POLARIS
ADVISORS, LLC.

THE
Retirement Report
Retirement Transition Planning

508.481.2299 www.polarisadv.com First Quarter 2022

Wall Street Never Saw The 2021 Market Surge Coming

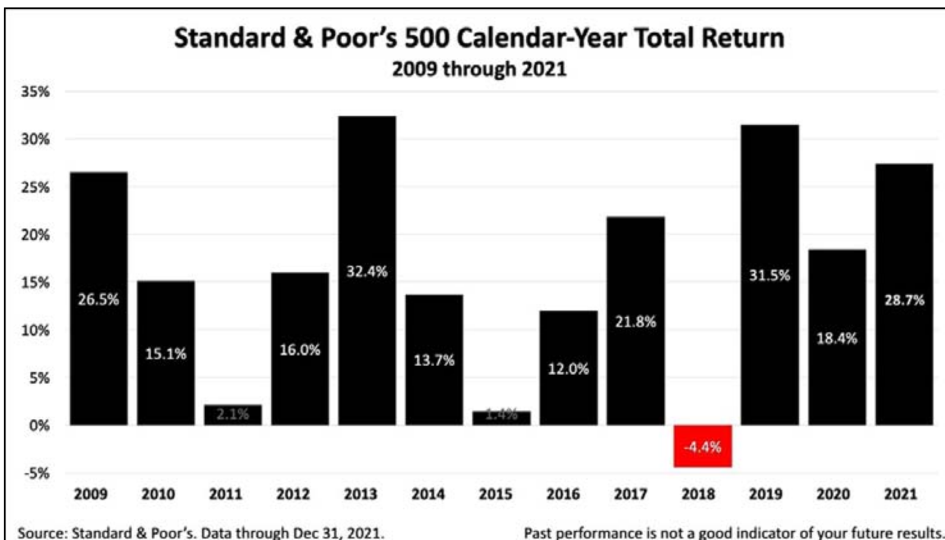
In 2021, the Standard & Poor's 500 stock index, with dividends reinvested, returned an astonishing 28.7%! Who could have predicted it? Who could have predicted that, despite the second year of a pandemic, stocks would soar for a third straight year and rack up nearly three times their annual average return? Not Wall Street's best minds!

2021 marked another year in which Wall Street's biggest firms and their best strategists failed to predict the stock market.

On December 21, 2020, *Barron's* published an article in which the venerable financial magazine asked 10 leading Wall Street strategists to predict the closing price of the S&P 500 on December 31, 2021. The mean forecast of the 10 strategists quoted by *Barron's* called for the S&P 500 to close 2021 at 4040, which would have amounted to about an 8% gain. The strategists' consensus forecast of 4040 was not even close to the actual closing price of the S&P 500 of 4712 on December 31, 2021!

This chart shows that the consensus forecast by Wall Street's best and brightest strategists selected by *Barron's* have been consistently wrong since 2008, and their prediction for 2021 was completely off-base! The chart shows the results of predictions made by leading strategists quoted every December in *Barron's* since December 2007. It was compiled by Fritz Meyer, an independent economist.

If Wall Street's top strategists' forecasts had been accurate, the black dots would all fall right on the red line representing the S&P 500. However, their predictions were often way out of line with what



(Continued on page 4)

Wall Street Got It Wrong Again

Our newsletter's front-page story this quarter reiterates, once again, the impossibility of predicting the markets in the short run. The S&P 500's 2021 return of 28.7% was over three times what was predicted by Wall Street's best minds. Why? Consider this quote from Benjamin Graham: ***"In the short run, the market is a voting machine, but in the long run, it is a weighing machine."*** Born in 1894, Ben Graham is widely considered the "father of value investing." He tells us that short-term investing is about trends, fads, and feelings. Real investing is about gathering and keeping valuable assets that grow and/or pay dividends and interest.

It's no surprise that Wall Street prognosticators got it wrong again. They can't tell us when bell bottoms, pleats, and wide ties might return to favor either. But what about Ukraine, or rising interest rates? Yes, those affect the markets ... starting last year! If we react to them this year, we are six months too late! If we find ourselves **reacting** to current events, we aren't **predicting** them. And reacting is most often associated with losing. Sometimes it's hard to stomach the occasional gut-wrenching declines in the markets, but we need to heed Prof. Graham's advice. To buy and hold is to accumulate value; to trade short-term is a game of chance.

Be well,

Ric and Trang

Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal. No advice may be rendered by Polaris Advisors without an in force client agreement. Information is believed to be from reliable sources, but we make no representations as to completeness or accuracy. Opinions expressed are subject to change without notice.

Make This Financial Resolution For 2022

The U.S. stock market's 133% five-year return dominated this diverse group of 13 securities investments. None of the other asset classes came even close to the total return of the Standard & Poor's 500 stock index.

With another year passing, the financial media is naturally talking a lot about the spectacular returns on stocks and real estate, and there's a smattering of coverage about the big losers – investments in energy and commodities. The coverage will get talked about at business luncheons, cocktail parties, and investment seminars. We suggest resolving not to get caught up in the talk in 2022.

The spectacular returns of stocks are causing speculation – not just speculation in risky investments but speculation in the media that the stock market is in for a lackluster year in 2022 or even a loss. For example, *The Wall Street Journal's*, January 3, 2022, print edition, led with a story entitled, "Stocks Confront Rockier Course In 2022." Similarly, *The New York Times*, led its business section on Jan. 1, 2022, with the headline," The Big Uneasy." "Shares soared as interest rates stayed low and stimulus programs helped the economy," The Times reported. "But expected changes could make investors wary."

We suggest ignoring the speculation. The stock market is unpredictable. Covid, too, has been unpredictable. Inflation is higher than in decades. Federal Reserve policy just changed from dovish to hawkish on inflation, but interest rates have never been so low in U.S. history.

Despite the unprecedented crosscurrents, the stock market could go much higher in 2022. It also could go down. However, the economy is roaring and there is certainly no sign of a recession on the horizon.

If you rely on our advice, resolve in 2022 not to get caught up in the financial zeitgeist. ●

2022 Estate & Gift Tax Planning

The federal exemption from gift and estate taxes doubled from $5.5 million in 2017 to a whopping $11.2 million in 2018! and under current law, the exemption has been continuing to rise annually. Here's what you need to know if you have a multimillion-dollar estate.

In 2022, the exemption from paying gift, estate, and generation skipping taxes, is $12.1 million, and, under current law, it is scheduled to rise to almost $12.9 million in 2025! At the end of 2025, the exemption will be slashed in half! and individuals will only be entitled to a $6.5 million exemption from estate and gift taxes. To be clear, individuals with an estate of $6.5 million estate or more are going to be subject to tax on what they leave their children, according to the current Internal Revenue Code.

With real estate, stocks, and other capital-gain investments appreciating highly in recent years and the after-inflation yield on a 10 Year Treasury bond negative, it's vitally important for individuals with multimillion-dollar estates to take full advantage of the current exemption rules.

The exemption from estate tax could be lowered in 2022, but Congress could also leave it intact through 2025. Either way, if you want to reduce taxes on the wealth you leave to your family and protect those assets from creditor risk for decades to come, you need to plan it out now, while you have this chance.

To protect your six-year-old granddaughter in a divorce from her future ex-husband 35 or 45 years from now, or to shield your children's assets from professional liability- or business-lawsuits they may face as a doctor or landlord in the decades ahead, years after you're gone, planning right now is wise, while this opportunity is open to you. ●

Special Report: Long-Term U.S. Equity Investments And Demographics

Population trends of the United States versus other countries rarely make headlines in the financial press, but a population bust has been in the news this week.

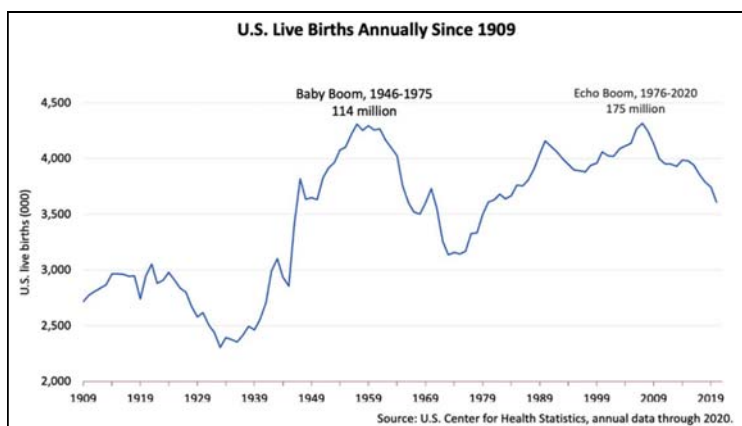
According to a newly released Pew Research study of U.S. adults, 44% of non-parents ages 18 to 49 say it is "not too or not at all likely that they will have children someday," an increase of seven percentage points from the 37% who said the same in a 2018 survey. That sounds frightening, but is it?

Pew also reported that, unchanged since 2018, 74% of adults younger than 50 who are already parents say they are "unlikely to have more kids". To be clear, the same number of parents are not planning to have more children now versus pre-pandemic.

Moreover, though the pandemic may have caused a larger proportion of 18- to 49-year-olds to say they are not too or not-at-all likely to have children someday, the larger demographic trend in the decades ahead is very positive for the United States compared to other global economic powers. Here's why U.S. demographics are a highly favorable and influential factor in the forecast for U.S. equity investments for the long run.

The size of a nation's labor force is one of the two factors in the equation for calculating an economy's growth potential. Productivity growth plus growth in the working age population, combined, determine the growth potential of an economy. So, how will demographics boost the potential growth of the U.S. economy and U.S. equity investments in the years ahead?

Here's the answer: This chart shows the change in live births in the U.S. annually since 1909. It tells us that the demographic story of the U.S. now is driven largely by these two peaks -- the Baby Boom, which started after World War II, and the Echo Boom, which started in 1976 and encompasses Gen X, Gen Y millennials, and Gen Z millennials. Since 2008, the story has been somewhat gloomy. Growth in the U.S. working-age population has been declining. But look at the long-term forecast.



While the proportion of 18- to 49-year-olds saying it is "not too or not-at-all likely that they will have children someday," grew by seven percentage points, they are on the margins of a larger wave reverberating from the Baby Boom.

In the near-term, the number of baby boomers set to retire is peaking now through 2026. Then, growth of the labor force is expected to slow to a crawl through 2030. In the early 2030s, just a decade from now, the trend shifts, and the U.S. workforce is expected to begin to grow again, and steadily at that, through 2050.

Despite the growing proportion of adults less likely to have children, according to Pew Research, investors should be mindful of the favorable demographics expected to swell the ranks of the working age population in the U.S. at the same time as other global economic powers will be experiencing slowdowns in the rate of growth of their workforces.

By comparison, the economic growth rate for the United States in the decades ahead is going to look attractive to investors globally, because the other major economies that compete for investment dollars -- Europe, China, and Japan – are all now in the throes of declines in the size of their working age population.

As a result, the U.S. is likely to remain an attractive investment destination for the foreseeable future. The U.S. is widely expected to continue to benefit from a continued inflow of capital from investors worldwide -- a portion of which undoubtedly can be expected to flow into the stock market.

Math driving economic and investment growth is hard and is further complicated by the non-stop, 24/7, never-ending cycle of news and social media streaming to our smartphones. The information explosion, ironically, makes it easier to overlook the proverbial forest of evidence crucial to success of your investment plan. ●

Rebalancing Helped Since Covid Struck

The 12-month returns for the past six quarters on stocks classified by industry sectors shown here illustrate why a portfolio rebalanced once a year by a professional is so important to investor success.

During the pandemic, both the Standard & Poor's tech sector index was a big winner because shopping online was safer health-wise. So was watching Netflix. Google ads suddenly were attracting more eyeballs. Apple and Microsoft earnings growth was four times earnings growth on the average S&P 500 stock, according to Fritz Meyer, an independent economist. The stock market's ebullience was totally unexpected, of course.

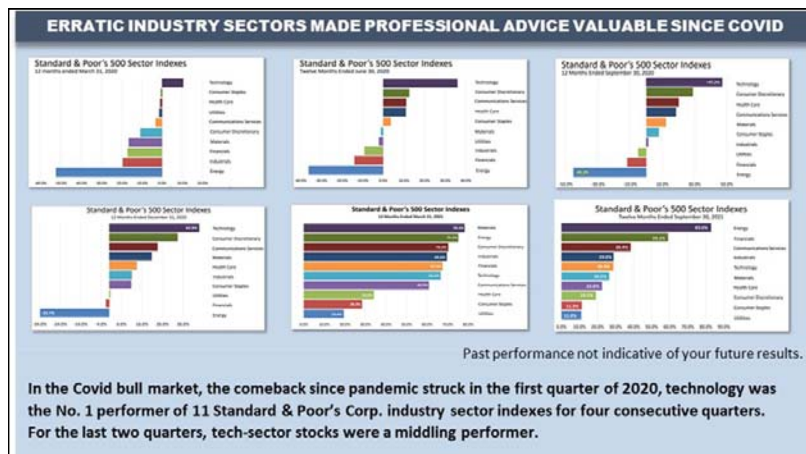
The tech sector was the only one of the 11 industry sectors that make up the S&P 500 index to show a gain (10%) in the first quarter of 2020, when Covid hit. That was just the start. For the next three quarters, tech sector 12-month returns came in at an astonishing 37%, 47%, and 44%, respectively. It was an historic bull market kicked off by government transfer payments to consumers. But tech stocks for the past two quarters have not been dominating. They returned to the middle of the pack of the 12-month 11-sector index performance.

Successive quarters of outperformance would have allowed your tech stock position to grow unchecked and dominate your portfolio results. With leadership shifting, a rebalanced portfolio is better able to benefit from the change in leadership in the past two quarters through the end of 2021.

The past six quarters poignantly illustrate why periodic rebalancing is about as important to investor success as personal advice on tax-efficiency. Rebalancing is not a sexy-sounding benefit of working with a professional, but it might affect your portfolio's terminal value about as much as tax-smart investing advice, which is another important reason to hire an investment professional.

Automated calculators for rebalancing may get the math right but getting an investor to use a calculator to rebalance once a year requires a commitment of time and an interest in personal finance as well as behavioral change. Working with a qualified professional who knows your financial goals and risk-tolerance, thus, came in handy in the period since Covid hit the U.S.

There are many ways to rebalance a portfolio. Rebalancing based on a portfolio's industry sector weightings is shown for illustration purposes. ●



In the Covid bull market, the comeback since pandemic struck in the first quarter of 2020, technology was the No. 1 performer of 11 Standard & Poor's Corp. industry sector indexes for four consecutive quarters. For the last two quarters, tech-sector stocks were a middling performer.

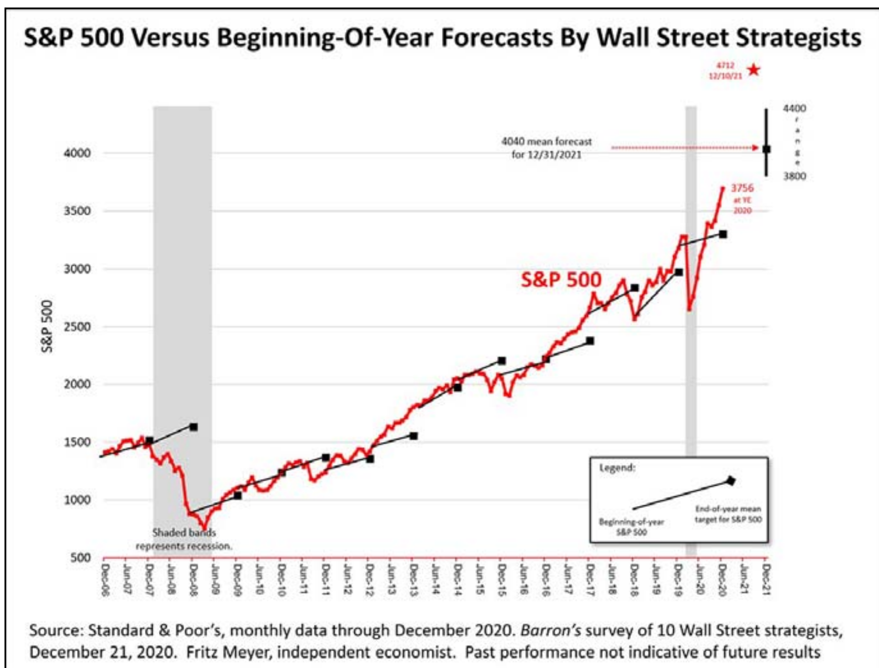
Wall Street Never Saw 2021 Surge Coming

(Continued from page 1)

occurred in the market!

Which should serve as a reminder of how the largest brokerages, with help from the financial press, can steer investors in a bad direction. As 2022 begins, we want to remind you to be skeptical of predictions, even if they come from the big-brand brokerage firms and the experts in the financial press.

This article is intended to make clear why we view the financial press skeptically and choose to operate as an independent professional financial advice firm unaffiliated with big-brand Wall Street names. ●



Source: Standard & Poor's, monthly data through December 2020. *Barron's* survey of 10 Wall Street strategists, December 21, 2020. Fritz Meyer, independent economist. Past performance not indicative of future results

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
Articles are written by a journalist hired by Polaris Advisors, LLC and are general information not intended as advice to individuals.

©2022 API