Hart Patterson FINANCIAL GROUP

FALL 2020 NEWSLETTER

Understanding the Markets

Many are asking why is the stock market doing so well while the economy is struggling. It is counterintuitive to have the S&P 500 at record highs (at the time this was written) when the daily drumbeat of news is so negative. In our opinion, there are a combination of factors at play to explain this dichotomy. First, it is important to remember that markets are forward thinking. With the S&P 500 example, it is performing relatively well because it is not looking at where earnings are today but instead looking into the future. How far into the future is anyone's guess, but for this discussion, it is safe to say at least one year.

Currently there are many companies that are doing poorly or shutting down completely which makes it difficult to look beyond today. However, that is exactly what markets do. As an example, one of the best performing sectors is technology. Not only are many of these companies posting solid profits during the pandemic, but many look to have bright futures as well. The current returns and the future prospects of these companies make up a good deal of the return we are currently seeing in the S&P 500. Certainly not all markets are performing at the level of the S&P 500, but it is important to understand why a market can fare well during a dire situation.

How Will the Election Impact the Markets?

We are now just days away from the upcoming election. It is natural for you to wonder how the markets will react depending on whether the Trump/Pence Administration gets another four years or whether the Biden/Harris ticket is elected.

As we have said before, markets generally do not like uncertainty. This is because market participants are people – and uncertainty generally makes all of us uneasy. Once we have a clear winner for this election, the variable of uncertainty is off of the table in terms of which party will head to 1600 Pennsylvania Avenue. It is fair to say that the vast majority of us deal better with the known than the unknown, so it stands to reason that volatility typically drops once we know the outcome of an election.

No matter who wins the White House – their platforms will ultimately be tempered. That is how Washington works because our country has become so polarized. Therefore, even though both parties have very different agendas and goals, we generally see more diluted versions of those agendas and goals once they are in power versus what was touted on the campaign trail.

If Biden/Harris win the election, it is realistic to see a honeymoon period of optimism because of the change in leadership. This is not a partisan statement – it is a statement based on historical trends when the leadership in the White House changes. It is also important to remember that Congress is the body that has more of an impact on the stock market as they are the ones to actually enact policy changes.

19 Research Drive Amherst, MA 01002 p. 413.253.9454 f. 413.256.0047

136 West Street Suite 106 Northampton, MA 01060 www.hartpatterson.com

As we wait to learn the results up and down the ballot across this nation, our best advice remains to stay focused on the long haul with your portfolios which are designed with your goals, risk tolerance and time horizon in mind. As investors there is so much that we cannot control. However we can maintain a long term focus in our investment approach, which can be exceptionally difficult during periods of uncertainty. Please reach out at any time if you would like to discuss this topic in light of your portfolio or if you have any questions or concerns.

Social Security Cost of Living Increase Announced. Medicare Increase Uncertain.

For those of you receiving Social Security, the annual cost of living adjustment (COLA) for 2021 will be 1.3%. However you may not be receiving all of that increase since Medicare Part B premiums also adjust each year. The forecast in April was that the standard Part B Medicare premium would rise by $8.70 per month (from $153.30 from $144.60). However, due to the pandemic's effect on health care, there is a provision to limit the possible premium increase to 25% (or $2.17/month) of what it would have been.

Keep in mind that your Social Security benefits cannot be reduced if Medicare Part B premiums increase at an amount more than the COLA. This is referred to as the "hold harmless" provision. However, the hold harmless provision is not applicable for those in higher income brackets (defined as modified adjusted gross income above $88,000 for single filers and $176,000 for joint filers. These are 2021 figures). This higher income group must pay a surcharge called IRMAA (Income-Related Monthly Adjustment Amount) for Medicare Parts B and D. Note that IRMAA is calculated annually, so while you may have to pay the surcharge one year, you may not the next if your income drops below these thresholds.

Managing Increasing Long Term Care Premiums

We mentioned this last year but the trend continues. We are still seeing significant increases in annual premiums for LTC (Long Term Care) policies. Unfortunately, it takes historical perspective, coupled with other pertinent information, in order for any type of insurance coverage to be properly priced. Long Term Care policies have only been around for a few decades. As a result, it has taken this amount of time for insurance companies to gather the necessary data to more accurately price newer policies.

Incorrect assumptions years ago led insurers to underprice older policies. Insurers projected that a larger percentage of individuals would drop their coverage at some point in their lives. That has not proven to be the case. In addition, life expectancy assumptions and utilization rates were incorrect. Policyholders are living longer and utilizing their LTC benefits at a greater rate than insurance companies had projected.

If you receive a notice for a premium increase, you can pay the increased amount if your budget allows or opt for reduced benefits. The benefits that can be reduced include the daily benefit amount, the benefit period, or the inflation rate.

Even with increased premiums or reduced benefits, we highly recommend that you keep these policies as they continue to offer a tremendous value. According to a March 3, 2018 article in AARP, by the time individuals reach age 65, chances are 50-50 that they will require long term care someday.

Please contact us if you receive a notice regarding a premium increase. We will work with you to evaluate the options provided.

Enjoy this lovely fall season!

Vikki D. Lenhart
Registered Principal/Investment Advisor Representative
Cambridge Investment Research, Inc.