HEMINGTON
WEALTH MANAGEMENT

OUR MISSION IS TO CHANGE LIVES. **ONE "HEMINGTON" AT A TIME.**

HEMINGTON NEWSLETTER

SUMMER 2021

A Year in Review

By Amy Mitchell, CFA, CFP®

The past year was unprecedented – everyone agrees. On March 13, 2020, a national emergency was declared in response to the COVID pandemic. No one knew what the virus would mean for our health, the economy, or our investments. Governments mandated the closure of schools and nonessential businesses, and people were told to stay home, causing unemployment to skyrocket and GDP to plummet. At the same time, the U.S. went through what was arguably the most contentious election in our lifetimes, and oil prices hit the bottom of the barrel with the first negative oil futures. To say there was considerable uncertainty as an investor would be an understatement.

Some Hemington clients reached out to their Wealth Advisor during the ensuing period of dramatic market volatility. Most clients who called or emailed wanted reassurance – "I know you are going to tell me to stay the course, and I just need to hear it from you again." Other clients viewed the downturn as a buying opportunity and wanted to buy more stocks. Only a very small number of clients asked about whether it made sense to go to cash (and no one did).

While hindsight is 20/20, we thought it would be interesting to review our advice at the time.

REMAIN FULLY INVESTED

During the crazy rollercoaster of market returns, investors may have been tempted to get off the ride in the middle – but just like a rollercoaster, that is precisely when you are most likely to get hurt. The nature of the stock market is that it generates much of its return in very short periods of time. March 23 was the bottom of the market, and an investor who got off the ride in March and sat on the sidelines in cash waiting for "a sign that things are turning around" missed some outstanding rallies. In fact, the following chart shows that missing the best 3-month period (March to June 2020) would have resulted in an equity valuation 30% less than staying fully invested – in this example, $7.1 million rather than $10.1 million.

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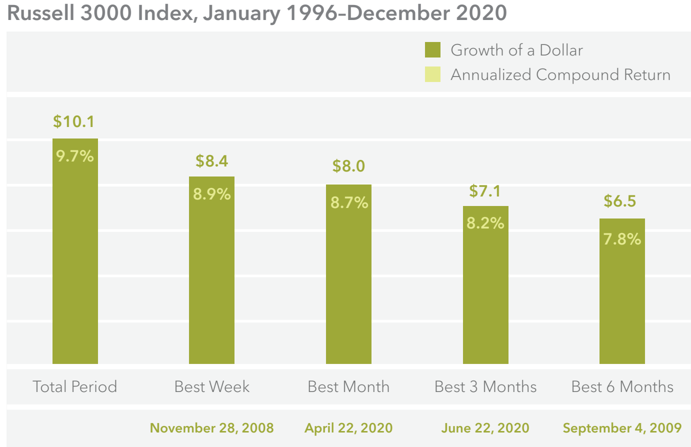
MISSING THE BEST CONSECUTIVE DAYS

Russell 3000 Index, January 1996–December 2020



Best performance dates represent end of period. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. In US dollars. For illustrative purposes. The missed best consecutive days examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best consecutive days, held cash for the missed best consecutive days, and reinvested the entire portfolio in the Russell 3000 Index at the end of the missed best consecutive days. Annualized returns for the missed best consecutive days examples were calculated by substituting actual returns for the missed best consecutive days with zero.

Markets are forward-looking, and the economic recovery was priced into the market well before the economy improved. While unemployment in April 2020 rose to 14.8%, the equity markets experienced their best one-month and three-month returns in the past 25 years (for periods ending April 22, 2020 and June 22, 2020, respectively).

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EQUITY FLOWS

January 2020–February 2021

Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their perform ance does not reflect the expenses associated with the management of an actual portfolio. Data presented in the Growth of Wealth chart is hypothetical and assumes reinvestment of income and no transaction co sts or taxes. The chart is for illustrative purposes only and is not indicative of any investment. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

Not all investors were able to stay the course. While the dark grey line shows the dramatic market decline in March 2020 and the equally dramatic market recovery, the pale green line depicts about $400 billion of assets pulled out of equity mutual funds and ETFs during this time – thus missing out on some of the best days in 2020.

MARKET DIPS AS A BUYING OPPORTUNITY

The primary purpose of rebalancing is to help keep your portfolio's asset allocation aligned with the risk level appropriate for your unique circumstances and long-term financial plan. Rebalancing is also a terrific way to buy low and sell high. During the first quarter of 2020, our team intentionally rebalanced portfolios by selling bonds (which held their value during the market volatility) and buying stocks (which had dropped as a percentage of a client's portfolio). By adding equities when the market dipped – that is, buying stocks when they went "on sale" – clients' portfolios rebounded more quickly when the market turned around.

TAX LOSS HARVESTING

At Hemington, we implement a robust tax loss harvesting strategy by reviewing clients' portfolios every single day looking for opportunities to sell a security at a loss and at the same time buy a replacement security. In this way, clients' portfolios remain fully invested while capturing a capital loss to offset future capital gains – saving you real money at tax time. Any harvested capital losses offset future gains – which lowers your income – and unused capital losses can be carried forward until used. Many firms look to harvest losses only at year end, if at all, while our approach ensures our clients capture the maximum benefit of capital losses as they occur throughout the year.

SMALL/VALUE PORTFOLIO TILTS

Academic research – and logic – tells us that over time smaller less expensive companies tend to outperform larger more expensive companies. At Hemington, our portfolios tilt to small value stocks to capture these premiums. Like stock market returns in general, the small/value premiums tend to occur in bursts. From October 2020 through March 2021, small value stocks outperformed large growth stocks by the largest delta for the best six-month period on record, even better than the recovery after the tech bubble.

Sitting in our chairs now, the view in the U.S. is quite different. The vaccine rollout has allowed life to return to a semblance of normalcy. The CDC recently lifted the mask requirement for fully vaccinated people and more people are venturing out – students are returning to classrooms, restaurants are crowded, and many hotels are fully booked for summer. Regardless of what's happening in the world, we remain committed to our investment philosophy to give you an exceptional investment experience.

WHAT'S NEW AT HEMINGTON?

Hemington was recognized as a **2021 Best Places to Work for Financial Advisers** as announced by ***InvestmentNews***. For the third year in a row, Hemington was chosen as one of the top 75 firms, based on employer and employee surveys delving into everything from company culture, benefits, career paths, and more. The *InvestmentNews* Best Places to Work for Financial Advisers program showcases financial advice businesses that create supportive work environments for all their professionals and recognize the importance of a strong work culture.

Eileen O'Connor was honored as a ***Forbes* 2021 Best-In-State Wealth Advisor**, ranking **18th** out of 75 advisors in the Northern Virginia area. Eileen was selected amidst industry research that prompted Forbes to note in their findings that "the very best advisors are laser focused on having a positive impact on their clients' lives, they want to add meaning, help them live better lives."

Eileen O'Connor was also honored as a ***Forbes* 2021 America's Top Women Wealth Advisor**, ranking 108th out of 1,000 advisors nationwide, and more specifically ranked **2nd in the Northern Virginia area**. Eileen's selection was based on extensive qualitative and quantitative industry criteria looking for advisors who are leading the way in offering best practices and providing a high-quality experience for clients.

The Hemington team celebrating our interns, Alexandra and Tommy.

Our newest Wealth Advisor **Jonathan Duggan** recently became engaged to his longtime girlfriend, Wanitta. Congratulations, Jon & Wanitta!

VIRTUAL EVENT

Understanding Sustainable Investing

Hemington's Managing Director, **Jen Dawson**, moderated a webinar with sustainable investing industry experts Sam and Sarah Adams of Vert Asset Management. In this informative session, questions were answered about how sustainable investing has evolved and the impact that these strategies can potentially have within certain industries and within your portfolio. Reach out to your Wealth Advisor if you would like to learn about Hemington's Sustainable Investing solutions.

This year, the Hemington team has one senior graduating from high school, **Mary Margaret O'Connor.**

In May, Mary Margaret graduated from Georgetown Visitation Preparatory School and will be attending Tulane University in the fall. She plans to study Business (making her mother happy!). Roll Wave!

529 Accounts for Private School Tuition

As a reminder, if your 529 plan account is overfunded for college, you may use up to $10,000 per year for private school tuition for kindergarten through 12th grade. Talk to your Wealth Advisor to find out if this makes sense for your unique situation.

INFLATION ON THE RISE?

Worries about inflation now crowd the headlines. Inflation simply defined is the overall increase in prices and is commonly measured by the consumer-price index (CPI). Some inflation is expected – think about the cost of a gallon of milk over the years – and the Federal Reserve targets an annual inflation rate of 2%. (Sidenote: This is why it doesn't make sense to hold cash for longer-term goals, as today's paltry yield on cash accounts will not keep pace with rising prices.)

The U.S. recently experienced inflation concerns during the financial crisis of '08-'09 as the Fed pursued multiple rounds of quantitative easing. These fears were never realized, and in our opinion, it was because the U.S. economy had productive capacity and was able to meet the increased demand created through stimulus. As money was created, spending increased, and production was able to meet that demand which kept prices stable. It is possible that a similar dynamic could play out in the post-COVID environment, but no one can predict what will happen.

There is information in market prices, however, and rather than guessing or making decisions based on speculation or fear, we look to market prices for information about risks related to interest rates and inflation. According to the Federal Reserve Bank of St. Louis, 5-year breakeven inflation is 2.51% and the 10-year breakeven inflation is 2.39% – slightly above the Fed's current target of 2%. We can view this as a natural response to market participants' view of economic recovery in the short run and a return to stable prices around the Fed's target in the long run. In current "Fed speak": today's higher inflation may be transitory.

The real inflation concern stems from the worry that steep or unexpected inflation may erode the purchasing power of our dollars. According to a recent Wall Street Journal article, the CPI was up 4.2% in April from a year earlier, about double the Fed's inflation target. While this 4% figure may seem alarming, we need to take it in context – last year was an anomaly and skews the year-over-year comparison because of the deflated base in April 2020.

At Hemington, we plan for inflation and have constructed your portfolios accordingly. We have built in hedges for unexpected inflation to protect your purchasing power, especially for our retired clients. Let us explain how.

- **Equities** – Stocks are a natural inflation hedge, simply because they have higher expected returns over the long term. During periods of unexpected inflation, value stocks tend to outperform as investors tend to purchase "cheap" or value companies. Every portfolio we manage has a slight value tilt.
- **Real Estate** – Inflation increases the prices of real assets, including real estate. At Hemington we have a purposeful allocation to real estate mutual funds, which benefit from higher rents and property values during periods of higher inflation.
- **Short-term Bonds** – Inflation and fluctuating interest rates tend to go hand-in-hand. Shorter-term bonds have less sensitivity to rising interest rates because they are able to be rolled into new bonds at prevailing (higher) interest rates. Our bond allocations are purposefully shorter-term – thus, when interest rates change, the impact on our bond allocation is minimal as compared to longer-term bonds or a laddered strategy.
- **Treasury Inflation-Protected Securities (TIPS)** – TIPS are bonds whose principal is tied to the CPI. If inflation is higher than expected, TIPS will have higher returns, which is exactly what you want with an inflation hedge. We include higher allocations to TIPS for retired clients.

Please reach out to your Wealth Advisor if you have any questions.

About Hemington Wealth Management

Hemington Wealth Management provides high net worth individuals and families with a broad range of wealth management services including portfolio management. We are collaborative, accessible and responsive, making it easy for clients to work with our team.

Hemington Wealth Management

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