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Special Year-End Philanthropy Edition

Welcome to the Stearns Financial *Fireside Chat.*

As a follow up to last week's live chat (https://youtu.be/yhp-xjW0W_Q), we are focusing this edition of our written *Chat* on several planning ideas resulting from our conversation with Phil Buchanan, CEO of the Center for Effective Philanthropy and author of *Giving Done Right.* Philanthropy is an important topic, especially in the United States, a country that literally ranks #1 in the world in terms of charitable giving, followed by Myanmar and then New Zealand. Note this ranking is based on three criteria: 1) helping a stranger, 2) donating money to a charity, and 3) donating one's time. Per this ranking, Myanmar ranks #1 in terms of donating financially, with a whopping 81% of residents giving charitably!

Many don't appreciate how critical non-profit organizations are to the infrastructure of a healthy community as they address critical needs that would otherwise be unmet. Similarly, many don't realize just how good a job most of our local non-profits do. During these very trying times, our praise and our thanks go to our non-profit community.

For those interested in supporting non-profits, we offer a detailed description in our FAQ below on the most effective giving strategies, both in terms of finance and in terms of impact.

Keys to Consider

- **COVID-19 vaccines distributed this week – Distribution of the Pfizer vaccine began this week and hope springs eternal that a return to normalcy may be on the horizon, albeit months away.** The initial phase of the vaccine rollout will be geared toward front-line health care workers and the elderly living in retirement communities. We expect a second Emergency Use Authorization (EUA) for the Moderna vaccine next week. While the "warp speed" of vaccine development coupled with a politically-charged environment has left many fearful of the vaccine, we encourage all our clients, friends and family to speak to their medical professionals about the suitability and safety of the vaccine rather than relying on the media for information. We continue to believe an effective vaccine will have a dramatically positive impact on the economy, the health and spirit of many in the U.S. and around the world. https://www.statnews.com/2020/12/15/fda-scientists-endorse-moderna-covid-19-vaccine-as-documents-provide-new-hints-on-efficacy/
- **New COVID-19 Stimulus Package** appears close: As this *Fireside Chat* goes to print, congressional leaders say they are close to a $900 billion relief package that includes a renewal of the Paycheck Protection Program for small business loan forgiveness, funds for vaccine development and distribution, funds for COVID-19 testing, funds to equip schools with protection equipment, renewal of unemployment benefits and direct stimulus payments.
- **The Bloomberg Consumer Comfort Index** slipped another 0.3 points last week, its third consecutive decline, to 49.0, led by a continued deterioration in the personal finances component. The assessment of the buying climate also weakened, while the state

of the economy was steady. Following an initial rebound as the economy reopened in the spring, **this index has settled over the past two months at a much lower level than before the pandemic.** It suggests consumers remain cautious, which could weigh negatively on consumer spending and the economic recovery.

- **What We've Learned About Leaders in 2020** – The first episode of *Fortune* magazine's Leadership Next podcasts launched on March 17th, just as the COVID-19 pandemic was on the cusp of overtaking the country. Over the next nine months, Alan Murray and Ellen McGirt of *Fortune* magazine conducted 40 interviews, talking to CEOs of some of the world's largest companies about decision making during this difficult time. Of course, the difficulty didn't stop with a health crisis. It led to economic upheaval too. And in the midst of that, the country faced a reckoning on racial issues. Did we mention the political landscape? Many of these leaders are maintaining a commitment to stakeholder capitalism – that is, an interest in all stakeholders of the company, including shareholders, employees and consumers.

  In this episode, Alan and Ellen spare you listening to 20 hours of podcasts (although many of the 30-minute podcasts are worth a listen!) and revisit snippets of conversations throughout 2020. They also look ahead to 2021. https://podcasts.apple.com/us/podcast/leadership-next/id1501891506

Frequently Asked Questions

Q: We loved the Live Chat with Phil Buchanan on effective giving. Many of the ideas he presented were thought provoking and challenged our long-held views. My husband and I occasionally disagree on which groups need help and how best to help them. This is especially true for larger donations and/or volunteer/board commitments we make. Dennis mentioned the 10 keys to ineffective giving from Phil's book – please summarize those for us and give us some examples of how SFG can help us in this area.

A: There is a reason spouses often have disagreements around this topic. Often, one spouse is leading from their heart, and the other is more focused on measurable impact. Or one spouse has had experiences in their past that make them want to "lean in" to a particular cause. Each person must decide for themselves what's important. Many of our clients have learned how to consider a more middle ground approach between passion and verifiable impact in major charitable giving.

Over the years, there are many "giving done right" challenges our clients have had. These include determining which causes to support with their time, treasure and talent. Some want to volunteer but have found they don't get satisfaction from the positions their favorite community groups have available. Some want to govern while others want to be where the action is.

We gave the example in our Live Chat with Phil of our client who would rather deliver Meals on Wheels and interact with the people in need, than serve on their local board. This sparked an interesting discussion in our audience on which is more important, the needs of the donor or the needs of the community cause. We've seen a lot of non-profit volunteer fatigue, or even burnout, over the years, and suggest that a win-win solution should be sought for both the donor and the non-profit.

Still other donors want to write a check but want some assurance the money will be put to good use. Some want to identify the needs of the organization and provide targeted help. In the pandemic, some are looking for special areas to help. For example, SFG is now working with **East Durham Children's Initiative. Modeled after the Harlem Children's zone,** this Durham, NC organization provides a pipeline of services from cradle to college or work to Durham's most vulnerable children.

Phil's 10 keys to ineffective giving:

Ineffective Giving Concept #1 – Think most non-profits are poorly run and staff are overpaid.

Turns out there are quite a few non-profits in every community being run by strong, successful leaders who could make many times the money in the for-profit sector. Take time to know the leaders of any group to whom you're contemplating making a large gift of your time or money.

Ask some simple questions, like "what is your mission?", "what is your strategy for accomplishing your mission?", and "how do you determine if your successful?". Phil's book provides some great ideas on how to listen to the answers and sort out if this group merits your attention.

Ineffective Giving Concept #2 – Believe in the need for a non-profit to find a unique goal or niche.

Some experts in the non-profit oversight business believe more money has been wasted trying to be clever in an attempt to create new and better ways to meet mission goals. Many of the best, most effective non-profits are not reinventing the wheel – they are using time tested techniques to solve a community issue, often in collaboration with other local organizations.

One of our clients asked us to interview the executive director of a non-profit that seemed to be struggling. After much research and interviewing the non-profit's leaders (one by one), we determined their strategy was well founded but they needed better internal tools and leadership training. Our client funded new computers and software, with advanced training on the software, and funded leadership training at the Center for Creative Leadership, a worldwide organization that is community minded and did world class training at 10 cents on the dollar. Rather than reinvent the wheel, our client's money created a turbo-charged wheel that leveraged their philanthropy dollars by a factor of 10X in the key metrics they track.

Ineffective Giving Concept #3 – Think of strategy in a competitive context.

Keeping trade secrets close to the vest is typical in the for-profit world. Not a good approach in the non-profit world. The best non-profits share good ideas with others locally, regionally and nationally.

Dennis recently led a discussion with a group of foundations in North Carolina where the sharing in the room of best practices was remarkable. A mastermind group was created which meets monthly and is helping non-profit leaders not only share ideas on how to be more effective but is also creating collaborations to solve problems.

If you're considering a major gift during your lifetime, or at death, perhaps your own mastermind group of like-minded donors can help you shape and define the gift. SFG is happy to help facilitate the meeting.

Ineffective Giving Concept #4 – Believe there will be a "quick fix" solution that will fix societal problems.

Our firm has received many awards for being innovative and future oriented, but we've found that some societal problems require solutions to stop the current bleeding while other solutions need to focus on the longer term. You can do a tremendous amount of good focusing on pressing needs versus fixing root causes (which is still our favorite pastime!).

Our research in the Super Trend Convergence, that is, the intersection of technology, globalization and demographics, has shown us how these powerful forces can auto-fix some societal problems while creating others.

One good example is teenage pregnancy. One of our SFG partners is a trustee for a health care foundation whose mission of lowering teenage pregnancy has succeeded beyond expectations over several decades. Many research efforts have determined this decline was only partially due to efforts of non-profit entities such as this one. The other part of the solution has been a new generation of young women who have become smarter about the potentially negative economic and life-altering impact of an early pregnancy. New and more effective contraception options have also contributed. Think reality TV shows are mostly non-productive? One third of the decline in teenage pregnancy has even been attributed by The Brookings Institution to a series of reality TV shows showing the plight of teenage mothers! https://www.pewresearch.org/fact-tank/2019/08/02/why-is-the-teen-birth-rate-falling/

Given that as many as 50% of the jobs in America may change roles or be eliminated in the next 20 years due to these powerful forces, fixing the problems to come will require determined people and focused solutions.

Ineffective Giving Concept #5 – See market-based solutions and hybrid organizations of social enterprises as the best solutions to societal problems.

Many problems can't be solved by free markets, or they would have been solved by now. Jim Collins, one of the premier thinkers on how to be a more effective capitalist, tackled the non-profit arena and determined through his rigorous research that what works in the for-profit world often impedes progress in the non-profit arena. Measuring outcomes is different.

You can learn more about this by reading Jim Collins' non-profit follow up to his classic business tomes (including *Good to Great* and *Built to Last*), ***Good to Great for the Social Sector.*** Dennis led a workshop for a major non-profit using this easy to read book (he was also one of Collins' book reviewers) – Dennis' mission was getting 55 stakeholders in this non-profit on the same page. It worked and the team is now rowing together, rather than in circles, which proved instrumental to survival through the Great Recession of 2008/09.

Ineffective Giving Concept #6 – See non-profit grantees as implementers of their vision and seek to track how grantees spend every dollar.

One of our clients struggled with this issue – they had a vision of what problem they wanted to solve that didn't quite match the local non-profit's vision, so they arm wrestled with the organization for years trying to align the vision. Ultimately the client made no more than token gifts to this non-profit and died recently having not fulfilled an important goal.

On her death bed, she lamented the fact that her need for control, an issue that plagued her much of her life, had blinded her to the simple truth that she could have given more and enjoyed the impact she made, even if it wasn't exactly the original vision she had for the organization.

Ineffective Giving Concept #7 – Look for one-size-fits-all performance ratios (like administrative overhead cost).

Some donors get caught up in how to measure a non-profit's effectiveness or efficiency. Some metrics don't tell the entire story, so take measurements like the overhead ratio as only one of many factors to consider. Phil gives many examples where a good non-profit had a higher overhead ratio and was still more effective than other entities in the same space with lower overhead ratios.

Phil describes the "cost per life touched" as another modern metric that is a dubious benchmark for non-profit success. If you touch a million children with a food program, but only help with 1% of their daily food needs, is that more successful than providing 25% of the needs of 40,000 low-income children?

We are living in a social media world where lots of people share their opinions on charitable giving on the internet, but surprisingly few have really studied their topic and know it well enough to have an informed opinion.

Ineffective Giving Concept #8 – Believe in reinventing philanthropy with a new approach.

As already mentioned, reinventing the wheel is part of America's DNA, but isn't always advised when solving societal problems. Phil mentioned there are several wealthy technology gurus who seem to think that "break it and fix it better" should be every non-profit's mantra. Sometimes yes, but oftentimes implementing more of the things that already work is better than blowing up existing systems and inventing something new.

Ineffective Giving Concept #9 – Seek credit and attention for its own sake.

Is giving about helping those in need or about ego? We've seen a few people get confused by this. They want a legacy that is viewed as important, carrying on their name for posterity. Nothing wrong with naming rights, but don't lose sight of the prime directive.

Ineffective Giving Concept #10 – Hold a clear and fixed idea of how to help those they want to help without doing good homework and talking to enough end recipients.

This is one of the top mistakes we've seen over the years. It takes a lot of research at the pavement level to truly understand the scope and issues of a major societal problem. If you're considering a major investment of your time, treasure or talent, peel the onion deeper. Stay humble in the process and recognize that the talking points you've heard over the years from your friends or family or political party rarely consider the entire picture.

Or, as outlined in our special *Financial Trends* report in 2019, ***Factfulness*** (one of Bill Gates' favorite books), you may be relying on trends that were true in the 20th century but that are now moving in a different direction. More on this SFG special Trends report: https://stearnsfinancial.com/resources/Winter-2019-Financial-Trends.pdf

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Q: In the past you've discussed many tax, philanthropy and cash flow planning techniques that involve charitable giving. What are the charitable giving techniques that are most popular today?

A: Here is a summary of the more popular charitable planning techniques (from easiest to hardest-to-implement). Keep in mind that our current low interest rate environment has impacted the feasibility of some of these planning vehicles.

1. **Outright gifts to charity** – This is still the most popular approach to providing resources for favorite community causes. The 2017 tax law changed deductibility for many donors. The $24,000 standard deduction meant their charitable deductions created no direct deduction unless there were enough other deductions to exceed the standard deduction. Note the 2020 standard deduction has risen a bit to $24,800 for joint tax returns, $18,650 for head of household returns and $12,400 for single returns.

   This led to the concept of "bunching," where multiple years of gifts were made to a donor advised fund at local community foundations or entities like Schwab Charitable. This allowed some taxpayers to get contributions above the $24,000 limit and make those excess gifts deductible again.

   The still popular **gifts of appreciated assets** work well in the current environment, whether you're bunching or just making an annual gift. Say you give $10,000 of stock or an investment fund with a cost basis of $3,000 to a 501(C)3 charitable organization. This happens to be the appreciation many had on large growth stocks in the last decade. Not only do you get the $10,000 deduction, but you also avoid paying capital gains tax on the $7,000 gain. You can use this tax savings to repurchase the asset you gifted or repurchase something with a better risk and return profile.

Some of our clients have committed to multi-year "impact" projects for their favorite causes, from church or synagogue building projects to "up the impact" capacity building projects described in *Giving Done Right*. In this case, they sometimes will make the multiyear gift directly to the non-profit.

Direct contributions to universities and other entities also remain popular. Often, our clients will negotiate special agreements with such entities to provide for endowed professorships, future medical facilities to treat less common diseases, or to support additional educational efforts of interest to them and their families.

FutureThink: The bunching technique will remain popular as long as the current tax law remains in effect. If future tax law changes eliminate the stepped-up cost basis at death, gifts of appreciated assets will become even more popular.

2. **Donor Advised Funds (DAF)** are a flexible tool that allows donors to build up charitable funds for specific purposes (such as building a new home for a non-profit, or a new performing arts center) or as a perpetual fund that can make charitable donations (usually 4-5%) to specific causes annually at the discretion of the donor.

   The most popular use of this technique we've seen in recent years is using the "bunching" technique combined with the gift of appreciated assets combined with a DAF. This allows for better tax planning while still enabling the donor to provide the same level of annual support to their favorite charities as before. Appreciated securities with long-term gains can be transferred into a DAF, which allows you to avoid being taxed on the gain while also receiving the larger tax deduction in a given year for funding the DAF. Short-term gains, however, cannot be avoided by this technique under current law.

   Some families use DAFs to enhance family philanthropy and even focus some charitable monies on causes of interest to their children or grandchildren. Several families we work with have collaborated with local community foundation "Future Funds" which include young professionals, and sometimes even high schoolers, researching and sourcing funding opportunities. We have found that some of these Future Fund researchers do the kind of in-depth homework (such as actually talking to people helped by the non-profit, not just interviewing the executive director) recommended by giving expert Phil Buchanan.

   DAFs are available thru local community foundations or major national entities like Schwab Charitable. Larger funds can usually be managed by SFG while smaller funds require the use of a few mutual funds, which we can help you select.

   More about Donor Advised Funds: https://www.schwabcharitable.org/donor-advised-funds

   FutureThink: We believe donor advised funds will be popular well into the future given their tax efficiency, their ability to hold smaller funds and their simplicity.

3. **Qualified Charitable Contributions (QCD) gifts** – for those who have reached age 70.5, up to $100,000 of direct donations can be made to qualifying charities (excludes donor advised funds and private foundations) directly from their tax deferred IRA with no tax consequences. In other words, the monies donated are never recognized as ordinary income to the donor so long as the gift is made directly from the IRA. Since the IRA disbursements are not taken into income, there is no additional tax deduction. We've run many models comparing QCDs to gifting appreciated assets and have found both QCDs

and donating appreciated assets from taxable accounts are good techniques. Only rarely will the pros and cons materially favor one technique over the other.

The Secure Act of 2019 tilted toward using QCDs more since passing the retirement plan to the next generation is not as tax advantageous as it was before. Recall the Secure Act reduced the ability for heirs to tax defer assets in an inherited IRA from the beneficiary's lifetime to only 10 years. As a result, emptying out the retirement plan before death became more advantageous. However, there are a couple of caveats. First, many of our financial roadmaps show IRA rollovers dwindling to 10% or less of personal net worth if the owner lives into their 90s. This means the impact of Secure is not as big a gamechanger as if the owner of the retirement plan died earlier and passed the assets to children or grandchildren. Most who are married pass an IRA rollover to a spouse, and if that spouse lives well into their 90s, again much of the retirement plan may be emptied out by rising required minimum distributions later in life.

Under the SECURE Act, the only beneficiaries who can still stretch an IRA throughout their life expectancy are surviving spouses, minor children of the deceased, disabled beneficiaries, chronically ill beneficiaries and individuals not more than 10 years younger than the IRA owner. Everyone else is subject to the 10-year payout rule.

The second item of note here is the Secure Act may not be very secure over the next 20 years. Tax laws come and go. Hinging an entire strategy around the Secure Act is speculative at best.

Important Note: Higher net worth individuals can pass some or all of their retirement assets at death to a charitable cause, wiping out all the built-up tax gains. We've had some lower net worth individuals also choose this strategy although careful consideration for the future need of these funds by the current spouse or next generation is needed.

FutureThink: QCDs remain a viable alternative to personal asset gifting in 2021 and beyond. If income taxes rise in future years, QCDs may become even more important as a way to offset rising ordinary income distributions from retirement plans.

4. **Charitable Remainder Trusts (CRT)** – the vast majority of more sophisticated charitable tax planning has been done with Charitable Remainder Trusts in the last 30 years. They are still popular as a way to avoid paying tax on appreciated assets while maintaining an income stream for retirement. Because of the ongoing income to the donor, the tax deduction is dramatically less than that derived from an outright gift.

   The CRT technique is also popular for those who know they want to give a larger gift (generally $250,000 or higher) to one or more charitable organizations at death. Using the CRT now segregates the asset from the rest of the donor's assets and guarantees the charitable causes will receive assets in the future while also creating a stream of income for the donor or their family. Good to note a self-funded plan allows the beneficiaries of the CRT to be changed. If your alma mater sets a CRT up for you, naturally they will want the beneficiary to be irrevocable. But they handle the upfront legal costs and annual tax returns.

   Two different flavors of CRTs:

   Charitable Remainder Annuity Trusts (CRAT) provide a fixed amount to the donor, and usually this means the charity gets less someday and the donor receives a higher current tax deduction and more of the lifetime benefit if they live a long life. CRATs have become less popular in the current low interest rate environment.

   Charitable Remainder Unitrusts (CRUT) provides a variable income to the donor based on a percentage of each year's December 31st value of the CRUT. These entities are more popular since they are not as affected by low interest rates. If the underlying assets grow over time relative to the withdrawal rate, both the donor and the ultimate charitable organization(s) benefit. Consequently, CRUTs have a lower tax deduction than the CRAT noted above, but these days, that rarely offsets their advantages.

More about CRTs: https://www.schwabcharitable.org/maximize-your-impact/develop-a-giving-strategy/align-your-giving-vehicles/charitable-remainder-trust#:~:text=A%20Charitable%20Remainder%20Trust%20(CRT,end%20of%20the%20trust%20term.

FutureThink: CRTs remain a good planning tool, especially the unitrust design. If capital gains rates increase in the future, the sheltering benefits from donating appreciated assets will also increase, even as the taxable income benefit they generate will become less valuable.

Non-charitably inclined clients may find other options, like Opportunity Zone funds, to be more interesting as a tax planning tool to offset the long-term capital gains from the sale of a business or highly appreciated assets.

We've also developed a number of hybrid plans combining these tools that provide multiple levels of tax savings while also helping with good charitable goal planning.

5. **Charitable Lead Trusts (CLT)** provide a stream of income to your favorite charitable entity for a period of years. After that, the asset reverts to a non-charitable beneficiary. These are sometimes called Jackie O Trusts, named after former first lady Jacqueline Kennedy Onassis. She was one of the first public figures to use Charitable Lead Trusts in estate planning.

   Similarly, one of America's richest families – the Waltons – known for founding Walmart, are believed to be the biggest current users of Jackie O Trusts.

   The advantage of a CLT in a low interest rate environment is that the current gift to your cause is deemed to be higher, and the future gift to your heirs is considered to be lower. This is because a bird in hand is worth more today. As a result, the CLT creates more ability to leverage your lifetime gift exemption for estate planning purposes.

   We have also used this vehicle in estate planning to create a lower estate tax impact for higher net worth individuals. As with the other charitable entities already discussed, gifting appreciated assets into a CLT can result in greatly reduced income tax on top of the other estate and gift tax advantages.

   More about CLTs: https://www.schwabcharitable.org/maximize-your-impact/develop-a-giving-strategy/align-your-giving-vehicles/charitable-lead-trust

   FutureThink: We believe CLTs will likely stay popular in the future even if interest rates rise and dilute part of their appeal. If it appears tax laws will change dramatically in the future, reducing the amount families can pass to future generations efficiently, we expect a surge in interest in CLTs.

6. **Private foundations** are generally larger in size than donor advised funds and are often in the $5-$10 million range, or larger. They operate in many ways like a DAF but have more complex rules to follow. Mandatory annual withdrawals are one difference, with the amount varying depending on the type of private foundation. It is also good to note that private foundations have more restrictions when it comes to gifts of appreciated assets and deduction limitations. They also have restrictive self-dealing rules that the IRS takes very seriously.

   Private foundations are private and allow for significant flexibility when gifting. However, we have seen some high net worth clients opt for donor advised funds in lieu of private foundations in order to simplify their lives.

FutureThink: While administering a private foundation is more complex than some of the other entities we've discussed, they nevertheless remain very popular among wealthier families. In conjunction with your legal counsel, SFG can help you consider ways to set up a private foundation and establish ongoing governance guidelines. We can also help leverage the impact of gifts including capacity building (discussed in the Giving Done Right FAQ) for favorite causes.

7. **Charitable Gift Annuities (CGA)** is a contract under which a 501(c)(3) qualified public charity, in return for an irrevocable transfer of cash or other property, agrees to pay the donor a lifetime income. The maximum number of annuitants is two, and payments can be made to them jointly or successively. The charity will determine the payout amount based on actuarial factors.

   Unlike with a charitable remainder trust, part of the gift may be used immediately by the charity, with the remainder of the gift invested in an account to provide for the annuitant's income stream. However, a charitable remainder unitrust can provide inflation hedged income over decades, while gift annuity payments gradually erode in inflation-adjusted value over time. A gift annuity income of $1,000 in the year 2000 would be worth approximately $500 in purchasing power in the year 2020.

   FutureThink: CGAs can make sense in the right circumstances. Some donors may decide to substitute CGAs for part of their bond portfolio given the sub-par prospects for bond returns in the next decade. However, a CGA is an irrevocable gift, so moderation in use is recommended.

   More information: https://www.schwabcharitable.org/maximize-your-impact/develop-a-giving-strategy/align-your-giving-vehicles/charitable-gift-annuity

8. **LLCs and other special purpose entities** – these are relatively new and are sometimes used by the uber-rich. We debated about whether to even include this in a charitable discussion since it remains unclear how these entities will benefit non-profits versus other causes of interest to the donors.

   Facebook founder Mark Zuckerberg explains why he set up a highly specialized LLC in 2016:

   "The Chan Zuckerberg Initiative is structured as an LLC rather than a traditional foundation. This enables us to pursue our mission by funding non-profit organizations, making private investments and participating in policy debates – in each case with the goal of generating a positive impact in areas of great need. Any net profits from investments also will be used to advance this mission.

   "By using an LLC instead of a traditional foundation, we receive no tax benefit from transferring our shares to the Chan Zuckerberg Initiative, but we gain flexibility to execute our mission more effectively. In fact, if we transferred our shares to a traditional foundation, then we would have received an immediate tax benefit, but by using an LLC we do not. And just like everyone else, we will pay capital gains taxes when our shares are sold by the LLC."

Every situation is unique, so we advise careful financial planning with your financial advisor, your accountant and your estate planning attorney.

Summary

'Tis the season for year-end tax planning. Given the high likelihood of a split government (depending on the January 5th senate runoffs in Georgia), we expect little change to tax laws in 2021. However, good planning can still help reduce tax bills and accomplish short- and long-term goals.

SFG has been tax loss harvesting throughout this tumultuous year, so tax efficiency in 2020 will be among the highest in many years. However, we are also shifting portfolio allocation gears in many taxable portfolios using harvested losses to offset rebalancing gains (retirement plans allocation shifts do not affect current tax returns). Check with your SFG advisor or your client portal for the current status of year-to-date gains or losses.

SFG is optimistic about the economy and many investment areas in 2021, but also expects some bumps along the way and higher volatility in some areas of irrational exuberance. There are likely to be some fits and starts in the path to the post-pandemic world. SFG will remain disciplined, diversified and opportunistic with regard to rebalancing.

In general, we are more defensively postured in growth and income portfolios and have been making selected shifts in growth portfolios. We will continue to monitor and analyze the many trends colliding today and diversify accordingly.

Our coronavirus investing approach can be summed up by five themes:

- Diversification with a balance of offensive and defensive measures, depending on the desired risk tolerance of our clients,
- Underweighting, or avoiding areas of higher future concern,
- A focus on higher-quality investment themes,
- Identifying and implementing buying opportunities that may be appropriate for more growth-oriented portfolios, and,
- A more defensive stance using different portfolio tools for more conservative growth and income portfolios until we are reasonably confident the COVID-19 crisis has stabilized.

~ Dax, Dennis, Glenn, Jason, John and PJ
(the SFG Investment Committee)

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