While the chart only goes back to 1997, the dual surges in these two important factors driving growth of the economy are without precedent in modern U.S. history. The surges resulted from Covid relief cash payments made by the government in April and May 2020 and again in January 2021. Cash from the 2020 payments accumulated in savings accounts and was being spent down when January's Covid aid payments hit. The $1.9 trillion aid and stimulus package is going to cause another surge in disposable income and savings.

The fundamentals driving this economy are confounding and totally unexpected. In 2020 and early 2021, as the nation endured its worst public health crisis ever, stock prices repeatedly broke new all-time record-highs! The proximate cause of the stock price gains amid a pandemic was an explosion in savings held by Americans, financed by a series of cash payments from the Government.

With interest rates low and the Fed reiterating in March that it does not plan to raise rates for the foreseeable future, bonds are not an attractive investment. So, consumers sitting on this mountain of cash that has been mounting for many months now may spend it or invest it for the long run. Both outcomes would be good for asset prices on stocks and housing.

Central bankers and economists will be debating the long-term effects of the growing influence of government in the U.S. economy and the risk it poses, but the financial outlook for now is unexpectedly bright, even as the dark cloud of the pandemic casts a long shadow over the nation. Financial assets are being revalued, as the relative value of stocks versus bonds has changed.

Meanwhile, taxes are about to be hiked by another new Covid aid legislation package, the American Rescue Plan, and another round of legislation that will hike taxes further is expected to be adopted after the economy has recovered but before the end of 2021.

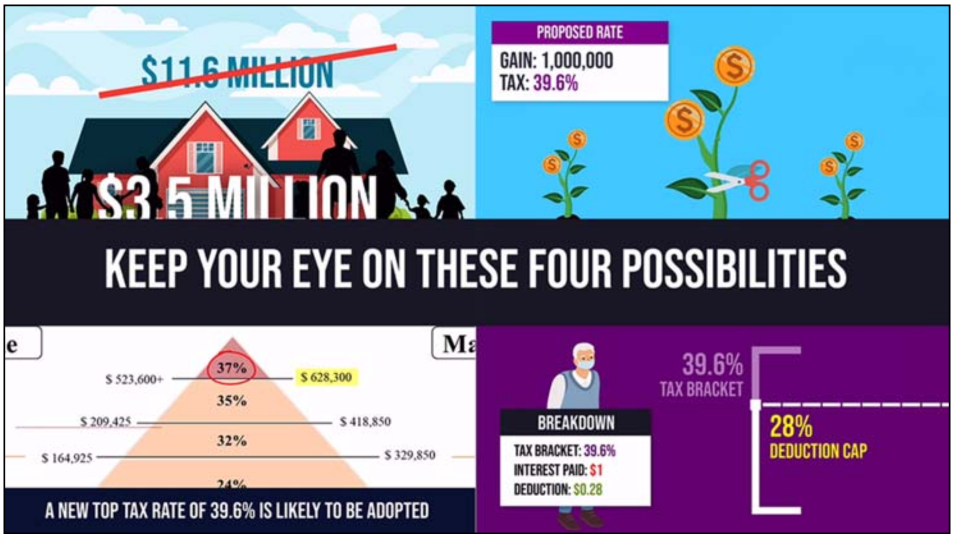
When the pace of change in the world was slower, the cost of not having a strategic financial plan was not so dear. This is not the time to sit on your hands. This is the time to act. ●

Tax Alert For High Income And High Net Worth Individuals

The political standoff in Washington, D.C., has complicated tax planning enormously. No one knows exactly how it will shake out but what we do know is that there are four possibilities to be prepared for.

1. The estate tax exemption is expected to be slashed dramatically, from $11.6 million, to $3.5 million per person, most likely. In addition, the estate tax rate could be stiffened.

2. Capital gain taxes could be hiked in a couple of ways. The current favorable capital gains tax rate of 20% could be eliminated if your taxable income is more than $1 million. In addition, the “step-up” in the basis accorded capital gains on inherited investments may be eliminated on gains of more than $1 million. If your current estate plan hinges on leaving highly appreciated assets, like stocks, business interests, real estate, and other investments, this would slash what your heirs inherit after paying taxes.



3. President Biden has proposed raising the top tax rate. In 2021, the top tax rate is 37% and that applies to income of more than $628,300 for joint filers. A new 39.6% income tax bracket is very possibly going to be adopted. Not only would the top tax rate rise to 39.6%, but the 35% tax bracket could be eliminated, which greatly expands the number of taxpayers subject to the 39.6%.

4. The value of itemized deductions could be capped at 28% for those in the new top tax bracket. To be clear, a high-income professional or business owner in the proposed 39.6% tax bracket, who deducts mortgage interest, would be entitled to a deduction of only 28 cents for each dollar paid in mortgage interest, instead of 39.6 cents on the dollar. Itemized deductions would lose 30% of their power in lowering your tax bill annually.

The matrix of variables is complex but keeping these four possible changes top of mind could significantly help minimize your federal income and estate taxes as tax-hike possibilities turn into certainties in the weeks ahead. ●

Confounding Valuations

(Continued from page 1)

73%. Amazon's PEG ratio is 0.9% versus the S&P 500's PEG ratio of 3.3.

Stocks are risky investments, and they are volatile. Just yesterday, the S&P 500 suffered its worst one-day decline since May, sliding more than 2% during the day before closing down 1.6%. The index shot back up by 1.5% today.

Uncertainty about the risk of the Covid-19 variant as well as inflation are likely to cause big drops in the S&P 500 in the days ahead. Yet stocks are the growth engine of a retirement portfolio and a key in a comprehensive tax-smart investment plan built to last the rest of your life. With volatility high and tax laws about to change, please consider whether the next stock selloff could be a long-term planning opportunity.

The table entitled, “Valuations Of ‘The Big Five’ Versus S&P 500,” was derived from a class for financial professionals by Fritz Meyer, an independent financial economist, on Advisors4Advisors on July 13, 2021. ●

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