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ASSOCIATES, INC.

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Managing Your Money

ACTING AGAINST INSTINCTS

A few weeks ago, we moved my 98-year-old mother from independent living to long-term care. One of the reasons why we selected the community where she lives is because they have a continuum of care, to include independent living, assisted living, and skilled nursing. (As an aside, for anyone considering independent living, a continuum of care on the same campus is beneficial for many reasons. Call me if you're interested in getting more information on this topic; I'm happy to share all that I have learned over the years.)

Despite my mother's age, the decision to relocate her was admittedly difficult for me. Similarly, I'm sure it has been equally difficult for so many of you who have had to do something similar with an elderly parent or relative. Conflicted as to whether my mother could continue to stay in her own apartment with home care aides vs. moving her to skilled nursing led me to ask one of the nurse practitioners, who knows my mom well, if we were doing the right thing. After explaining all the reasons why my mother required more care than she could receive in her own apartment, she concluded by saying: "Your mother knows what she wants, but she doesn't know what she needs." That remark impacted me on two fronts.

First, it clarified that the decision to move my mother was the correct one and that it obviously couldn't be left for my mother to decide. My brother and I had to make that call in our mother's best interest.

Second, the remark resonates with me because it also relates to what we do for our clients. In fact, there are times when what a client wants directly conflicts with what we think a client needs. When that happens, it poses an interesting dilemma: How to maintain an ongoing relationship when the advisor and client's viewpoints don't align?

Because we try to manage client portfolios without emotion, dramatic market moves, as we've seen in 2020 (and 2008-09, 2000-2001...), minimally impact our portfolio management strategy. In fact, significant market downturns offer two opportunities, neither of which involves sheltering cash and seeking safety: (1) The opportunity to rebalance a portfolio, which is that old buy low and sell high thing that everyone loves to talk about but finds so difficult to actually do; and (2) The chance to sell assets that have substantially gone down in value and book losses that can be used to offset taxes. (Regarding the latter, as many clients already know, this is a strategy that entails selling an investment in a taxable account that has dropped in value and buying another investment that offers comparable exposure to the same or a similar asset class.



ACTING AGAINST INSTINCTS (CONT'D)

Booking a loss on the investment that dropped in value can be used by the client in the current or future tax year to reduce his/her tax obligations. Let's just say that most accountants appreciate this tactic.)

Research^{1,2} shows that both of these actions are likely exactly what clients need (but may not necessarily want) at that moment in time. When the stock market goes into free fall, it's logical to seek safety. It's rational behavior to want to stop the losses, and to move to the sidelines until things stabilize. Unfortunately, acting on those instincts may negatively impact the probability that a client's financial plan will be successful over the balance of his/her/their lifetime.

When you spend your whole life earning and saving money, the decision to stay invested in the stock market, or even to buy more equities, may not be what you want. But even in the midst of a market meltdown, it's probably exactly what you need.

THE UPCOMING ELECTION AND YOUR PORTFOLIO: ANYTHING TO DO NOW?

As many long-time investors know, the stock market doesn't react well to uncertainty. What the market does reward is constancy: interest rates that don't fluctuate to any great degree; an economy growing on a gradual incline; and a lack of drama. When it comes to 2020, put a check next to constancy in interest rates, as there's no sign they'll go higher, potentially for the next few years. And then put your pens down; the quiz is over.

As for the economy, the answer as to whether or not it's growing is industry-specific. The economy is booming for some (think large tech, such as Amazon, or mega-retail with an online presence, such as Walmart) or is in a down cycle for others (think airlines, the cruise industry, and restaurants). By combining all the parts together, we have an economy that has bounced well off its lows but is still far from pre-COVID highs.

Consequently, in terms of the stock market, U.S. large-cap growth stocks have had a good year, while many other equity classes are still down. At some point, this means U.S. large-cap growth will extend their valuations too far, making all other asset classes (potentially making value, small, foreign) relatively more attractive to buy.

And then there's the drama because the upcoming election has the potential to uproot an otherwise routine chain of events (e.g., vote, count ballots, declare a winner). In terms of uncertainty, we've been down this path before, such as the Gore-Bush election. Rather than declaring a winner on Election Day (November 7, 2000), a winner wasn't determined until December 11, 2000. From Election Day until the day Al Gore conceded the election, the S&P 500 fell 8.9%³. But that was then, and this is now.



THE UPCOMING ELECTION AND YOUR PORTFOLIO: ANYTHING TO DO NOW? (CONT'D)

Is there a way to 'play' this election?

Sure, so long as losing money won't upset you. If you're a knowledgeable options trader, for example, you can place bets on market volatility. (The word bets is used liberally because options are like betting. In fact, there are times you can lose more than you bet, which must be especially exciting for novice options traders to learn.)

Long-term investors aren't bettors, and hoping you're right isn't exactly an investment strategy. The 8.9% market drop in 2000 is no longer even a distant memory, so a comparable, or even larger drop that might occur this year, will also be long forgotten in a few years.

The potential reward for doing 'something' before the election is not worth the risk. (Remember those previous comments about what you want and what you need?) We don't have separate Biden or Trump portfolios; portfolios will not be reconstructed based upon who wins the election. The U.S. economy has performed well (and poorly) under both Democrat and Republican presidents⁴, so it makes little point to start predicting how well, or how poorly, things might turn out if one or the other wins.

There's enough anxiety going on in our still abnormal lives. Worrying whether or not your bet on the market going up or down based upon election results isn't worth the additional stress.

A FEW APPS TO HELP KEEP YOU SAFE, AND INFORMED

Compliments of *AARP The Magazine*⁵, here are "8 smartphone apps to make life safe." Some might be useful to you, an elderly parent, or to any other age group. There's so much available on our smartphones that people don't take advantage of; these apps just nick the surface. (All apps are free except for Dark Sky Weather, which has a one-time fee of \$3.99.)

- **BSafe:** "This voice-activated SOS systems sends your location to your selected contacts and automatically streams and records emergency video. Features a built-in siren." (Anyone have a young adult living on a college campus or alone in a city?)
- **Cairn:** "A safety app for hikes that shares your planned route with loved ones; it also calculates your estimated time of arrival based on your speed and elevation change for thousands of popular trails."
- **Dark Sky Weather:** "Provides hyperlocal weather info for the next hour. Don't get caught in a storm." (Especially useful for national park enthusiasts who find themselves hiking in slot canyons out west.)



A FEW APPS TO HELP KEEP YOU SAFE, AND INFORMED (CONT'D)

- **First Aid by American Red Cross:** “Contains valuable info on what to do in any common first-aid emergency.”
- **Medisafe Medication Reminder:** “Get reminders on your phone for when to take your medication or supplements and when your supplies are running low. Caregivers get real-time missed medication alerts. The app also warns of potentially dangerous drug interactions.”
- **ICE Medical Standard:** “It’s like a medical alert bracelet on your smartphone’s lock-screen display, informing first responders of your conditions, allergies, medications, and emergency medical contact information.”
- **Noonlight:** “silently calls for help to your exact location with the tap of a button. A trainer operator at Noonlight’s monitoring center will text and call you to verify the alarm. If you can’t talk or don’t respond, the app sends 911 an alert including GPS location, profile information, and even a picture of you.”
- **Snug Safety:** “Made for people who live alone, this app checks on you at a time of day you select. You press a green checkmark on the app and receive a quote of the day. If you fail to check-in, your emergency contacts are notified.”



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S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 25 years.

Managing Your Money is compiled entirely by Stanley F. Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.

CLIENTS: Please remember to contact S.F. Ehrlich if a) there are any changes in your financial situation or investment objectives, b) you wish to impose, add or modify any reasonable restrictions to our investment management services, or c) you've changed your permanent residence.

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¹ "Putting a Value on Your Value: Quantifying Advisor's Alpha." Vanguard, 19 Aug. 2019.

² Daryanani, Gobind. "Opportunistic Rebalancing: A New Paradigm for Wealth Managers." *Journal of Financial Planning*, Jan. 2008.

³ Calculations available upon request. Price return from 11/7/2000 to 11/30/2000 of the S&P 500 Index.

⁴ Kelly, David, et al. "J.P. Morgan Guide to the Markets, September 30, 2020 Ed." Slide 37: Government control, the economy and the stock market.

⁵ Csatri, Jeff. "8 Smartphone Safety Apps That Could Save Your Life." *AARP*, 5 Aug. 2020.

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