# *The Barrister Quarterly*

BARRISTER
PLANNING | INVESTMENTS | INSURANCE

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Charles C. Weeks Jr., JD, CFP®
*Founding Partner*

Paul F. Savini, CFP®
*Partner*

*Barrister was founded with the sole mission of offering clients an opportunity to meet their financial objectives through independent, ethical, unbiased and competent professional guidance.*

1515 Market Street | Suite 1050
Philadelphia, PA 19102
contact@barrister.net
www.barrister.net
800-465-8140

Dear Friends,

As we enter the Fall season things seem to be getting back to some level of normalcy with businesses reopening and sports back on prime-time television. Meanwhile the market has experienced increased volatility and a pullback on many indexes from all-time highs.

The election is all the talk these days. Vanguard recently released interesting data showing that over the past 100+ years a diversified portfolio under Republican Presidents returned 8.2%, while under Democrat Presidents it returned 8.4%, essentially the same. Further, in election years markets returned on average 8.9%, while during non-election years returned 8.1%. This is likely due to investors being rewarded for holding investments through what some might view as a volatile period. We reviewed more recent S&P 500 returns during different presidential terms and found the following:

| Reagan | H.W. | Clinton | W | Obama | Trump |
|---|---|---|---|---|---|
| 9.22% | 11.54% | 14.86% | -4.42% | 11.96% | 11.05% |

Each presidency had its ups and downs. President Clinton's returns surely benefited from the advent of the Internet, while President Bush's returns were marred by the dot-com fallout, 9/11 and the Great Recession. Our takeaway, under almost all presidents, Democrat or Republican, the stock market averaged almost double-digit returns.

*Doubt is not a pleasant condition,*
*but certainty is absurd*
*- Voltaire*

We don't know how the election will turn out, but over the long-term we don't believe it matters. Fundamentals like earnings, interest rates, unemployment and growth in production will always impact markets more than which party controls the White House.

Best,

# INVESTING NOTES

## Portfolio Rebalance

Recently we took the opportunity to rebalance portfolios back to their more traditional allocations, reducing equity exposure 5% and increasing fixed income by the same amount. Further, within the larger model portfolios we added small-cap international equity along with inflation-protected government bonds. We believe this will add further diversification to the portfolios, reducing volatility while providing an opportunity for better future returns.

# PLANNING NOTES

## Higher Education Planning: Public Service Loan Forgiveness

If your child is interested in a career in public service, the government's Public Service Loan Forgiveness (PSLF) program can be an effective way to plan for higher education expenses.

- What is considered public service?
  - Usually a position with the government, a private not-for-profit employer or 501(c)(3) non-profit organization
  - Covers careers requiring costly post-graduate degrees such as law and medicine
  - Employment must be full-time, and the employer qualified by the DOE
- Which loans are eligible?
  - <u>Federal direct loans</u> are eligible for forgiveness: direct subsidized and unsubsidized loans, direct PLUS loans and direct consolidation loans
  - Private student loans are NOT eligible
  - Some federal student loans may become eligible through loan consolidation
- How does forgiveness work?
  - Borrowers are eligible for loan forgiveness after 120 <u>qualifying</u> monthly payments
  - Qualifying payments made through one of 5 income driven repayment (IDR) plans
  - Borrowers seeking PSLF should generally choose the plan with the lowest payments to maximize benefits of the program
  - IDR plans early in a borrower's career are not likely to cover full interest and principal payments, meaning <u>loan balances will increase while working toward PSLF</u>
  - With IDR comes additional planning around tax filing status of the borrower

PSLF could alter higher education planning if one's child seeks a career that dovetails with the program. In this case, planning to fund education with federal direct loans may make more sense than, say, contributing to a 529 account. That said, there are risks to be aware of. President Trump in 2017 and 2020 called for the program's prospective elimination. On the other hand, Vice President Biden has called for making the program, in effect, more generous. Finally, as of the end of March, according to the Federal Student Aid website *only 1.26 percent of applicants received loan forgiveness* under the PSLF program. Application denial is often down to not filing required documents correctly or on time, or not actually having loans eligible for forgiveness.

## MARKET & ECONOMIC INDICATORS

| *Indicator* | *Note [change vs prior quarter]* |
|---|---|
| Investor Sentiment AAII | 26% Bullish [+2%] \| 31% Neutral [+4%] \| 43% Bearish [-6%] |
| Investor Sentiment CNN | 40 Fear [-7] |
| Leisure and Entertainment (PEJ) | YTD down 28.02% [+6.98%] trailing the S&P 500 by 33.23% [-2.13%] |
| Technology (XLK) | YTD up 26.67% [+11.77%] beating the S&P 500 by 21.46% [+2.62%] |
| SemiConductors (SMH) | YTD up 22.45% [+14.4%] beating the S&P 500 by 17.24% [+5.25%] |
| Financials (XLF) | YTD down 19.43% [+4.27%] trailing the S&P 500 by 24.64% [-4.88%] |
| Staples (VDC) | YTD up 3.41% [+9.44%] trailing the S&P 500 by 1.8% [+.29%] |
| Healthcare (XLV) | YTD up 3.6% [+4.46%] trailing the S&P 500 by 1.61% [-4.69%] |
| Utilities (XLU) | YTD down 3.53% [+7.53%] trailing the S&P 500 by 8.74% [-1.62%] |
| Commodities (GSG) | YTD down 36.03% [0.00%] trailing the S&P 500 by 41.24% [0.00%] |
| 20yr+ Treasury (TLT) | YTD up 21.53% [-.34%] beating the Barclays Bond Index by 14.79% [-.81%] |
| 2yr/10yr Government Bond Spread | Spread is positive at .57% [+.09 bps] |
| High Yield Bonds (HYG) | YTD down .92% [+4.19%] trailing the Barclays Bond Index by 7.66% [+3.72%] |
| HYG spread vs 10yr Treasury | +536 bps [-116 bps] |
| YOY Corporate Earnings | Estimates increased 4.1%, first increase during a quarter since Q2 2018 |
| Central Bank Activity | FED announced new inflation strategy, "...above 2% for some time" |
| Average Hourly Earnings | YOY increased 3.3% from August of 2019 to August of 2020 |
| Fund Flows | Continued Equity outflows, inflows to Fixed Income and Commodity Funds |
| Advanced/Decline Line S&P 500 | Increased over the quarter |
| Merger & Acquisition Activity | Activity trend has been increasing overall |

## DISCLOSURES

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