WOODSTOCK

Quarterly Market Perspectives

WINTER 2021

A quarterly newsletter offering our views on the market and economic topics of interest to investors.

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Sleep Well by Setting Limits and Watching

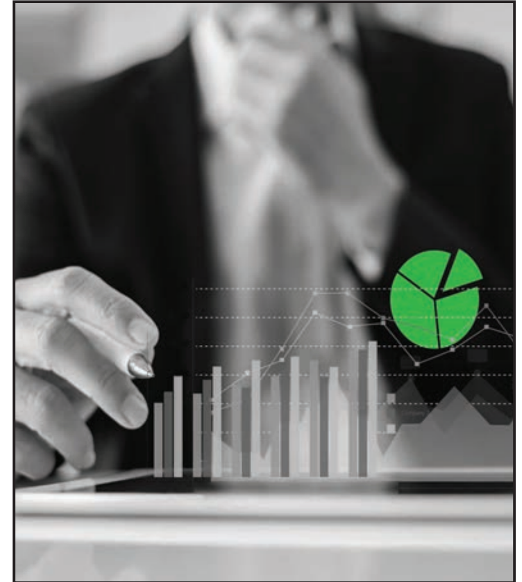
William H. Darling, Chairman & CEO

Adrian G. Davies, President

Part of sleeping well at night, if you are invested in the financial markets, is trying to control or set limits on those elements of the financial markets that you can control: expenses and ownership. Being invested through a separately managed account (SMA) allows the portfolio manager to essentially eliminate the fee from consideration by using the tools of asset allocation and tax loss selling that minimizes taxes from recognized capital gains, to allow almost 100% of the annual gain in a portfolio to remain in the portfolio.[1]

Ownership of financial assets is assumed by investors and in advertising, but rarely is it actually true. As with bank accounts where the holder is merely a creditor of the actual owner (the bank), an investment in a "pooled" financial structure (such as a mutual fund) merely creates a creditor position for the investor with the real owners of the assets in a mutual fund, its trustees. When financial turbulence hits, as it did in 2008, it is comforting to know that you can decide whether to sell or hold financial assets without worrying whether the real owner will have your best interests at heart. Staying away from pooled investment vehicles provides that confidence.

For those elements that can't be controlled, watch. "Investors put a record $11 trillion to work in 2020."[2] The debate for stock investors at this point is whether to invest pro-cyclically in those companies that will benefit from an economic upturn or stay invested with companies benefitting from the pandemic. Where did that new money go? Only 10% of that $11 trillion went into "stocks," which includes initial public offerings (IPOs), preferred stock and special purpose acquisition companies (SPACs). Twenty percent went into exotics such as asset-backed securities, high-yield corporate debt, emerging markets and others.



With interest rates historically low and even with the risk of loss of value as interest rates rise unless held to maturity, 70% of this new money in 2020 went into investment-grade corporate debt and government debt.

Interested stock investors should be looking for signs that too much money is chasing too few investments. With so much money going in another direction, it may not matter whether your investment manager picks pro-cyclical investments or stays the course until something changes. Both approaches may work well in 2021. Until funds flows change, clients at Woodstock are probably right where they should be.

We know that you are the most valuable business development tool that we have. Your referral of a friend, colleague or family member to us is the most important way that we grow.

We thank you for your support and want you to know that we are dedicated to serving your best interest.

[1] *Vanguard, Advisor's Alpha, September 2016.*

[2] *WSJ 12/18/2020.*

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The Limits of Monetary and Fiscal Policy

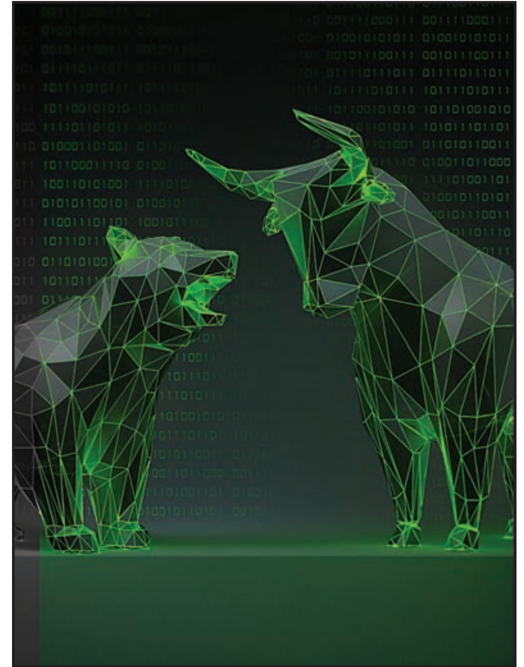
Adrian G. Davies, CFA, President

What will 2021 bring? Two thousand twenty was a crazy year, and the S&P 500 Index returned 18.4%, having appreciated 31.5% in the prior year. The equity benchmark's strong 2020 performance included the rapid, steep bear market brought about by COVID-19, followed by an equally dramatic recovery. The market started reaching new highs again by August and continued to reach new highs through year-end. If the pandemic can't cause more lasting damage to stock prices, can anything?

A survey of economists finds they expect the US economy to grow 4.0% this year, after having fallen 3.5% last year.[1] As vaccines for COVID-19 are rolled out, pent-up demand for dining out, travel, and entertainment will be unleashed. Business for hotels, airlines, restaurants, sporting events, and live entertainment will accelerate into the second half of 2021, with the surge in demand driving up prices. The economy will be bolstered both by the well-to-do being able to spend again, and by the underemployed getting back to work. Some consumer spending for these services is likely to shift out of home improvement projects, furniture, and electronic devices, all of which boomed during the pandemic. There will be some more lasting changes to work protocols, but we expect most office workers will go back to working in their offices most of the time. The economy will be further boosted by the $900 billion stimulus bill passed in December 2020, if not a larger fiscal stimulus package supported by the new Biden administration.

"A survey of economists finds they expect the US economy to grow 4.0% this year, after having fallen 3.5% last year."

While these tailwinds look set to be the dominant economic drivers in 2021, there will be some offsetting headwinds. Many small businesses have folded for good. A backlog of evictions and foreclosures will be a drag on the economic recovery, and student loan payment moratoriums are due to end. If only because last year's prices were heavily deflated during the downturn, inflation statistics seem poised to rise at least temporarily.



Determined Monetary Action

The stock market has rallied in anticipation of a robust recovery, but this narrative does not explain why the S&P 500 Index is trading at relatively high price-to-earnings multiples against mostly recovered 2021 and 2022 earnings expectations – 22.6x and 19.3x respectively[2] – nor does it explain why bonds are also trading at such a high level relative to their history. High prices mean low yields. Bond prices typically trade higher when the economy is expected to enter a recession. Over the course of 2020, the 10-year US Treasury yield fell from 1.92% to 0.92%, after bottoming once in March at 0.50%, and a second time in August at 0.51 percent.[3]

"We maintain that central banks' monetary actions have been a principal force driving both stock and bond prices higher around the globe."

We maintain that central banks' monetary actions have been a principal force driving both stock and bond prices higher around the globe. The US Federal Reserve continues to buy $120 billion worth of bonds every month, paying for these bonds by crediting commercials banks with newly created reserves. When the commercial banks lend against these new reserves, the money supply expands. The US money supply (M2) has

[1] *Bloomberg, ECFC function, 1/19/21.*

[2] *FactSet, using 12/31/20 S&P 500 Index value and earnings estimates.*

[3] *FactSet, US Benchmark 10-Year Treasury data series.*

(Continued from Page 2)

expanded by 7.5% per year since 2007, and was up 24.4% last year. Commercial banks were not in a position to make new loans in the aftermath of the Great Financial Crisis, muting the monetary effects of the Fed's bond purchases. The recession itself was a powerful deflationary force, further offsetting any inflationary implications of monetary expansion at the time. The world's other major central banks engaged in similar bond buying programs, with comparable results. Whatever deflationary forces have offset the Fed's monetary accommodation, there has not been significant price inflation since the Great Recession.

"It is still too soon to know if last year's 24.4% money supply expansion will cause more lasting inflation."

It is still too soon to know if last year's 24.4% money supply expansion will cause more lasting inflation. Inflation hasn't been a problem for forty years, but money supply hasn't grown more than 13% in any of those years, either. Federal Reserve governors are likely to overlook a near-term rise in inflation, dismissing it as temporary. Furthermore, with inflation having chronically missed the Fed's expectations for most of the past ten years, the Fed governors want inflation higher. They recently revised their inflation targeting policy to say that inflation should average 2% over time. The Fed is more willing to tolerate inflation above its targeted level of 2% to compensate for the time inflation has spent below the target. We could see the Fed now tolerating inflation up to 3% or maybe higher on a short-term basis. The subtle revision to Fed policy should reassure investors, because expensive stocks and tightening monetary policy have historically not been a good combination for stock prices.

"The Fed's bond buying has driven asset prices higher, helping individuals who own assets, but also contributing to wealth disparity. Fiscal spending is mostly intended to narrow wealth disparity. "

A Growing Willingness to Spend

The Fed's bond buying has driven asset prices higher, helping individuals who own assets, but also contributing to wealth disparity. Fiscal spending is mostly intended to narrow wealth disparity. Persistently moderate inflation has also tempted politicians to support higher levels of deficit spending. In 2009, the US government enacted the $800 billion American Recovery & Reinvestment Act to address the Great Financial Crisis. By contrast, in the first half of 2020, the government approved four bills, including the CARES Act,

appropriating $2.7 trillion to address the pandemic and associated economic downturn.[4] Importantly, politicians became more comfortable running greater fiscal deficits even during the broad economic expansion from 2009-2019. The federal government's operating budget deficit was almost $1 trillion in fiscal 2019 alone, amounting to 4.6% of GDP, after 10 years of steady economic growth,[5] before burgeoning to $3.1 trillion, or 14.9% of GDP, in the fiscal year through September 2020.[6] In the wake of the Great Financial Crisis, and then again in 2020, it has also been the case that the Federal Reserve has been effectively buying much of the new federal debt created. Changes in US federal debt outstanding and changes in US Treasurys held on the Fed's balance sheet are presented in Figure 1. Prior generations of economists and politicians would have blanched at the thoughts both of racking up so much debt during peacetime and also creating new money to pay for such spending, for fear of creating inflation. Despite the high levels of spending and monetary expansion, inflation has so far remained quiescent.

"Despite the high levels of spending and monetary expansion, inflation has so far remained quiescent."

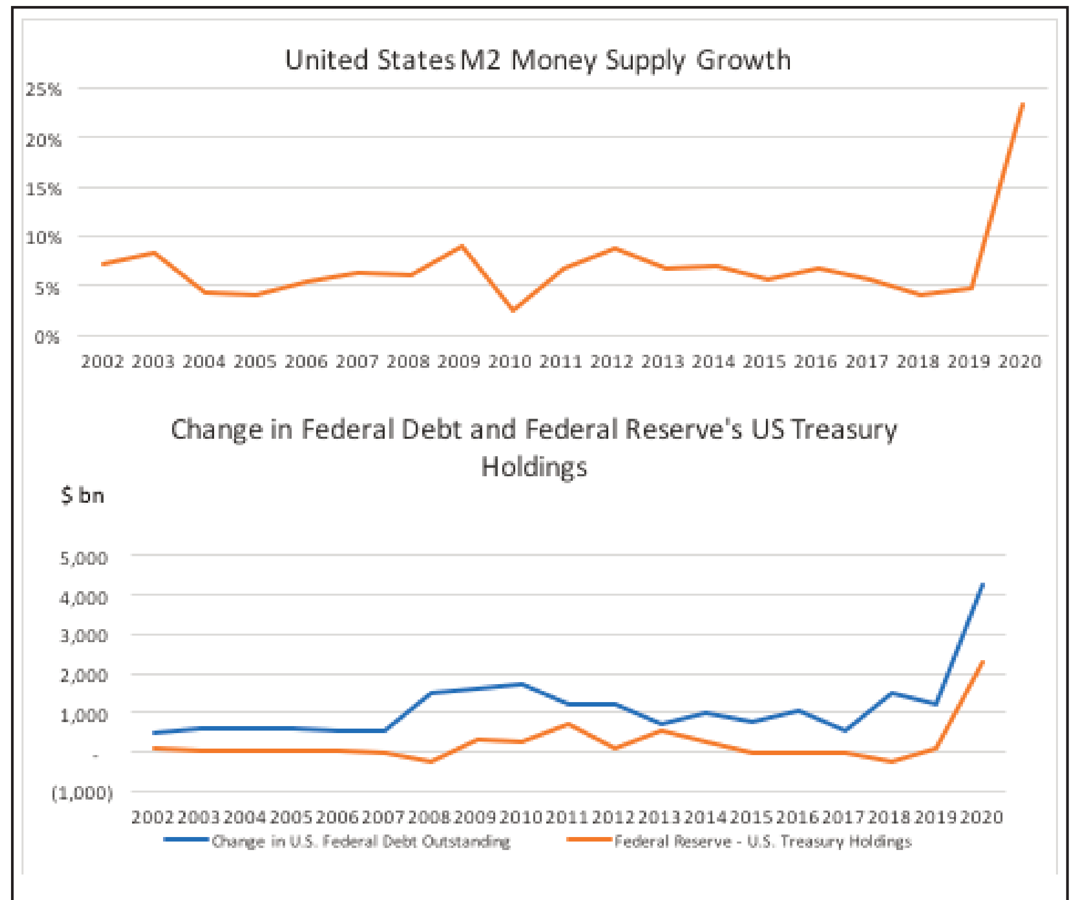
[4] *Robert Sanders, "Coronavirus Pandemic: Stimulus and Response," Quarterly Market Perspectives, Spring 2020.*

[5] *https://www.cbo.gov/system/files/2020-11/56746-MBR.pdf.*

[6] *https://www.cbo.gov/publication/56746.*

> *"Maintaining diversified portfolios and being ever mindful of tax consequences are key tenets of Woodstock's investment philosophy."*

Figure 1



Sources: St. Louis Federal Reserve FRED, FederalReserve.gov

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Fiscal spending serves to support the economy, but we seem destined to test the limits of what's possible, if we haven't already. We risk creating too much money and spending too much, eroding confidence in the financial system and the currency. The counterargument is that as long as the economy remains healthy, as long as companies continue to innovate, and as long as people have a vested interest, they will continue to have faith in the financial system and the currency. Inflation does a lot of things, most of them not good. However, one benefit of inflation is that it makes the debt burden more manageable for future generations.

Implications for Stocks

The economy enters 2021 with unused productive capacity, and with our monetary and fiscal levers at full throttle. These should all drive strong growth. Although the overall stock market is trading at a historically high valuation, individual stocks are trading with a wide dispersion of valuations and growth profiles. We believe the market of stocks still offers attractive investment opportunities amidst some overpriced stocks. Maintaining diversified portfolios and being ever mindful of tax consequences are key tenets of Woodstock's investment philosophy. Then, with well-earned humility in our ability to forecast the economy and the stock market, we will do our best to position investors' portfolios for the outlook we see ahead.

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Socially Responsible and ESG Investing – Trendy Topic or The New Normal?

Robert B. Sanders, SVP, Portfolio Manager

"The goal for all of these investment styles is essentially the same, to produce a positive investment return and a positive impact on society and the environment."

"The global march of social conscience has taken a number of giant steps over the years to bring the world to the level of social awareness we have today."

Socially responsible investing (SRI). Integrating environmental, social, and governance (ESG) factors in the investment process. Applying principles for responsible investing (PRI) to investment decisions. Sustainable. Green. Ethical. Impact investing. These terms are all part of the socially conscious investment jargon getting a lot of "airtime" in the news media, particularly in financial circles. The goal for all of these investment styles is essentially the same, to produce a positive investment return and a positive impact on society and the environment. From a collective social conscience that has been expanding over many years, customer demand for ethically constructed investment portfolios has spawned a dramatic growth in the number of mutual funds, exchange traded funds (ETFs), indexes, and investment firms that espouse or adopt some flavor of these ideals. In tandem, the volume of assets under management incorporating these ideas has grown exponentially. Has this segment of the investment ecosystem leapt from burgeoning social trend to reflecting the prevailing values of society as a whole, and what does that mean for investing moving forward?

Background

Socially responsible investing is a concept that has been around in modern times for at least fifty years. The global march of social conscience has taken a number of giant steps over the years to bring the world to the level of social awareness we have today. With its beginnings as religion-based ethical and moral judgements eschewing investment in so-called "sin stocks," SRI initially entailed excluding stocks associated with producing or selling alcohol, tobacco, firearms, and gambling. Abhorrence to owning weapons manufacturers grew during the anti-war movement of the 1960s and 1970s. With the establishment of the US Environmental Protection Agency in 1970, environmental concerns began receiving more attention. The Anti-Apartheid Movement to boycott investments in South Africa

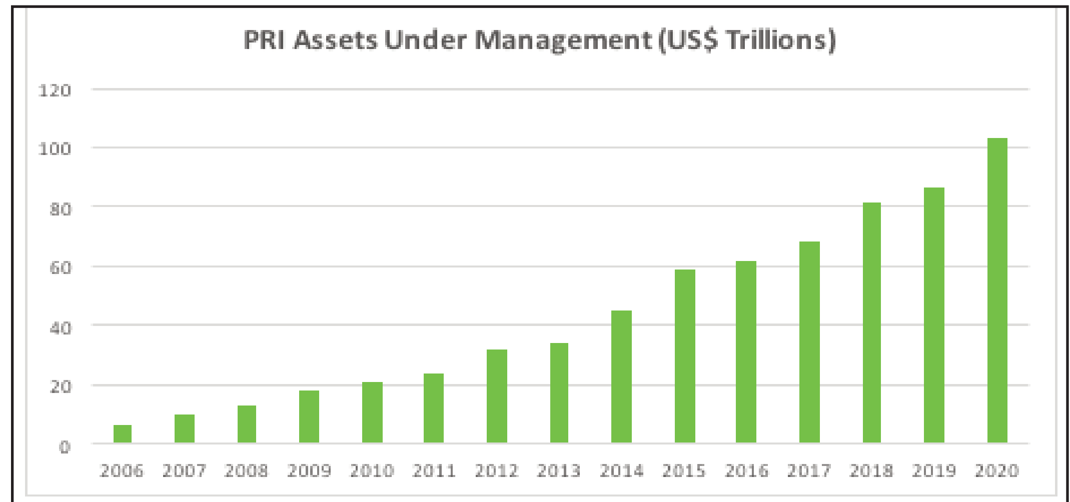
gained traction in the US in the 1980s, bringing focus to social issues. Fossil fuel companies came under the gaze of SRI later in the '80s, accelerating the environmental scrutiny triggered by the Exxon Valdez oil spill in 1989 that polluted 1,300 miles of Alaskan coastline. In 2004, the United Nations created a global compact through a joint initiative with financial market participants, resulting in a report titled "Who Cares Wins." The report introduced the concept of incorporating environmental, social, and governance information (ESG factors) in research, reporting, and investment processes. This report was followed up with the United Nations' Principles for Responsible Investment in 2006, a list of six principles designed to encourage the adoption of ESG in investment decision making, disclosure, and ownership. Today, over 3,000 investment firms have committed to PRI, representing $103 trillion of assets globally.[1]

[1] *Unpri.org, March 31, 2020.*

> " Each of the three segments of ESG factors will have its own set of value judgements."

> "Value judgements are very subjective and their relative importance may be different for every investor. "

Figure 1



Source: United Nations Principles for Responsible Investing, March 31, 2020, unpri.org.

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Measurement

With this history and current collective social zeitgeist, it is not surprising that some investors would ask questions about how their assets are managed, why companies are included or excluded from their portfolios, and how these companies have performed, not only financially, but on a societal level. Investment returns are a straightforward calculation. To incorporate relative values of social "good citizenship" in an investment process and associated reporting, companies need to disclose ESG-specific data, and we need a scale of measurement to evaluate performance. A number of ESG rating scales have been proliferated by data companies over the years, including a numeric score (best score =100), and an alphabetic rating similar to Standard & Poor's bond credit rating (best score = AAA). There is not currently one standard that investors can agree upon, but that doesn't prevent investors from trying their best to enact the concept with the information they can get.

Each of the three segments of ESG factors will have its own set of value judgements. How these values equate across segments can be very subjective. Environmental factors may include waste, pollution, carbon emissions, and utilization of natural resources. Social factors evaluate how a company treats its workforce and interacts with society. This may run the gamut from product safety to labor diversity or human rights in the supply chain. Elements of governance factors may include corporate corruption, or gender and racial diversity among executive ranks and boards of directors. Some industries are more heavily weighted toward one or more of these ESG factors than others. Environmental impact may count more for energy companies, governance may dominate in service firms, and labor relations overshadow manufacturers. Given the diversity of issues in a particular industry, or a single company, one can imagine the difficulty of weighing one factor relative to another. For example, how would one compare a car company with a poor environmental record but good labor relations against a car company with a poor labor record but favorable environmental scores?

Value judgements are very subjective and their relative importance may be different for every investor. Each ESG rating scale attempts to capture the level of complexity embedded in the range of issues and impacts a company may encompass. ESG ratings may well be a good starting point to a socially conscious investment decision. As the saying goes, the devil is in the details, and proper investment due diligence will likely involve more research when making investment judgements based on a set of values, standards, and priorities. This is a challenge for each investor.

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"It is sometimes easier to know what you don't want, and to avoid it, than to evaluate many companies to determine which to include."

"Investment advisors have a fiduciary obligation to seek the highest return for a level of risk."

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Portfolio Construction

Implementing a socially responsible portfolio may take one or more of several approaches. The SRI process has its roots in the exclusion of certain companies from a portfolio, also called "negative screening." It is sometimes easier to know what you don't want, and to avoid it, than to evaluate many companies to determine which to include. Over the years, I've had individual clients make specific investment requests, including the exclusion of big oil companies after the Exxon Valdez spill, omission of pharmaceutical companies over animal testing, and abandonment of chemical companies because their weed killer was killing bees, among other restrictions. This merely illustrates that everyone has their own priorities.

One approach is positive screening, for example, choosing companies with a socially beneficial theme important to the investor, such as clean or renewable energy. One could also use the ESG factor-based data to pick the best-in-class companies within each sector as the first level of due diligence to narrow the field of investment options. We are not suggesting that ESG ratings can be used exclusively in evaluating the investment merits of a particular security, as these companies might have non-ESG-related challenges that the ratings don't capture, such as intensifying competition or excessive valuations. However, these ratings could provide meaningful information to investment decisions. Finally, an investor could take a passive approach and choose among the ESG or socially responsible investment products like mutual funds and exchange traded funds that track an ESG index. It is conceivable that using some combinationof these methods could achieve one's socially responsible investment goals.

Investment Performance

Investment advisors have a fiduciary obligation to seek the highest return for a level of risk. Excluding companies or sectors based on value judgements appears to run afoul of a fiduciary mindset. Every sector has its day in the sun in a normal investment cycle, so excluding one or more sectors will have consequences for long-term performance. The US Department of Labor tends to agree. In a proposed ruling from June 30, 2020, a retirement plan covered by the Employee Retirement Income Security Act of 1974 (ERISA) "requires plan fiduciaries to select investments and investment courses of action based solely on financial considerations relevant to the risk-adjusted economic value of a particular investment or investment course of action." [2]

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[2] *Federal Register/ Vol. 85, No. 126/ June 30, 2020/ Proposed Rules, Department of Labor, Employee Benefits Security Administration, 29 CFR Part 2550, Financial Factors in Selecting Plan Investments. Govinfo.gov.*

"It is important to acknowledge that the performance of socially responsible investments has come under scrutiny over the years relative to the performance of traditional index benchmarks."

"The ESG community has been striving for years to prove their approach has both social and investment merit."

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You could argue that "sin stocks" would likely outperform in an economic downturn, or that energy companies rally when the price of oil is rising. Taking it a step further, companies with the worst social or environmental records would likely be undervalued relative to their more highly rated peers, and with progressive improvement on those scores, could offer potential to attract a larger pool of investors, and thereby generate better investment performance. As a fiduciary, it is not okay to invest in ESG for the sake of making the world a better place. It is, however, okay to consider ESG factors as part of the fundamental research if you believe that these considerations lead to better investment returns.

It is important to acknowledge that the performance of socially responsible investments has come under scrutiny over the years relative to the performance of traditional index benchmarks. If you begin with the investment premise that companies that are doing social and environmental good should garner lower business risk over time, logically these companies should outperform companies that have higher risk from adverse social stewardship. This assumption doesn't exactly square with the investment concept of higher risk demanding a higher return. In a world where companies' customers and other stakeholders have varying levels of ESG consciousness, corporate managements also need to be conscientious about their broader ESG impact in order to optimize their company's growth potential, and to stabilize earnings from ESG-related risks. In this respect, perhaps what ESG investing offers is a higher risk-adjusted return. However, the jury is still out on whether there is an absolute return advantage to ESG investing.

The ESG community has been striving for years to prove their approach has both social and investment merit. During the early 2020 market decline and subsequent advance, the three US ESG indexes in Table 1 succeeded in outperforming the benchmark S&P 500 Index for the year. These ESG indexes appear to be consistently adding value over longer timeframes, as well.[3] At a minimum, this is evidence that favorable ESG factors may provide some downside risk protection in volatile markets. In what has been a growth-driven bull market for the past ten years, there is not enough data here to conclusively prove ESG factors drove these results, but investors in these strategies were rewarded with improved returns over this timeframe.

[3] Emiliano Rabinovich, "ESG Equity Index Performance in the US: Outperformance vs. the Benchmark During Market Volatility," State Street Global Advisors, October 15, 2020. Etftrends.com.

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Table 1

Performance (%) of ESG Index Strategies vs. S&P 500 Index USD Gross Total Return as of December 31, 2020				
	S&P 500 ESG Index	MSCI USA ESG Universal Index *	FTSE4Good USA Index	S&P 500 Index
3 Months	11.1	12.1	12.5	12.2
1 Yr	19.8	21.5	21.1	18.4
3 Yr (annualized)	15.4	15.4	16.6	14.2
5 Yr (annualized)	15.9	15.7	17.2	15.2
10 Yr (annualized)	14.1	13.6	15.3	13.9

Source: MSCI, FTSE/Russell/Bloomberg; S&P, State Street Global Advisors
* Total return with dividend reinvestment net of withholding taxes

"ESG, with its beginnings as a client accommodation for values-driven investment decision making, is now going mainstream."

"In the not-so-distant future, ESG and socially conscious investing will merely be called 'investing.'"

"A majority of the companies we employ in our portfolio construction are represented in ESG-related indexes."

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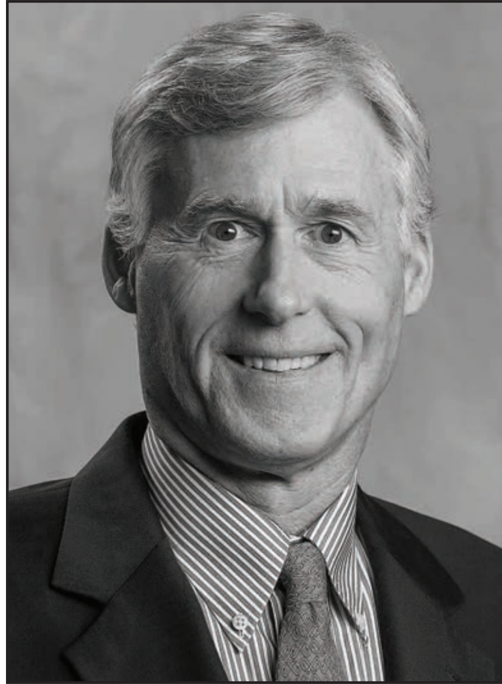
Conclusion

To answer our initial question, based on the growing level of invested assets, the number of investment firms embracing socially conscious strategies, the proliferation of ESG investment options, and growing consumer demand, it appears that socially responsible investing and ESG investment approaches are here to stay. ESG, with its beginnings as a client accommodation for values-driven investment decision making, is now going mainstream. In the not-so-distant future, ESG and socially conscious investing will merely be called "investing." The consideration of environmental, social and governance factors will be just another aspect of normal investment due diligence, risk assessment, and performance evaluation. As reporting from companies on these ESG factors improves, the transparency and comparability along these metrics will become part and parcel of portfolio performance reporting.

At Woodstock, your investment advisors are fiduciaries. We manage investments for our clients with that duty in mind. By obligation, and in practice, our portfolios are managed and customized according to our clients' risk tolerance, return expectations, income needs, ESG preferences, and tax, legal, and other considerations. We believe the companies we invest in generally operate in a socially conscientious manner, or are moving in that direction. A majority of the companies we employ in our portfolio construction are represented in ESG-related indexes. This article's conclusions would suggest that more consideration of ESG factors for the companies we follow will be warranted in the years ahead, along with a thoughtful approach to addressing individual client ESG preferences. To the extent that this article sparks interest or thoughts along the lines of socially conscious investing, we invite you to reach out to your portfolio manager to begin the conversation. As always, we are here to help you achieve your goals.

"My goal is simple: To construct investment portfolios that will weather the test of time, creating financial security for my clients and their families for generations to come."

"Dawson brings to Woodstock more than 30 years of experience in portfolio construction, investment advising, and private wealth management. "



Woodstock Corporation Welcomes Benjamin Dawson as Senior VP & Portfolio Manager

Woodstock Corporation welcomes Benjamin G. Dawson as a senior vice president and portfolio manager. Dawson is rejoining Woodstock after 22 years as a co-founder and managing director of the registered investment advisory firm Alpha Windward LLC, where he led the Blue Chip Growth investment strategy, which focused on building portfolios of growth-oriented companies with sustainable growth rates, strategic competitive advantages, and leadership positions. "Ben's approach very much echoes the Woodstock philosophy. We're looking forward to comparing notes and working together for the benefit of all our clients," says Adrian G. Davies, President, Woodstock Corporation.

"When it comes to private wealth management, I am a fundamentalist; I do not believe in market timing – I believe in time in the market," says Dawson. "I also believe that 80 to 85% of a portfolio's return comes from proper asset allocation and diversification. Strong analytics drive my investment decisions, with a keen focus on establishing the proper asset allocation to satisfy my clients' investment objectives and long-term financial goals. Clients want to be listened to and taken care of – they do not want to be worrying about their investment portfolios. My goal is simple: To construct investment portfolios that will weather the test of time, creating financial security for my clients and their families for generations to come. They trust me with their investment assets, and that trust means everything to me."

William H. Darling, Chairman and CEO of Woodstock, adds: "In addition to bringing an approach that solidly attaches itself to Woodstock's deep-rooted investment philosophy, Ben excels at the three things we ask of our portfolio managers: do the research, build portfolios, and have client contact. Ben's chosen to come back to Woodstock, which is a nice vote of confidence in what Woodstock brings to the investing public."

Dawson brings to Woodstock more than 30 years of experience in portfolio construction, investment advising, and private wealth management. Before co-founding Alpha Windward, he worked at Woodstock from 1989 to 1998 as a director, vice president, and portfolio manager. He had previously worked in investment banking and venture capital after receiving his MBA from the Amos Tuck School of Business Administration at Dartmouth College, and a BA from Princeton University. He is a member of the CFA Society Boston.

"Some tax advisers are worried that the 'golden age of gifting' may be ending soon after 2020."

Tax Update
Gift Tax Changes Coming?

William H. Darling, CPA – Chairman & President

Jeanne M. FitzGerald, CPA – Tax Manager

Some tax advisers are worried that the "golden age of gifting" may be ending soon after 2020. The phrase "tax exempt gifting" refers to the different tax status of lifetime gifts (gift taxes are only based on the gift amount received) compared to inheritances (where the full value of the transfer at death is subject to the estate tax, if any, including the funds which will be used to pay the estate tax). The three tiers of tax-exempt gifting, in order of importance, begin with the $15,000 annual exclusion gift to anyone, which is always tax free and also paperwork free, if the spousal consent is not sought. The second tier is unlimited gifts for direct payments for tuition and medical expenses to anyone; these are always tax free. The third tier is the lifetime combined gift and estate tax exemption. At $11,580,000 in 2020, this third tier would be the most likely target for government tax strategists trying to raise extra revenue. However, all three tiers are theoretically in the crosshairs as they benefit the "wealthy." Clients planning to make such gifts should move early in 2021, if these strategies are already in their plans for this year.

Government tax strategists call keeping more of your money a "tax expenditure." According to the Tax Expenditure Budget for Fiscal Year 2021 from the US Treasury Office of Tax Policy, four of the top ten tax expenditures for the years 2020 to 2029 are the exclusion of employer contributions for medical insurance premiums ($3.1T), the step-up basis of capital gains at death ($659B), the capital gains exclusion on primary residence home sales ($594B), and the deductibility of charitable contributions, other than education and health ($612B). The rest of us should look at this list as a congressional shopping list and plan accordingly.

We've only been talking here about the existing tax system and possible changes to that. What about new methods and theories of taxation? We have one in the works: the competition among states to tax work from home with the collision of state-based "nexus" and "domicile" rules for the 2021 filing season (see *QMP Summer 2020*). If this applies to you, do your homework. Taking a conscious, documented position, even if aggressively for your own interest, will help persuade state tax bureaucrats that you may not be worth the fight. Also, the state of California is proposing a new wealth tax. "Assembly Bill 2088 proposes calculating a wealth tax based on current worldwide net worth each December 31." The new tax would apply over a ten-year period no matter where the taxpayer lives and to anyone who spent more than 60 days in California during a calendar year, and, at least initially, on net worth over $30 million.

The federal estate tax applies to the fair market value ("net worth") of an estate once at the end of a lifetime. Planning for the event usually entails life insurance that pays out at death and helps pay any estate taxes due with liquid funds. An "annual death tax" calculation with no established source of liquid funds seems difficult. As the *Wall Street Journal* article points out, there is also the problem of the US Constitution, perhaps, prohibiting states from reaching across state borders to tax other states' residents. A new wealth tax and issues of "nexus" and "domicile" may be the way they plan to generate this additional revenue.

If you or any of your other advisors have questions about the issues raised here, please contact your investment manager or one of us.

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[1] *Financial Advisor Magazine, October 2020.*

[2] *Journal of Accountancy, January 2021.*

[3] *WSJ, 12/19-20/2020.*

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QMP begins a new feature highlighting the philanthropic and volunteer work done by Woodstock employees and associates.

Trip Sparked Idea for Nonprofit to Benefit Women in Africa

Julie Phippen, an Executive Administrative Assistant at Agawam Trust and Management Company (an affiliate providing estate and trust administration services for Woodstock), noticed a need while traveling in Zimbabwe and ended up establishing a 501(c)(3) nonprofit organization to meet that need. Sewpportive Friends began in 2016 with the mission of empowering women in Africa by providing healthy, handmade feminine care products and the education to enable women to produce their own. Just as a small pebble tossed into a pond sends out far-reaching ripples, Sewpportive Friends has expanded to touch more lives in the US and Africa.

Having grown up hearing her grandparents' stories about their missionary work in Africa, Julie traveled to Zimbabwe for the first time in 2013, bringing school supplies to donate. While preparing for a third trip to Zimbabwe, Julie learned of high dropout rates among girls in rural communities due to a lack of feminine hygiene products. Some girls would fall behind due to missing several days of school each month because the disposable products US women take for granted were either unavailable or unaffordable. Instead of donating one-use, waste-creating products, Julie researched a different option. "I had sewn in middle school in home economics class, so I got to work," Julie recalls. In three months, she and volunteers recruited via social media sewed over 100 kits for delivery to two communities in Zimbabwe. Each handmade kit includes washable, reusable pads, pad inserts and underwear. "In the first community we visited, one mother asked, 'Can you teach us to make these?' And that's how the mission to provide both supplies and training began."

"In 2016, I had no idea this effort would turn into a nonprofit group," says Julie. The Sewpportive Friends community now involves more people, both in the US (volunteers) and in Africa, where schools, orphanages, and other nonprofits are connecting with and expanding on the original mission. "Friends of our nonprofit are sponsoring children's school tuitions, and others started a program to provide bicycles to children who walk as far as 15 miles each way to school, every day."

Julie sees the importance of educating any woman, not just schoolgirls, to make the kits, and looks forward to traveling to Zimbabwe, Uganda and Zambia when travel restrictions ease. She maintains near-daily communication with contacts in Africa—and receives frequent texts from children sending poems, drawings and photos. "The people we've met in villages say, 'You're not a visitor, you're part of our family.' That's part of this emotional, life-changing experience. I feel blessed. I've learned nothing is ever too small when it comes to giving, and I'm proud that we're making a difference." Sewpportive Friends' efforts are all-volunteer, with 100% of the administrative costs covered personally by Julie, so all donations go to the group's mission.

To learn more about how to donate funds or supplies or become a volunteer, please visit **www.SewpportiveFriends.org.**

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