

The Client Letter



Pivoting Investment Strategy



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Andy Hill has more than 30 years of portfolio management experience. Andy holds an MBA from Syracuse University and a Bachelor of Science degree from Canisius College. Andy often contributes to Investor's Business Daily, Naples Daily News, and Fort Myers News Press. He has also appeared on CNBC and FOX.



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Jennifer Figurelli has over 20 years of experience in the trust administration field. Jennifer has a Bachelor of Arts degree in Business Administration from Florida Southern College and a Legal Assistants Certificate from Florida Atlantic University. She also is a graduate of the Florida Bankers Association Graduate Trust School and holds a Series 65 license and Life, Health and Variable Annuity designations.

■ 1st Quarter 2021 Recap: Time to Pivot

Most client's portfolios are producing up nicely for the year. Gains were from equities that generally outpaced the SP500 and offset by losses in fixed income holding.

Big gains in the quarter were very different than the stay-at-home winners. Nucor, Deere, Goldman, and JP Morgan were leading stocks. Richly valued, growth stocks were the big detractors of performance including Intuitive Surgical, Apple and Amazon.

As we pivoted equities strategy from growth stocks to a balance including economically sensitive holdings as interest rates rose, we reduced exposure to many of last years big winners, including ARK Innovation, Teladoc, Tesla and Next Era Energy. In mid-February, the 10-year treasury bond rose above 1.20% which was the event that changed the character of the equity market from a growth to value orientation of leadership. In fixed income, the increase in longer term (beyond 5 years) yields decreased the value of bonds. The Bloomberg bond index lost about 3.5% in the first quarter. Generally, our clients fared much better as many of our bond holdings are concentrated in short-term maturities.

HIGHLIGHTS: APRIL 5, 2021

- 1st Quarter 2021 Recap – Time to Pivot
- Investment Strategy for 2nd Quarter 2021 & Beyond
- Asset Allocation Strategy
- Fixed Income
- Equity Strategy-Time Spread Out Styles Beyond Growth Stocks
- Security Selection: New Sectors, Same Criteria
- IRS Extends Federal Income Tax Filing Deadline to May 17, 2021
- RMD's are back for 2021
- Charitable Planning for 2021
- Black Diamond Client Portal: A Better Future for your Wealth Management
- Gaming 2021

■ Investment Strategy for 2nd Quarter 2021 & Beyond

As we look to the beginning of a "normal" in our society, the financial markets are beginning to reflect the potential for a return of social activity. The 10-year Treasury bond yield is approaching the 1.9% range, which is where it was yielding during the beginning of 2020. Similarly, the price of oil is in the low \$60's, which is where the West Texas crude was trading at prior to the COVID-19 shutdown.

Other commodities such as lumber are experiencing very strong demand and have increased by 118% from the beginning of 2020. While there are many builders complaining about the rise in lumber prices, clients are generally happy with the 18% rise in the SP500 from early 2020. Given the human losses, the gains in financial assets are hard to comprehend.

■ Asset Allocation Strategy

With the economy on the verge of accelerating and interest rates trending higher, client portfolios are favoring equities while the fixed income portion is underweighted relative to our clients' customized investment policy statements. Given the potential for a moderate increase in inflation, we have taken a small position in a diversified commodities fund which will be in the alternative section of your portfolio statement.

In the rapidly developing financial sector, we are researching the opportunities for digital assets and currencies. Many astute investors who were previously skeptical of digital currencies are now seeing that this technology is here to stay. The Federal Reserve Bank of Boston is studying digital currencies. Bitcoin is now quoted in the financial media, along with the Dow Jones industrial Average and the 10-Year Treasury bond yield.

■ Fixed Income



Yield on the 10-Year Treasury Bond 1.7% is getting close to the pre-Covid-19 levels

The role of fixed income in client's portfolios is to generate a predictable cash flow, not a large return. Most client portfolios have bonds with laddered maturities from 3 to 7 years. By keeping maturities relatively short-term, losses are minimized when interest rates rise. The 10-year Treasury bond yield is 1.75% and appears to be heading to 2%. Given the massive growing federal deficit, investors wonder when the flood of newly issued Treasury bonds will push yields materially higher. With Japan and China being the

largest foreign holders of our debt, if they were to stop holding our Treasury Bonds, there is the risk of materially higher interest rates; therefore, we have added floating rate bond funds recently. This type of security is a portfolio of loans that adjusts the interest rate to changes in the short-term commercial bond indices, thus benefiting from rising interest rates. Also, we still prefer exposure to preferred stocks that tend to hold up better than investment grade bonds as interest rates rise.

■ Equity Strategy-Time Spread Out Styles Beyond Growth Stocks

Last year, the "cool" growth stocks led investors to large gains. Since the jump in interest rates in mid-February, stocks such as banks, drove performance while growth stocks lost their "mojo". Looking forward, we expect a more balanced, but choppy equity market.

Using the S&P500 index as our proxy for equities, we see 5% to 10% gains remaining in 2021. Corporate earnings may grow much more than current, "low ball" estimates as the economy recovers in the 2nd half of the year. With better-than-expected earnings, investors may be less inclined to aggressively chase stocks as interest rates rise. Also, personal savings may decline as investment portfolios may become the source of funds for pent up travel such as a trip to Disney, which is a fun place to visit, but it can quickly become costly.

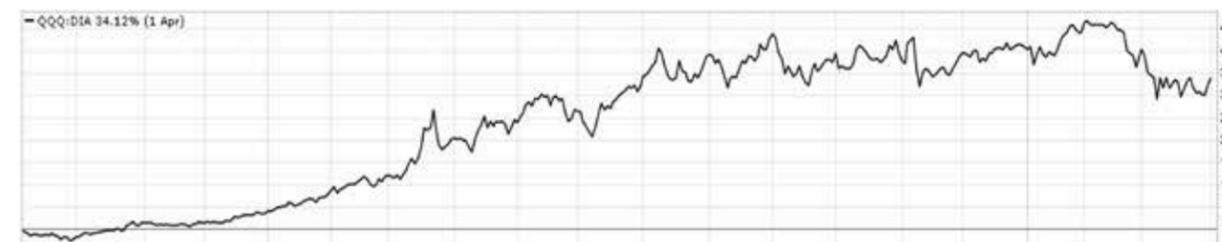
Our base case for equities is for average returns for 2021 in the range of 10% including dividends. Should earnings come in materially stronger, there is a case to be made for a positive upside surprise. With the SP500 breaking out above 4,000, a run to 5,000 is possible as investors rush to buy. Conversely, the speculative sentiment has created the environment of increased supply of stocks from IPO's of SPAC's (Special Purpose Acquisition Company), secondary stock offerings, and insider trading. The increased supply of stocks is of concern to smaller cap companies but may dilute the overall equity market. Under this scenario, the SP500 may drop to the 3,500 range, or a 12% from current levels.

SP500 closed at a new all-time high at 4019 on Thursday, suggesting it will be a "Good Friday" for sure



Currently, most client portfolios are positioned with a balance of value growth and core (valuation near average) positions. Also, with the addition of several dividend paying stocks, the yield of the average portfolio has increased to 1.8%, more than the yield on the 10-year Treasury bond. We expect shorter term rallies of different segments, such as the battle between value and growth stocks or as seen by the performance of the NASDAQ compare to the Dow Jones industrials.

Chart of the relative performance of the NASDAQ 100 index vs. Dow Jones Industrials
The rising line shows that the NASDAQ was performing better than the Dow until February 2021



■ Security Selection: New Sectors, Same Criteria

Below are briefs on our core holdings in most client portfolios. While we have pivoted our investment strategy from a focus on growth stocks to a mix of both growth and value opportunities. Growth stocks perform better when interest rates are stable or declining, while value stocks tend to do better when interest rates are rising. While we are looking at different sectors of the equity market, we continue to follow our traditional criteria in selecting companies with growth of sales and earnings, sustainable market positions, and strong ESG (environment, social, and governance) credentials, among many other factors.



MSFT – \$242

- Largest software developer in the world
- Leader in business application with Office 365 that includes Word, Excel and PowerPoint
- Under the leadership of CEO Satya Nadella, Microsoft has used its legacy platform to the “cloud” under the Azure brand name.
- Microsoft has a AAA credit rating with Standard & Poor’s.
- (ESG) targeting carbon neutral by 2030. One of many strategies is powering data centers with Hydrogen and battery storage.
- Microsoft recently received a \$22 billion contract from the US Army of integrated visual augmentation system headsets, a derivative of their gaming operations.

J.P.Morgan

JPM – \$153.71

- JP Morgan is one of largest diversified financial firms serving individuals and businesses from small to largest.
- After being a villain during the financial crises, banks were viewed positively during the CV19 crisis.
- JP Morgan is positioned to grow earnings from increased economic activity, improved interest margin and growth in AUM in wealth management.
- (ESG) JP Morgan is addressing all aspects of ESG, but the company’s diversity of senior management and Board of Directors sets an excellent example.



RY – \$92.48

- Royal Bank of Canada is the largest bank in Canada and one of the largest in the world.
- Canadian banks are highly regulated with little variability over time, creating a positive competitive position.
- With a 3.7% dividend yield and moderate appreciation potential, Royal Bank of Canada offers moderate returns but with low risk.
- (ESG) One of their many initiatives is to provide \$100 million in loans to young, African American entrepreneurs.



JNJ – \$162.83

- Johnson & Johnson is a diversified healthcare company with pharmaceutical devices and diagnostic divisions.
- Recent emergency use approval of one shot CV19 vaccine with 66% effective in preventing CV19 infection and very effective at preventing hospitalization and death.
- Johnson & Johnson is positioned for earnings growth due to an anticipated increase in patient procedures post CV19.
- AAA credit rating from Standard & Poor’s
- 2.4% dividend yield
- (ESG) Johnson & Johnson is focused on solving the world’s health problem including HIV and tuberculosis.



OKE – \$51.35

- ONEOK operates one of the largest natural gas pipeline systems.
- ONEOK survived the worst of the pandemic and came out in better shape than many investors expected.
- With a dividend yield over 7%, the sustainability of the dividend is a real question, while insider buying does suggest some comfort.
- (ESG) ONEOK is focused on capturing methane gas that would either burn or be released into the atmosphere.



ABBV – \$108.52

- AbbVie is one of the largest drug companies created by the spin-off from Abbott labs in 2013 and has significantly expanded with the 2019 acquisition of Allergan.
- AbbVie’s biggest challenge is the forthcoming patent loss of Humira, a top selling drug in 2013.
- Botox remains a stable key brand.
- Upside earnings momentum could develop as patients schedule cosmetic procedures.
- AbbVie is a value stock with a 9% P/E and 4.8% dividend yield.
- AbbVie is focused on bringing new drugs from the clinical trials to the market.
- (ESG) AbbVie’s focus on ulcerative colitis addresses a disease that greatly impacts many young people.



GRMN – \$132.51

- Garmin is a leader in GPS (Global Positioning System) technologies use in wearables, aviation, marine and automotive markets.
- Garmin suffers from a lack of understanding in the analyst community with only 4 out of 9 analysts rating a “buy”.
- The company continues to be a leader in innovation with new products, including an upgrade with the ability to autonomously land an airplane.
- (ESG) Last year, the company received its 4000th SOS signal over its International Emergency Response Coordination Center.



AMZN – \$3161

- Amazon is recognized as the leader in online retailing, but the genius of Amazon is actually its data operations.
- The majority of Amazon’s cashflow is produced by AWS (Amazon Web Services).
- Its database or cloud services enables many remote communications.
- Inside selling of Jeff Bezos and his former spouse is the major concern over the stock.
- (ESG) Amazon was the first major employer to raise wages to a minimum of \$15/hour with full benefits.



NUE – \$79.88

- Nucor is considered the best operation in the steel industry and has been the most profitable over the last decade.
- A-credit rating with Standard & Poor’s.
- Infrastructure investment, auto demand and real estate development are expected to grow the demand for steel.
- (ESG) Nucor is the largest recycler of steel in New York City using 70% raw material, which reduces the need for mining of iron. Also, the company is beginning to use renewable energy.



ESRT – \$11.37

- We recently added Empire State Realty Trust as a strategy for the “return to the office”.
- Shares are still 20% below pre-pandemic level and they are offering attractive appreciation.
- Properties include the Empire State Building, and many class A business buildings in the New York City metro area.
- With a new line of credit and no maturities until 2025, Empire State Realty Trust’s credit profile appears sound, although with an element of risk.
- (ESG) Empire State Realty Trust has always been a recognized leader in sustainability by investing in energy efficiency. Now, the building portfolio has achieved the “Well Health Safety” rating which considers indoor air quality cleaning and sanitation procedures and emerging prepared.



Moderna – MRNA \$132

- Moderna employed its novel messenger RNA vaccine technology to develop a CV 19 vaccine.
- Long before the virus was feared on January 23, 2020 the company announced an agreement with NIH (National Institute of Health) to develop a vaccine.
- On November 30th, MRNA announced the results of phase 3 clinical trials of 50,000 participants was 94.1% effective in preventing Covid-19 an 100% effective in preventing severe Covid-19.
- In addition to the Covid-19 vaccine Moderna has 9 other indications in development including a vaccine against birth defects, CMV.





IRS Extends Federal Income Tax Filing Deadline to May 17, 2021

The IRS has extended the federal income tax filing deadline for individuals for the 2020 tax year from April 15, 2021 to May 17, 2021. The extension also applies to IRA contributions. Clients who are eligible to make tax deductible IRA contributions can do so via check payable to National Financial Services, LLC, electronic funds transfer and journals from a non-retirement account at Fidelity. Contributions made by electronic funds transfer and the journaling feature may require additional paperwork authorization to Fidelity.

RMD's are back for 2021

Clients who had required minimum distributions from IRA's and retirement accounts were permitted to skip them last year, but RMD's resume in 2021. Most clients choose to use RMD's as a monthly supplement to other income sources, such as Social Security benefits. Clients who do not need to receive monthly RMD's may choose to wait until December for a one-time withdrawal, which keeps their accounts in tax-deferred status for most of the year. A better strategy is to move the funds early in the year to another account for reinvestment, such as a taxable account, as lower long-term capital gains taxes will apply on any realized gains that occur one year or later.

Charitable Planning for 2021

- The \$300 deduction for charitable donations by those who do not itemize their deductions will be allowed for up to \$600 for a married couple in 2021.
- The 100% of adjusted gross income deduction applies for both 2020 and 2021 and can be used in addition to up to 30% of appreciated assets (or 20% of non-appreciated assets donated to a public charity or private foundation).
- Taxpayers over 70 ½ can transfer up to \$100,000 from an IRA to a public charity, foundation, or a community foundation. This excludes donor advised funds, supporting organizations and private, non-operating foundations.
- Taxpayers over 59 ½ can make a transfer from an IRA to a public charity, foundation, or community foundation of up to 100% of adjusted gross income.

Black Diamond Client Portal: A Better Future for your Wealth Management 2021:

Black Diamond is our firm's wealth management portal and provides clients with a unique personalized insight of their portfolios. Clients now have full access anytime to their financial life anywhere. The Client Portal provides access to a configurable portfolio dashboard by reviewing net worth information, creating detailed balance sheet reporting, performance, allocations, and reviewing activity summary. Black Diamond also provides a highly secure hub called The Vault where clients can share important documents with our firm, which eliminates the risk of clogging your email in boxes and hacker invasion. The Vault is a personalized filing sharing and storage system featuring private storage, document management, file, and folder sharing.

To summarize, we believe that the Black Diamond Client Portal will simplify your financial life by:

1. Monthly one page summary of portfolio performance, top holdings, and asset allocation
2. Ability to securely send and receive documents
3. Easy to access with facial id on most smartphones

The Timeline is a consolidated web feed of posts designed to keep clients up to date on important marketing commentary in addition to firm updates. A profile is established for each client to access. We highly recommend activating your account to check out all the cool features Black Diamond has to offer. **If you prefer additional navigational support, please feel free to contact Elicha Moore at: elicha@responsibleadvisors.com**



Gaming 2021

The online gaming industry is evolving into a beneficial "ecosystem" for players, game developers and investors. Video games have come a long way from full size arcade machines, portable consoles with cartridges, compact disks, and now online subscriptions. Over the past decade, online games have become a way for people to connect, communicate and collaborate, which is one reason why it is more embraced and accepted in American households than in past decades.

Most people play video games for fun, but recently it is now a profession, making it a popular career choice for talented and artistic young people. For example, Full Sail University in Winter Park, Florida has an entire program dedicated towards Game Degrees, such as a Bachelor's degree in Game Art and Game Design and a Master's degree program in Mobile Gaming.

In 2020, the global gaming market was valued at \$162.32 billion and is expected to reach a value of \$296 billion by 2026. Approximately 40% of millennials identify themselves as mobile gamers versus 33% of the younger Generation Z.

Using mobile games as social networks, which was jump started by the pandemic last Spring, such as Fortnite, Pokerface and Roblox, have allowed people to not only find an inexpensive way to escape from reality (or boredom, as has been the case), but help people stay socially connected while social distancing. Gaming has also become a spectator sport, which fundamentally changes how game developers will produce games that will focus on the audience, not just the gamer. **Some of the new trends that people can expect in gaming in 2021 and beyond, include:**

- Advances in cloud technology are making cloud gaming drive the market. In May 2020, Nvidia GeForce Now added 19 games to its iCloud gaming library and recently announced that an additional 18 new games will be available soon.
- The adoption of specialized gaming platforms such as E-sports, which are taking off in market demand and driving the overall game industry across the globe.
- The high demand for faster downloading times. The release of 5G and unlimited data plans will be key factors for the success of cloud gaming.
- The smart phone will remain as the main game device versus tablets, consoles, and computers. There were more than 200 million mobile game players in 2019 in the US alone.
- Playable ads which allow people to "try" a game before purchasing.
- E payment systems for purchasing games and virtual currency to upgrade gamer profiles.

The growth and development of the gaming industry and its impact on other industries, will provide numerous investment opportunities in technology, financial and will lead to other investment opportunities in areas in the information technology, communication services, consumer discretionary and financial sectors.