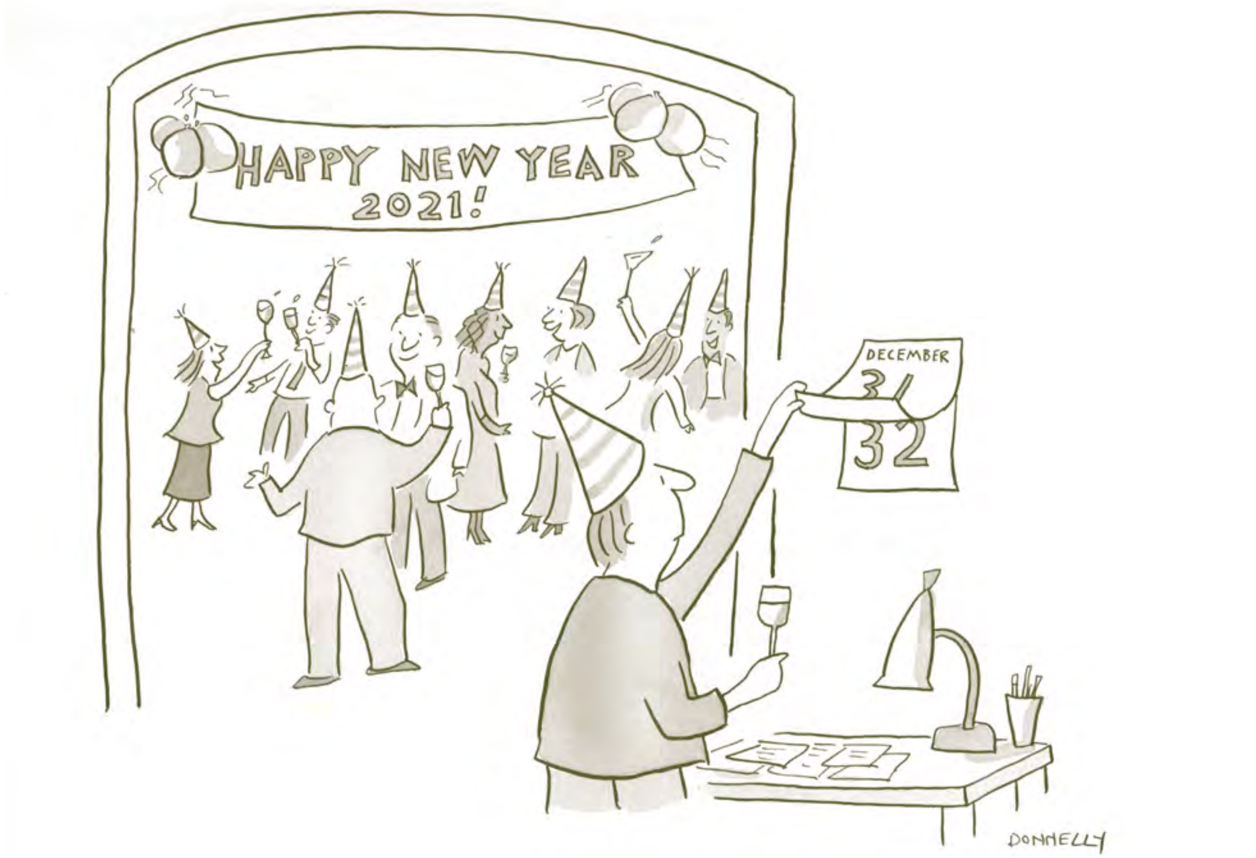
INVESTED

SEMIANNUAL FINANCIAL PERSPECTIVE FROM RMB CAPITAL / WINTER 2021



MORE OF THE SAME?

UPDATES ABOUT OUR BUSINESS

In July, RMB was recognized among the *Financial Times* 300 Top Registered Investment Advisers for the fourth consecutive year.

RIA firms must meet a minimum set of criteria in order to apply. Applicants are then graded on six quantifiable factors: assets under management (AUM), AUM growth rate, years in existence, advanced industry credentials of the firm's advisers, online accessibility, and compliance records. "We certainly understand how competitive our industry is, and we don't take accolades like this for granted," said Dick Burridge *(founding partner, CEO, and Co-Chief Investment Officer)*. "We appreciate the *Financial Times* and its partners for conducting this analysis and providing investors with its assessment. It offers objective, diligent insights that investors need now more than ever, given the unprecedented confluence of events this year and the heightened uncertainty going forward."

***Barron's* magazine's September issue featured its Top 100 RIA Firms in the nation, including RMB for the fifth year in a row.**

Firms were ranked to help investors find quality financial guidance based on a number of qualitative and quantitative components, including assets under management, the size and experience of their advisory teams, and the regulatory records of the firms and their advisers. "This recognition is a win for our entire team, who has continued to put our clients first during one of the most challenging years in history," said Dick Burridge. "The *Barron's* annual ranking is responsive to trends and important issues in the industry, and it focuses on the criteria that should matter most to investors. That's why being included on this list again is so meaningful to us."

RMB Retirement Plan Solutions earned its third national honor of the year when it was named to the 2020 edition of the *Financial Times* 401 Top Retirement Advisers.

The final *Financial Times* 401 represents an impressive cohort of elite advisers. These are true specialists as DC plans on average account for 86% of total client assets. "We're very excited to see James and his team being recognized by a prestigious publication like the *Financial Times* for the work they do in bringing holistic, fiduciary-driven solutions to retirement plan sponsors in order to help support their employees' long-term financial well-being," said Dick Burridge.

RMB recently announced three new partners who were named in 2020: Jeanette Gawrisch, Loren Knaster, CFA®, CFP®, and Katherine Lester, CFP®.

The partnership model has proven to be crucial in both maintaining the firm's independence and in setting up a path for the firm's future leadership. "We believe being independently owned and operated is in the best long-term interests of our clients, our employees, and our business," said Dick Burridge. "Jeanette, Katherine, and Loren have all put the client at the heart of their work during their many years with us, and having them as partners helps to ensure that we continue to keep the client experience front and center as we grow."

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2020: A Year of Extremes

After starting the year with the quickest bear market decline in history, the U.S. equity market subsequently recovered to new record highs during the fourth quarter. Concern about the coronavirus pandemic continues, with cases spiking as the U.S. struggles to reopen and the winter season brings colder weather. These spikes in COVID-19 cases and hospitalizations reached new highs in November and continue to increase. Despite the slow reopening of the U.S., consumer spending has not reached pre-pandemic levels, leading many investors to question the progression of economic activity. Typically, investors start to feel confident that the worst has passed when they begin to see earning downtrends turn positive. It appears that third quarter earnings have bottomed, and earnings trends may be on an upswing going into 2021.

This environment has created a wide gap between sectors that have done well despite the circumstances and those that have suffered because of government-mandated lockdowns and fear of the virus. Winners include the technology sector, which represents approximately one-quarter of the S&P 500. Conversely, sectors such as energy and financials fared worse in the downswing until news that the Pfizer-BioNTech vaccine candidate, BNT162b2, has demonstrated evidence of up to 90% effectiveness. This ignited a powerful rotation out of large-cap growth stocks and into smaller-cap stocks and traditional value sectors.

We understand that the challenging combination of circumstances this year heightens investors' uncertainty around what to do with investment portfolios. Risk assets rallied through the summer, but volatility picked up in September and early October. Despite this volatility, the U.S. stock market is surpassing prior highs. The Federal Reserve has continued its support to aid in the recovery by pumping trillions of dollars back into the economy—with talk of another stimulus package that focuses on the distressed labor market, even as headline jobs numbers have improved.

At RMB, we believe this is a good time for investors to evaluate exposures in their portfolios. Our goals in this highly unpredictable environment are to remain diversified and to continue to be incremental, buying what may become relatively cheap and trimming what may become expensive. We continue to look for additional opportunities to selectively increase risk, if/when further stock market pullbacks develop. In the meantime, we continue to focus on dislocations in various niche markets that present attractive risk/reward opportunities.

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Earnings

Corporate earnings for the second half of this year continued to decline with the ongoing uncertainty surrounding the pandemic. Even so, earnings are projected to grow in the first quarter of next year.

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Valuations

U.S. stock prices remain high. With market growth continuing to reach new highs, stocks do not appear cheap, given that forward 12-month P/E ratios are well above their 5-year and 10-year averages. »

Consumer Confidence

Overall, consumer confidence has risen but remains low and will likely continue to be so until there are more answers surrounding the coronavirus pandemic, such as timing of an available vaccine.

Business Confidence

Business confidence remains low due to the slow reopening in the U.S. and the potential of further shutdowns amid rising case counts. While many restrictions have been lifted, most businesses remain unable to work at full capacity.

Monetary Policy

The Federal Reserve cut rates twice in March, and interest rates remain at nearly zero, continuing to support the economy during the pandemic. The Fed has released a series of sizeable programs to support the functioning of financial markets and the flow of credit, and it plans to continue to do so in the near term.

Fiscal Policy

Fiscal policy is aimed at providing trillions of dollars to support the U.S. economy during this time of economic instability, with talk of more to come. However, with a divided government, the timing of this additional aid is unknown.

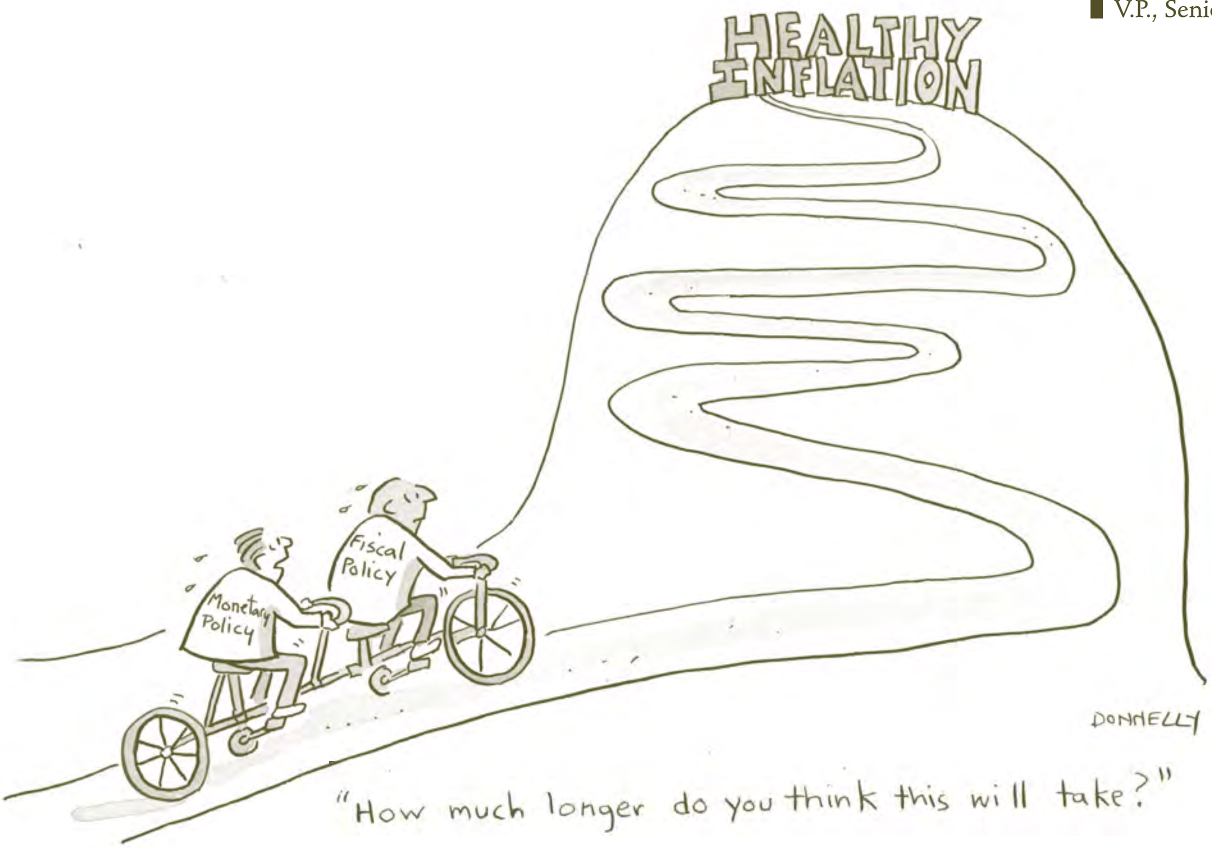
Credit Conditions

Corporations and small businesses are more challenged to access new debt or refinance current debt in the current environment. The flow of credit to consumers may also be more limited.

Volatility

In recent months, we have seen an uptick in volatility given the continued uptick in cases of COVID-19 around the world and the unpredictable impact of U.S. general election results. We expect volatility to continue as both stories play out in the new year. ■

BY **Ryan Kennedy, CFA**
V.P., Senior Analyst



INFLATION
THE PLOT THICKENS

In our Summer 2017 edition, we included an article titled "Don't Turn the Page on Inflation." Back then, economic growth was slow but steady, monetary policy was trying its best to drive inflation up toward Federal Reserve targets, but restrained fiscal policy was acting as a counterbalance. We asserted that the risk of dangerously high inflation was minimal, but that investors ought to begin thinking about which tools to use should inflation perk up. Inflation can be a dull topic, but it's one that we cannot afford to ignore, as the risks to our financial goals can be pernicious. A portfolio invested in ultra-safe U.S. Treasury bills at the end of 1954 would have grown at an annualized rate of 4.35% by the end of 2019. At first glance, that seems satisfactory. »

However, inflation over that time period increased by an annualized rate of 3.48% and would have eaten away nearly 80% of the investment's return.[1] While our philosophy and approach toward inflation have not changed since 2017, it seems as though everything else in the current pandemic-driven landscape has changed. Therefore, we thought it would be helpful to refresh our prior article by highlighting the forces currently at play.

After fighting inflation with all its might during the 1970s, the Federal Reserve has spent the past decade-plus doing everything it can to create inflation. Interest rate cuts and experimental monetary policy, such as quantitative easing, had limited effect. Despite a parabolic increase in the Federal Reserve's balance sheet, inflationary pressures remained low. Even before the pandemic crisis hit in mid-March, inflation consistently ran below the central bank's 2% target. Because economic growth and price increases have been stuck in low gear, inflation risk may feel like a thing of the past. Prices had risen quite slowly as we have recovered from the global financial crisis. Deflationary pressures from a more global labor supply market (as manufacturing and other jobs moved to lower-cost markets) and the continued rise of robotics and other technological advances kept downward pressure on prices throughout the economy. Today, monetary stimulus has accelerated, and, perhaps more importantly, fiscal policy has joined the fight.

In the aftermath of COVID-19, the Federal Reserve revived 2007–2008 financial crisis-era tools to keep markets operating smoothly, increasing its balance sheet by nearly $3.0 trillion.[2] Long an absent partner on the stimulus front, the federal government quickly passed historic relief packages, pumping roughly $4.0 trillion into the economy and stretching its annual budget deficit to $3.1 trillion.[3] This stimulus was not unique to the U.S.; the European Central Bank launched a $1.6 billion emergency bond-buying program in response to the coronavirus.[4] Not to be outdone, the Bank of Japan pledged to buy up to nearly $600 billion of bonds, along with over $1.1 trillion of government spending and guarantees.[5] It seems only natural that money creation on this scale should spark fears of inflation, particularly given investors' historically sanguine outlook about it.

Similar inflation warnings were made after the financial crisis but were ultimately proved wrong. So why would this time be different? After the financial crisis, much of the stimulus was held on bank balance sheets. Today, more of the stimulus has ended up in household bank accounts. During the height of COVID-19-induced lockdowns in April, Americans' total incomes rose by 11%, even as more than 20 million workers lost their jobs.[6] According to classic economic thinking, more money in consumers' pockets means that more money is likely to be spent; making inflation more likely this time around.

However, this mountain of cash needs to be considered against the headwinds in place. As countries continue to battle the pandemic, the scope of economic damage is immense. Global GDP is expected to shrink by 4.9% in 2020, while 2021 GDP is expected to be 6.5% lower than the pre-COVID-19 forecasts of January 2020.[7] Even as economies reopen, spending is likely to remain slow given continued feelings of uncertainty. As a result, wage growth seems unlikely to become a significant factor in such an insecure employment backdrop. Households are slashing consumption, having increased their savings rate to the highest level since 1975.[8] Government support cannot continue indefinitely, and many countries (including the U.S.) have begun to roll back their support in order to get people back to work.

Lastly, we must bear in mind that inflation is not just a financial manifestation but also a psychological phenomenon. After decades of benign inflationary conditions, consumers may no longer feel pressure to pull their purchasing forward in order to get a better deal today. That has been central bankers' goal all along: a healthy level of inflation that encourages people to buy now and avoid paying more in the future. Buying products and services increases the sale of those products and services, which helps keep people employed and should keep wages on the rise. But stagnant or declining prices may create a self-fulfilling prophecy. As of late November, the market was pricing in a benign inflation environment. But investors ought to remember the danger of low-probability, high-impact events—while the »

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probability of dangerous inflation seems low, the potential for a painful outcome for investors remains high.

How should investors prepare themselves for higher inflation in the future? In answering this question, we used history as our guide. As shown in Exhibit 1, we looked at past periods of low, mild, high, and very high inflation, and we compared the performance of five major asset classes. We found that equities performed positively when inflation was rising and low or mild, but they were one of the worst-performing assets when inflation was high or very high. Equities underperformed U.S. Treasuries in periods of both high and very high inflation, while commodities and U.S. TIPS were the best performers.

Each component provides a hedge against the different drivers of inflation. At RMB, we work hard to combine those components through prudent asset allocation, helping to insulate our clients from the negative consequences of inflation. Since forecasting inflation is notoriously difficult, if not impossible, we do this by maintaining a consistent approach. Our asset allocation remains tilted toward providing modest inflation protection through three different means. First, we have kept the duration of our fixed income portfolios short, giving us the opportunity to invest at the higher interest rates that may accompany higher inflation. Second, we maintain a preference for owning the equity of high-quality companies with strong cash flows and the ability to pass along price increases to their underlying customers. Third, we utilize strategies to explicitly target inflation sensitivity. This is done through a toolbox of investments that includes, but is not limited to, CPI swaps (which trade in direct response to changes in inflation expectations), real estate investment trusts (REITs), energy infrastructure, and commodity futures. These days, that's a story worth reading again. ■

1 *FactSet.*
2 *Federal Reserve Bank of St. Louis.*
3 *Wall Street Journal, "U.S. Budget Gap Tripled in Fiscal 2020," 10/8/20.*
4 *Financial Times, "ECB to Review Flagship Bond Buying Tool in Fighting COVID Crisis," 9/20/20.*
5 *The Economist, "Japan Probes the Limits of Economic Policy," 6/4/20.*
6 *The Bureau of Economic Analysis.*
7 *International Monetary Fund, "World Economic Outlook Report," 10/7/20.*
8 *Federal Reserve Bank of St. Louis.*

EXHIBIT 1 RECOMMENDATIONS FOR DIFFERENT LEVELS OF INFLATION

	Low Inflation	Mild Inflation	High Inflation	Very High Inflation
Threshold	Less than 2.3%	Between 2.3% and 3.3%	Between 3.3% and 4.9%	More than 4.9%
Best Asset-Level Hedge	Equities	Equities	Commodities and U.S. TIPS	Commodities and U.S. TIPS
Best-Performing Equity Sector	Technology	Energy	Energy / Materials	Defensive Sectors
Best-Performing Commodity	Energy	Energy	Industrial Metals	Gold

Sources: RMB Capital and BCA Research

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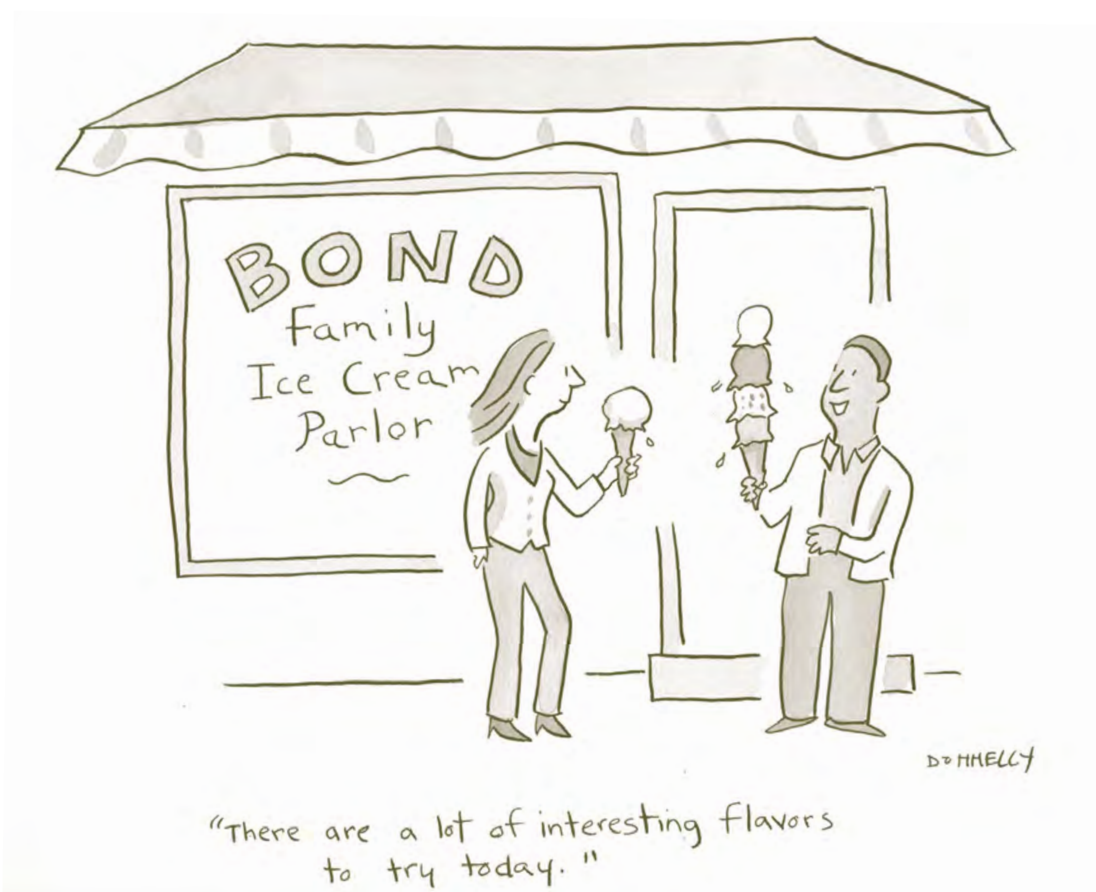
BY **Andy Baker, CFA**
Partner, Portfolio Manager

LOW INTEREST RATES PUT Opportunistic Fixed Income IN THE SPOTLIGHT

A core tenet of investing is diversification. Nobel Prize winner Harry Markowitz said diversification is "the only free lunch," meaning that, through diversification, an investor can reduce risk without a commensurate loss in return. U.S. Treasuries and high-quality corporate and municipal bonds, which we refer to as "core" fixed income, have historically played a key role in providing diversification against higher-risk equity investments. »



Core bonds continue to provide diversification today; however, because we are now mired in a low-interest-rate environment, the forward-looking returns for core bonds are at all-time lows. While some investors may simply accept those lower returns, others require higher returns to meet their financial goals. RMB is committed to helping investors navigate the changing market landscape, and we believe "opportunistic" fixed income can be instrumental.

RMB's core/opportunistic framework draws a clear distinction between these two categories of bonds and the role they play in a portfolio. Core fixed income is characterized by high-quality issuers such as government entities and highly rated corporate borrowers. These bonds tend to be extremely liquid and have a very low probability of default. The risk of not being paid back at maturity is remote, and they generally provide stability in equity market drawdowns. Core bonds' main risk is interest rate changes: as interest rates go up, bond prices go down. Because interest rates tend to fall during periods of economic and market stress, which typically coincide with falling equity prices, core bonds tend to perform well in those periods. But, while predicting the future direction of interest rates is notoriously difficult, with today's rates at all-time lows, there is certainly more room for them to rise than fall.

Bonds that we categorize as "opportunistic" also have a promise to pay at maturity, but the credit quality of these issuers is less sound. Because of the lower certitude of principal repayment, opportunistic fixed income tends to be more volatile, as well as less liquid and more susceptible to loss during times of stress. Exhibit 1 shows some basic metrics on a few opportunistic fixed income sectors, and the following examples can help illustrate.

High-yield bonds[1] and leveraged loans[2] make up a large part of the opportunistic fixed income universe.[3] Both are issued by companies that have levered balance sheets and may be facing some type of stress, either due to poor management, outdated business models, or industry headwinds. Because of these blemishes in quality, ratings agencies assign credit ratings below investment grade, signifying an increased likelihood of default relative to investment-grade core bonds.

Structured credit is another sizeable part of the opportunistic fixed income universe. Structured credit products are created through a securitization process in which financial assets are packaged into interest-bearing securities backed by those assets, and then issued to investors. By assigning different rights to different levels ("tranches") of the securitization, such as a descending priority order to the cash flow from the assets, »

EXHIBIT 1 KEY CHARACTERISTICS OF OPPORTUNISTIC FIXED INCOME

	Yield	Duration	Rating	Annualized Return	Standard Deviation
Bank Loans	4.9%	0.3	B	4.1%	5.0%
High Yield	5.8%	3.7	B	6.5%	7.0%
Commercial Mortgage-Backed Securities	6.5%	5.1	BBB	6.4%	8.6%
Emerging Markets	4.5%	5.4	BBB	0.5%	11.8%
Core Bonds	1.2%	6.1	AA	3.6%	3.0%

Sources: Bloomberg, Barclays Live
Yield, duration, and rating are as of 9/30/20. Annualized return and standard deviation are based on the 10 years ending 9/30/20. Bank Loans = S&P/LSTA U.S. Leveraged Loan 100 Index; High Yield = Bloomberg Barclays U.S. Corporate High Yield Index; Commercial Mortgage-Backed Securities = Bloomberg Barclays CMBS BBB Index; Emerging Markets = JPMorgan GBI-EM Global Div Traded Index Yield Index; Core Bonds = Bloomberg Barclays U.S. Aggregate Bond Index.

this in effect reallocates the risks and return potential involved in owning the underlying assets. Many types of assets are securitized, including residential and commercial mortgages, corporate loans, student loans, auto loans, and credit card receivables. Payments from the underlying collateral run through a "waterfall" and are paid out to the top tranche first, with the bottom tranche receiving what is left at the end. This means that different securities, though backed by the same assets, can have very different risk-reward characteristics.

A third example of opportunistic fixed income is emerging market debt. Emerging market debt is often categorized into three subsectors: sovereign bonds denominated in U.S. dollars, sovereign bonds denominated in their local currency, and bonds issued by corporations based in emerging markets. The average credit rating of emerging market debt is BBB (still considered investment grade), but credit ratings and associated risk vary substantially from country to country, as do the macro factors that drive risk and the yield available.

These three examples demonstrate the heterogeneity of the opportunistic fixed income universe. And that variety is a good thing for investors in diversified, opportunistic fixed income portfolios, as the risks associated with owning a bond issued by a levered energy company versus a pool of residential mortgages versus the government debt of Indonesia is quite different. Said another way, whereas the main risk to core fixed income is rising interest rates, opportunistic fixed income investors take different risks such as credit, illiquidity, and currency fluctuations.

So why would investors want to take these additional risks? Because they are compensated to do so in the form of higher yields, at times dramatically so. And because the risks are different than in core bonds, some of the risk is diversified away, providing a bit of the free lunch Markowitz proclaims. So, while in isolation we expect the risk and return of opportunistic fixed income to fall in between core bonds and stocks, when included in a broader portfolio we believe returns can be increased without a commensurate increase in risk.

Over the last 10 years, stocks returned 13.7% per year[4] while core bonds returned 3.6%.[5] In a simplified analysis, the return on a typical 60/40 portfolio was therefore 9.7%. There is good reason to believe that level of return will be difficult to achieve over the next 10 years. First, stocks' long-term average return is more like 10%.[6] Second, core bonds yield 1.2% today,[7] making it hard to earn much more than that over the next 10 years. As shown in Exhibit 2, by adding just 10% to »

EXHIBIT 2 HYPOTHETICAL 10-YEAR RETURNS WITH AND WITHOUT OPPORTUNISTIC FIXED INCOME

	Last 10 Years		Next 10 Years		Next 10 Years with Opportunistic Fixed Income	
	WEIGHT	RETURN	WEIGHT	RETURN	WEIGHT	RETURN
S&P 500 Index	60%	14%	60%	10%	60%	10%
Barclays Aggregate Bond Index	40%	4%	40%	1%	30%	1%
Opportunistic Fixed Income	0%	0%	0%	0%	10%	5%
Portfolio		9.7%		6.4%		6.8%

Source: RMB Capital
The percentages in this table are estimates of what returns could be based upon opinions and analyses derived from RMB Capital's research and professional experience. These are hypothetical in nature and not intended to speak to any future periods or forecasts.

opportunistic fixed income, we can increase the expected return by 40 basis points per year without taking on excessive risk. While 40 basis points may not sound like a lot, when factoring in the effects of compounding, it can add significant excess return over time.

In today's world of ultra-low interest rates, core bonds are now priced to provide negative returns after adjusting for inflation. While their diversification characteristics can still add value to a portfolio, investors who require the higher returns they've earned historically must look elsewhere to re-create them going forward.

To help clients meet their risk and return objectives, we are committed to identifying creative investment opportunities, and we believe opportunistic fixed income warrants consideration in a diversified portfolio. ■

1 *For more on this topic, see "High-Yield: Opportunity in a Low-Growth, Low-Yield Environment" from the Summer 2012 issue of INVESTED.*
2 *For more on this topic, see "Floating-rate Bank Loans" from the Summer 2011 issue of INVESTED.*
3 *We also include convertible bonds and preferred stock, whose characteristics are a hybrid between stocks and bonds.*
4 *S&P 500 Index as of 9/30/20.*
5 *Bloomberg Barclays U.S. Aggregate Bond Index.*
6 *As of 9/30/20, the P/E ratio of the S&P 500 is 26x; we find that, on average, stocks have returned closer to 7% over the following 10 years when starting at that level.*
7 *Bloomberg Barclays U.S. Aggregate Bond Index yield as of 9/30/20.*

Index Definitions

- The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets composing approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
- The S&P/LSTA U.S. Leveraged Loan 100 Index is designated to reflect the performance of the largest facilities in the leveraged loan market.
- The Bloomberg Barclays U.S. Corporate High Yield Index is an unmanaged index that is composed of issues meeting the following criteria: at least $150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues), and at least one year to maturity.
- The Bloomberg Barclays CMBS BBB Index measures the market of conduit and fusion CMBS deals with a minimum current deal size of $300 million and a credit rating of BB (using the middle rating of Moody's, S&P, and Fitch).
- The JPMorgan GBI-EM Global Div Traded Index Yield Index is an index in the JP Morgan GBI EM series that provides a comprehensive measure of local currency denominated, fixed rate, and government debt issued in Emerging Markets. The three main composite indices are GBI-EM, GBI-EM Global, and GBI-EM Broad, each having a Diversified version. The series is available in a number of different segments and breakouts including maturity sectors, regions, and individual countries, as well as hedged and unhedged in certain currencies.
- The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index composed of securities from the Bloomberg Barclays Government/Corporate Bond Index, Mortgage Backed Securities Index, and the Asset Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

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BY **Terrence LaBant, JD**
S.V.P., Director of Wealth Strategy

Estate Planning When Interest Rates Are Low

While interest rates remain low, investors have opportunities to gift family wealth at a lower estate and gift tax cost. Popular techniques will "freeze" the value of family wealth for estate and gift tax purposes while passing future appreciation to family members thereafter. These techniques provide greater rewards when interest rates are low because gifted wealth has a better chance to appreciate faster than the lower interest rates used to measure success.

As long as estate and gift tax exemptions remain historically high, these techniques also offer families a rare opportunity to transfer vast wealth. Even for families who already have used some or all of their exemptions on prior gifts, some of these techniques can be used to transfer appreciation without making an additional gift.

The following available techniques take advantage of low interest rates when shifting family wealth and appreciation across generations.

Family Loans

Family loans provide an easy means to transfer wealth when interest rates are low. When parents loan cash to a child, for example, parents must charge a minimum applicable federal rate (AFR) of interest depending on the loan term. This autumn, rates have fallen near and well below 1% for family loans.

A child can then reinvest the cash and retain all appreciation in excess of the lower AFR interest and later loan repayment. If markets remain strong, this provides a great chance for parents to move appreciation to their children gift tax-free in return for nominal interest payments.

Sale to Intentionally Defective Grantor Trust

There remains an anomaly in the tax code that allows parents to gift assets to family through a trust while remaining the owner for income tax purposes. This type of trust is known as an intentionally defective grantor trust (IDGT). One parent can establish an IDGT for the benefit of a spouse and family while providing assurance the spouse would have additional support following the gift if the other parent were to predecease.

This technique works well when a parent sells a private family business or private investments to the IDGT in return for a family loan. The family loan can be structured as discussed above, and the IDGT beneficiaries can keep all appreciation in excess of the lower AFR interest and later loan repayment.

The parent who creates the IDGT would not pay capital gains when selling assets to it—nor pay income tax on the family loan interest—because he or she remains the owner for income tax purposes, but only for income tax purposes. So, the parent will continue to pay any » income tax on IDGT property. These payments allow the parent to reduce his or her estate while preserving IDGT assets for future growth. Several decades ago, the IRS ruled that these payments are not considered gifts to the trust, which further supports the benefits of the IDGT planning technique.

Grantor Retained Annuity Trust

A grantor retained annuity trust (GRAT) allows parents to gift property appreciation to family quickly at little to no gift tax cost. For this purpose, a parent would create an irrevocable gift trust to receive, for example, a concentrated stock gift. The parent would retain an annuity interest for a short time frame, and the remaining stock and appreciation would pass along to the family beneficiaries thereafter.

The parent's annuity payment is typically designed to return all initial value to him or herself within a short time frame. This allows the parent to fund a GRAT without making a gift (since the annuity value would essentially equal the GRAT value).

The IRS bases the annuity on a relatively low interest rate (120% of AFR), so GRATs are most beneficial when the gifted property appreciates at a higher rate of return than the market delivers because of the arbitrage between lower IRS interest rates and higher market appreciation rates. The net value between these rates can remain in the GRAT for the family beneficiaries after the parent receives any required annuity payments.

Does that sound familiar? The most famous example of successful GRATs involved the family of Sam Walton, who founded Walmart. The Walton family used several short-term GRATs to transfer Walmart stock and appreciation to their children, who are now billionaires. These GRATs worked because Walmart generated significant dividends and appreciation that paid the parent's annuity and left billions of appreciation to family.

Charitable Lead Annuity Trust

A charitable lead annuity trust (CLAT) allows a parent to pay an annuity to charity first and then leave wealth to their family afterward. A CLAT works well for philanthropic families who desire to (1) freeze estate values, (2) make a charitable gift, (3) receive a corresponding charitable deduction, and (4) leave appreciation thereafter to family.

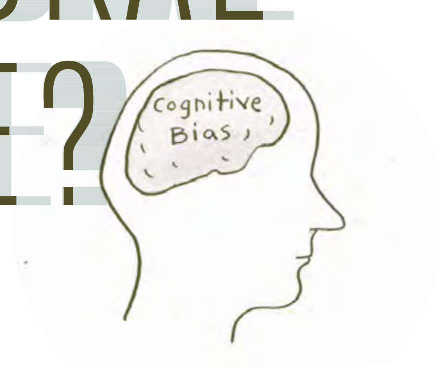
The IRS bases the charitable annuity payment on a relatively low interest rate (120% of AFR), so CLATs are most beneficial when the gifted property appreciates at a higher rate of return than the market delivers. The value of the charitable annuity payments and charitable deduction are calculated up front, and the appreciation left to family later increases based on market performance.

Conclusion

For the past several years, Congress has proposed various legislation to reduce or eliminate the use or benefits of these planning techniques. Election outcomes may affect how soon Congress revisits prior proposed legislation. As interest rates rise, these techniques provide less effective results overall. Now is a good time to consider the benefits of shifting wealth to preserve the family legacy. ■

BY Michele Francisco, CFP®
Partner, Chief of Staff

WHAT IS BEHAVIORAL FINANCE?



Bring yourself back to the bear market low we touched in March—were you panicking and thinking about selling a portion of your stocks, or even capitulating entirely? And since the market quickly recovered and hit new all-time highs, have you been thinking about adding to your stocks? If any of this rings true for you—based on the past nine months or during any previous time of market volatility—you aren't alone.

Traditional finance assumes investors have access to the same information and can process it rationally in order to make decisions. Under those circumstances, financial markets are efficient and always represent true values. Behavioral finance, on the other hand, acknowledges that investors (a.k.a., human beings) are not always rational, have limits to their self-control, and are influenced by their own emotions and biases. Ultimately, behavioral finance is used to help understand why people don't make rational investment decisions, why the market can be volatile, and why market anomalies occur.

LOSSES ARE NOT EQUAL TO GAINS

For many individuals, a financial loss, even if it's an unrealized loss, can feel worse than gaining the equivalent amount. This is a cognitive bias referred to as ***loss aversion*** and describes why, for many investors, the pain of losing is psychologically almost twice as powerful as the pleasure of gaining the same amount.[1] Understandably, this fear of loss gets stronger as the stakes grow larger and can certainly play a big role when looking at your investments and hard-earned savings. However, it can ultimately lead to poor decision-making, such as selling instead of buying stocks at the bottom of a bear market or not taking well-calculated risks within your asset allocation that have the potential for worthwhile returns.

DON'T JUMP OFF A CLIFF

Have you ever bought a stock or other investment because your friends or colleagues were doing it or because it was getting a lot of coverage in the news? In behavioral finance, this is referred to as ***herd mentality*** and highlights why » investors have a tendency to follow and copy what other investors are doing.[1] This behavior is largely driven by emotion and instinct rather than data and independent analysis. It can also explain large sell-offs or rallies in the market and artificially inflated assets like the dotcom bubble of the late 90s and real estate bubble going into the Great Financial Crisis in 2008. While going against the crowd and momentum can conjure up a lot of fear, using analysis and being a contrarian (e.g., buying when everyone is selling or vice versa) usually leads to much better long-term outcomes.

BUT I KNEW ALL ALONG

Let's go back to the market falling precipitously in February and March. If you sold stocks early in the market drop due to loss aversion, against the advice of your advisor, you probably felt some confidence in your predictive abilities because you took action as the market hit a bottom. This is not only an attempt to time the market, but the fact your prediction came true can also lead to ***hindsight bias***, or the misconception that one "always knew," and create overconfidence in predicting other future events.[1] In addition, you're probably not acknowledging that had you just sat tight, you would have likely recovered all of those losses and then some by now. To mitigate hindsight bias, focus on an evidence-based process and a long-term plan when making decisions, especially when it comes to something as uncertain as the market.

IT'S OKAY TO CONTRADICT

Let's continue with our example above where you were able to predict and take action ahead of the bear market, building your confidence in your predictive abilities. With hindsight bias, you now decide to make a prediction on where the market will go based on the results of the presidential election (which were not known when this article was written). As you seek information to influence any actions to take in your portfolio, you'll likely be inclined to quickly accept evidence that supports your view and scrutinize evidence that challenges it. This is called ***confirmation bias.*** As an investor, it's important to try to keep an open mind and find evidence that both supports and contradicts views you might have in order to make better decisions and improve your outcomes.

WHAT NOW? I'M STILL HUMAN!

These are only a few examples of how emotions and biases can play a big part in making financial decisions. One of the biggest takeaways here is to simply be aware of these possible blind spots. If you recognize one in yourself, have an open conversation with your financial advisor about it. Your advisor is instrumental in helping you establish a strategy and plan and, more importantly, helping you stick to that plan when your emotions might be getting the best of you. As Warren Buffet has famously said, "Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing." ■

1 *Chen, James. 2020. "Hindsight Bias." Updated April 9, 2020. https://www.investopedia.com/terms/h/hindsight-bias.asp.*

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Contribution Limits

	2020	2021	Deadline
Traditional or Roth IRA	$6,000	$6,000	April 15 of the following calendar year
Traditional & Roth IRA Catch-Up*	$1,000	$1,000	
SEP IRA	Lesser of 25% of income or $57,000	Lesser of 25% of income or **$58,000**	Tax filing deadline plus any extensions
Simple IRA	$13,500	$13,500	January 30 of the following calendar year
Simple Catch-Up*	$3,000	$3,000	
401(k), 403(b) & 457 Salary Deferrals	$19,500	$19,500	Generally December 31 of the current calendar year
401(k), 403(b) & 457 Catch-Up*	$6,500	$6,500	

*To be eligible for the catch-up contribution, you must be at least 50 years old by December 31 of the year for which you are contributing.
Amounts listed in **bold** represent a change in the contribution limit.
Source: Internal Revenue Service

Reminders

Tax Prep

Tax season is quickly approaching! Per the Privacy Act, we will need written authorization to provide your tax advisor with the documents necessary to prepare your tax return. If you have not already provided us with authorization but wish to do so, please contact your advisory service team.

The IRS deadline for mailing 2020 consolidated 1099 forms is February 16, 2021. The consolidated 1099 report is produced by custodians for taxable accounts and includes information about interest, dividends, and securities transactions.

Money Movement

Fraudsters have become more adept at finding ways to obtain vital information about others in order to use their identity. In an effort to stay ahead of these potential threats, we continue to enhance our protective measures against them. We receive daily alerts of money movement for our clients in order to monitor activity in the accounts. Additionally, for distributions of funds, we require both a client signature and, as an added precaution, verbal confirmation. Your Social Security number will not be requested as part of this verification process. We ask for your understanding and support related to these extra precautions, as we believe they can help protect your assets from landing in the wrong hands. If you have any questions, please contact your advisory service team.

DocuSign

We utilize DocuSign software, an electronic signature technology, enabling you to sign forms electronically from your laptop, smartphone, or tablet. We believe this eases the administrative burden for our clients while keeping your personal and private information secure from cybersecurity threats. Please note that, for security purposes, money movement forms (such as journal requests, wire requests, etc.) still require a hard-copy signature and verbal authorization.

Phishing

Phishing is the act of trying to trick you into revealing confidential information; it usually takes the form of a spam email or link to a fake website that asks for personal or financial information. If you receive a suspicious email, double-check the sender's name and email address to confirm whether they are familiar to you. Check the address carefully, as fraudsters will sometimes use a variation on a common spelling to deceive unsuspecting users. Hover your mouse over the link to verify that the web address in the balloon pop-up matches the web address shown in the email. If you are unsure whether the email is authentic, do not open it or click on any links. Instead, call the sender directly to verify it. Keep in mind that Fidelity Investments, TD Ameritrade, and Charles Schwab will never request Social Security numbers or login information via email. If you receive such a request from a custodian, please do not respond to the message; contact your advisory service team instead. »

Reminders

RMB Client Portal

We've recently updated our Client Portal to include a variety of new features. You can now access the Client Portal through our mobile app (available at both the App Store and Google Play Store), access tax and other documents through the Vault, and grant Vault access to other trusted advisors like your accountant or estate planning attorney. Through the redesigned homepage, you can also view your accounts as an aggregate total or grouped by category, see detailed information about the holdings in your portfolio, and see how your portfolio aligns with your investment goals. Also, you can see who's on your team under "My Financial Team" and access contact information for each team member.
To learn more about the Client Portal, reach out to your advisory service team. ■

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BY **Kate Demet**
Partner, Chief Marketing Officer

Fostering Connections in a Virtual World

In thinking about the topic for this article, my main goal was to strengthen connections—both between our clients and employees and among our employees. After all, most of us haven't seen each other in 3-D since mid-March. So, in late October, I got a group of advisors together for a casual conversation about how things have been going over this surreal year. It allowed a small group of us to get to know each other better and provided some personal interest highlights that we think will resonate with our clients.

Kate Demet: First things first—how are each of you holding up?

Charlie Brey: Things are good now. We built a house in Michigan that was supposed to be ready right when we sold our Chicago condo in March. But with the pandemic, our build had to stop for six weeks. So, we had to move in with my parents for a while, and it was actually wonderful—for them, my wife and me, and our kids. Our son is nine months, and our daughter just turned three, so we've all enjoyed great quality time with them.

Alison Renvyle: I'm doing well, too; all friends and family are healthy. I moved into my own place in March, so it's been so nice to be able to work at home without being distracted by roommates—though I introduced a different distraction when I got a puppy in July. I never felt like I was home enough to make the commitment, but I have always loved dogs, so it's definitely been a positive change for me. Along with the rest of the Denver team, I am in the office half-time and working from home the rest of the time. It's been great to see people again, and I'm feeling a lot more connected.

Chris Bach: I'd echo a lot of what Charlie said on the family side—my son is three, and my daughter is one. It's been awesome to be at home more than I normally would. And we've been pretty fortunate—my wife and I are both employed, and our nanny has continued to work this entire time, which is obviously really helpful. In Minneapolis, we've been back in the office most days since early June. It's nice to get away from the hectic household sometimes, and just being with the team has been a welcome sense of normalcy. »

Ben Albrecht: Well, the first couple of months were pretty hard given the market chaos amid the initial lockdown. But like others have said, the silver lining is being able to see my kids [six- and three-year old daughters] during the day, have lunch together, or just have them around when I take a break. Sadly, I haven't been able to see my parents or any of my family since Christmas, so that's been tough on all of us. Next week, my dad's finally driving up to see his mom, who's 94 years old, and then stay with us for a couple of days. We're really excited about it.

Mohini McCormick: Things are good now. I had a bad bout with this virus in March, and I'm very grateful to have gotten through that. My whole family has worked through a lot of the residuals there. I've got three seniors, one in college and two in high school. Dealing with the ups and downs of those three and all their missed opportunities has been tough, but everybody's got a great attitude.

Barb Black: My family and I have, fortunately, stayed well through this. They're all in Baltimore, so it's been pretty easy to go back and see them. I've been spending some time in our DC office since it reopened, which is easy because I only live five blocks away. It's actually been a nice option, because my boyfriend and I have both been living and working in our 800-square-foot apartment since March. It put our relationship to the test, but now I think we're probably meant to be. We also got a puppy in July, and he's been a fun addition to the mix. I'm also grateful for all the green space in DC where we can run and hike.

Kate: Several of you already mentioned some silver linings—irreplaceable bonding time with your young kids or the ability to take greater advantage of the outdoors. What else comes to mind for people on this front?

Alison: For me, it's just been a greater appreciation of the little things. I've gotten time back in my days when I'm not commuting, so I'm able to spend that time going for walks or cooking. It's been a welcome change to the routine.

Mohini: It's just been a forced slowdown for our lives, which is a good thing. It makes you realize how much you and your family members were running in different directions before. And it's made my family communicate more—not only because we're spending more time together. We've been more purposeful about checking in with each other about how we're really doing.

Chris: With all this time at home, we've actually gotten really close with our neighbors. It was helped by the fact that the neighborhood was turning over, and a lot of us have young kids. But especially over the summer, it was so great to be outside, close to home, and getting adult social interaction while the kids were playing.

Ben: I think it's given me a renewed appreciation for my colleagues and those relationships. Many of us have been around for 10 or 15 years. You don't realize how much everyone in the firm is a part of your life until you're not seeing them on a day-to-day basis.

Kate: All great observations. Switching gears to some of the challenges—what's been the hardest part about not meeting face-to-face with clients or prospects during this time?

Mohini: I really miss the in-person interaction. We rely a lot on facial expressions and body language, and those things are harder to notice and read on-screen.

Barb: I agree, and it's even worse when you run into challenges with video conferencing. Sometimes, if we're having technology issues, trying to get each other on video gets thrown out the door. And then you end up just having a phone call. So the quality of interaction just isn't as high.

Alison: Totally. In a normal world, outside of in-person meetings, we'd be socializing with our clients—going out to restaurants or going to charity events together. I miss those opportunities to engage with clients on a more casual, personal level.

Kate: I think in the early days, we all had this **»**

expectation that this distancing thing was going to be a sprint and at some point, we were going to flip the switch and get back to doing things the way we've always done. But the longer this has gone on, the more we've had to get comfortable with the fact that there's not going to be a moment where it feels like things go back to normal. It's going to be a very gradual transition back to the familiarity of how we interact with people and how we spend our free time. With that in mind, what are the things that you're most excited to do again? What do you most miss about normalcy and want to do as soon as you have the chance?

Chris: I just want to go out to eat like normal. It's a good hour and a half out of the house doing something fun. The kids, fortunately, are well-behaved, so we'd eat out a couple times a week, and I definitely miss that.

Ben: Your kids aren't old enough yet, Chris. Just wait.

Chris: I know! That's why I miss going out right now.

Ben: (laughs) I've been going to Canada with my dad and my uncle every year to a remote fishing lodge out in the middle of nowhere, and we had to postpone it twice before finally canceling this year. That's something I want to get back to.

Barb: I can't wait to not wear a mask. That's my number one thing.

Mohini: Yes, and I look forward to getting back to the freedoms that we took for granted—like being able to get together in a big crowd, whether it's a big family gathering, a party with friends, a sporting event, or whatever.

Charlie: I fully agree. I'm looking forward to not having to think about every interaction, not wondering whether people around me are being cautious, not getting a weird look if I don't want to shake hands.

Alison: Exactly. I think this pandemic has created an unnecessary divide between people. It's become so politicized, and people are judging others for how they're living their lives. I can't wait until the pandemic isn't the primary topic of conversation.

Kate: I hear that, Alison. I'm grateful we have established protocol for those working in the office so that those judgment calls don't have the potential to create awkwardness between employees. And of course, I look forward to the day that's no longer needed at all. In the meantime, it was great catching up with all of you! Stay well, everybody. ■

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