



THE ROCKBRIDGE TEAM:

Craig Buckhout, CFA, CPWA
Anthony Farella, CFP®
Patrick Rohe, CFP®
Edward Barno, CPWA
David Carroll, CFP®
Ethan Gilbert, CFA, CFP®
Nicholas Stancato, CFP®
Kevin Sullivan, CFP®
Claire Kobylanski
Mike Antonacci, J.D.
Zach DeBottis, CFP®
Patricia Edwards
Julie Murfitt
Julia Conlan
Robert Ryan, Ph.D.
Edward Petronio, Ph.D.

Our vision at Rockbridge is to provide our clients with unrivaled financial advice; building lifelong relationships and empowering them to fully enjoy their lives.

We believe the success we share with our clients is driven by a relentless focus on our culture and core values: Honesty, Curiosity, Discipline and Excellence.

The Stimulus Bill Explained *by Mike Antonacci*

Congress recently passed a highly anticipated economic stimulus bill just in time for the holidays. The entire bill contains over 5,000 pages of new legislation appropriating over \$900 billion in government spending. The following is an outline of the provisions most pertinent to our clients here at Rockbridge.

The headline provision in the bill is the additional direct payment stimulus checks to individuals who qualify based on their income. The base credit amount is \$600 per individual and includes additional payments to taxpayers who claim child tax credits for children under the age of 17. Similar to the CARES Act, taxpayers whose adjusted gross income (AGI) is above a certain amount will see their payment reduced or eliminated altogether.

Example: David is a single taxpayer with 2 children under the age of 17, and AGI of \$65,000 in 2019. Therefore, David will receive \$1,800 - \$600 for David and \$600 for each child under 17.

Similar to the CARES Act, these payments begin phasing out for single filers with AGI above \$75,000 and married filers with AGI above \$150,000. The phaseout provision reduces the taxpayer's payment by \$5 for every \$100 of AGI above the limit.

Example: David and Jenna file a joint return and claim Child Tax Credits for 3 children under the age of 17. Before taking into account their AGI, the couple would expect to receive direct payments of \$3,000 - \$600 for David, \$600 for Jenna, and \$1,800 total for the children. However, David and Jenna have an AGI of \$175,000. Therefore, the couple will see their payment reduced by \$1,250, leaving them with a direct payment of \$1,750.

The stimulus bill also addressed the Paycheck Protection Program (PPP), another major program enacted under the CARES Act. Arguably the most significant item addressed for small businesses who already have an outstanding PPP loan is the deductibility of business expenses paid for with funds from the PPP loan. This is significant because while the CARES Act specifically stated that PPP loans would not be included as income, the IRS subsequently took the position that expenses paid for with PPP loan funds were therefore not deductible – effectively making the loans taxable. Fortunately, small business owners now have clarity that they can seek loan forgiveness without increasing their tax bill.

Other important PPP related items contained in the bill include both reopening the window for small businesses to apply for an initial loan and providing those businesses who received a PPP loan but continue to need financial support an opportunity for a second loan, albeit with more strict qualification requirements. The bill also expands the types of business expenses that qualify for loan forgiveness.

People may be wondering if the new stimulus bill extends certain popular provisions enacted by the CARES Act, including waiving required minimum distributions (RMDs) and Federal student loan relief. Unfortunately, the answer is no. At this point individuals should plan on taking their RMD for 2021, and those with Federal student loans should plan to resume making those payments beginning in February.

Those who do not need distributions from their retirement accounts to meet their living expenses may want to wait until later in the year (if they do not already), in the event that additional legislation is passed further waiving RMDs. Contact your Rockbridge advisor if you would like to discuss a plan for your 2021 RMDs. ♦

Investment Lessons Found in the Year of the Coronavirus *by David Carroll*

Investors' nerves were tried throughout 2020, yet those investors who avoided behavioral mistakes and didn't let their emotions get the best of them were rewarded handsomely. The year was full of lessons, but some highlights were:

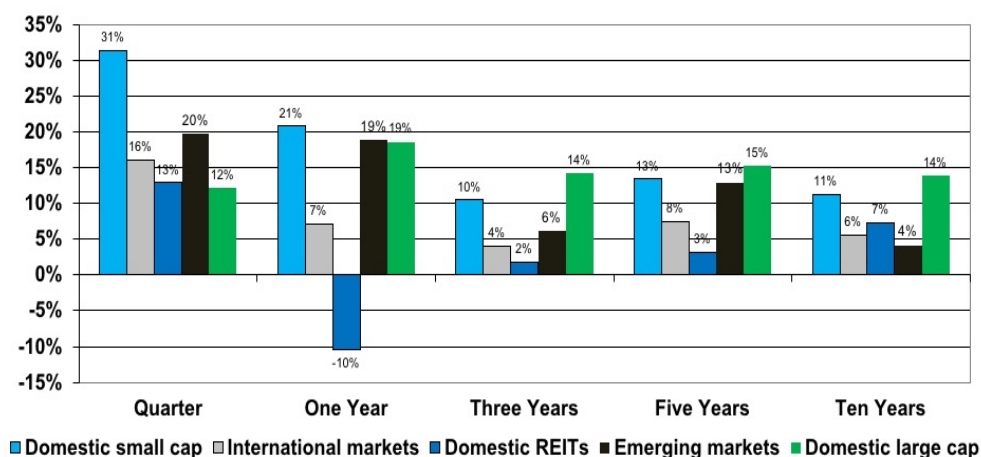
- 1) Market results are unpredictable - Missing the best market day in March would have cost you 10%. That "lost" 10% will compound over time and never be recovered. Investors who resisted the urge to bet against the market came out ahead, investors who didn't made a mistake they will regret.
- 2) Stock prices reflect expectations about the future - Markets are forward looking and "news" that is public knowledge is already baked into stock prices. In other words, making investment decisions about what you see, read, or hear will often have poor results.
- 3) The impact of Washington - Stocks have appreciated almost 15% since election day. The party in power does not drive stock prices. Stocks will find a path to profitability regardless of Washington. This year, many investors realized their predictions on what *should* happen in financial markets as a result of the election were trumped (no pun intended) by an always unpredictable market.
- 4) Don't confuse luck and skill - In 2019, nobody would have guessed 2020 would look anything like it did. The few investors who made great timing decisions (got out of the market and back in) or bought any of the large technology stocks soon after the crash should know that sometimes bad decisions have good outcomes (i.e. they got lucky). Don't confuse luck and skill. Buying a winning lottery ticket was a bad decision that had a good outcome, and there is no skill in picking winning lottery numbers. ♦

Market Commentary *by Bob Ryan*

Stock Markets

Results over the past quarter are consistent with positive expectations due to the introduction of vaccines in November. Small company stocks and Real Estate markets have snapped back but not enough to bring the past year's Real Estate returns into positive territory. Over longer periods, domestic stock markets have outpaced international and emerging markets.

Stock Market Returns over Periods Ending
December 31, 2020
(Returns greater than a year are annualized)

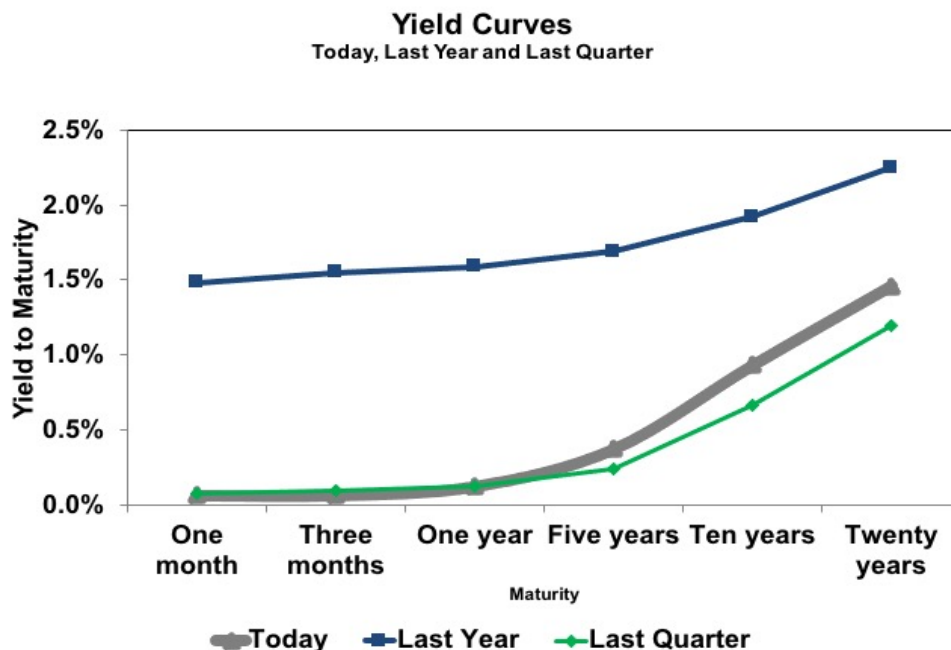


Market Commentary *Continued*

Bond Markets

The Yield Curve shows the pattern of observed returns from holding Bonds to term across several maturities. Today these yields go from essentially zero to about 1.5% across a twenty-year spectrum. Yields have dropped since a year ago, which explains positive returns over the past year, especially those for longer maturity Bonds. On the other hand, yields have increased at the long end of the curve over the most recent quarter, impacting returns for longer dated Bonds negatively.

The slope of today's yield curve has steepened over the past quarter which is consistent with expectations for increased interest rates. ♦



A Perspective on 2020

2020 gave us one extraordinary event after another: a hundred-year pandemic that has taken over 350,000 American lives; lockdowns and quarantines producing massive unemployment and a deep recession; a government in disarray capped off by a contested Presidential election; Black Lives Matter protests; one hurricane after another; and unrelenting wildfires across the West. Now, we have scientific breakthroughs producing Coronavirus vaccines in record time. This development plus an essentially resolved Presidential election means we can begin to see a “light at the end of the tunnel.” Signals from capital markets seem to be telling us so.

Throughout the year capital markets responded to these events. Not only were stocks volatile but Bond yields dropped significantly as monetary policy and markets reacted to the onset of the pandemic, and remained close to zero. Yields on inflation-adjusted Bonds like TIPS dropped below zero and stayed there.

During 2020 the stock market returns were not only volatile but were inconsistent among the various markets. Over the first nine months the largest U.S. Tech companies fared reasonably well – other markets fell short. Those who told us the “market” came back after the initial fall off in March were only talking about the S&P 500, which is driven by these largest Tech companies. The numbers tell this story: Over the period ending September 30th, the S&P was up nearly 6% while a globally diversified portfolio was off almost 8% - a 14% difference. With the announcement of an effective Coronavirus vaccine in November we get a different story. While all markets were up in the fourth quarter the S&P 500 did not keep pace – the worldwide portfolio earned 20% versus 12% for the narrowly focused S&P 500. All in all, however, stocks earning better than 10% over this truly extraordinary year is not bad!

With the onset of the pandemic, Bond yields dropped significantly and have remained low. While yields at the short end, which are most affected by the Fed, remain close to zero, yields at the longer end have increased in recent months, which is consistent with expectations for an improving economic environment. Bonds were strong in 2020 – earning from 3% to 10% over the year depending on maturity. Most of these results came in the first quarter after the sharp fall-off in yields.

Markets look ahead and recent activity is consistent with positive expectations for a recovery from the effects of the Coronavirus vaccines. As the economy improves, perhaps the Fed will feel less inclined to drive interest rates to zero. There is no doubt that the cost of money is at rock bottom and readily accessible. With this availability and a pent-up demand in both the private and public sectors, it is reasonable to expect an improved economic environment. While many uncertainties remain, a pickup in the economy could produce more reasonable stock and Bond markets. Yet, 2020 was a stark reminder that markets are driven by surprises. Today's environment feels a little more comfortable, and perhaps we can hope for positive surprises out-weighting negative surprises going forward. ♦

Rockbridge Spotlight



Please join us in congratulating our own Zach DeBottis on the completion of his CFP® certification! Zach was born and raised in Syracuse, NY and started working at Rockbridge as an intern in 2018. Zach joined Rockbridge full time upon graduating from SUNY Geneseo in 2019 and has been a fantastic addition to our team. Becoming a Certified Financial Planning professional is an incredible accomplishment and reinforces Rockbridge's mission to provide accurate and objective financial planning advice. Congratulations, Zach! Well deserved!

We would also like to congratulate our Partner here at Rockbridge, David Carroll, on his recent engagement to Jenna Salvatore! ♦



Returns from Various Markets

The following table shows the returns from various markets over periods ending December 31, 2020:

| Market/Asset Class | Quarter | YTD | 1 Year | 3 Years | 5 Years | 10 Years | 20 Years |
|----------------------------------|---------|--------|--------|---------|---------|----------|----------|
| FIXED INCOME | | | | | | | |
| 3-Month US Treasury Bills | 0.03% | 0.67% | 0.67% | 1.61% | 1.20% | 0.63% | 1.51% |
| Bloomberg Barclays US Agg Bond | 0.67% | 7.51% | 7.51% | 5.34% | 4.44% | 3.84% | 4.83% |
| Bloomberg Barclays 1-5 Yr Credit | 0.95% | 5.19% | 5.19% | 4.27% | 3.54% | 3.04% | 4.30% |
| DOMESTIC STOCKS | | | | | | | |
| S&P 500 | 12.15% | 18.40% | 18.40% | 14.18% | 15.21% | 13.88% | 7.47% |
| S&P 500 Value | 14.49% | 1.36% | 1.36% | 6.78% | 10.52% | 10.74% | 6.10% |
| S&P 500 Growth | 10.66% | 33.47% | 33.47% | 20.50% | 18.97% | 16.49% | 8.47% |
| Russell 2500 | 27.41% | 20.02% | 20.02% | 11.33% | 13.64% | 11.97% | 9.45% |
| Russell 2500 Value | 28.50% | 4.92% | 4.92% | 4.35% | 9.44% | 9.33% | 8.93% |
| Russell 2500 Growth | 25.88% | 40.46% | 40.46% | 19.89% | 18.67% | 14.99% | 9.46% |
| MSCI US REIT | 11.52% | -7.57% | -7.57% | 3.54% | 4.84% | 8.30% | 9.43% |
| INTERNATIONAL STOCKS | | | | | | | |
| MSCI EAFE | 16.05% | 7.82% | 7.82% | 4.28% | 7.45% | 5.51% | 4.50% |
| MSCI Emerging Markets | 19.70% | 18.31% | 18.31% | 6.17% | 12.81% | 3.63% | 9.59% |
| U.S. Consumer Price Index | -0.02% | 1.27% | 1.27% | 1.82% | 1.93% | 1.73% | 2.03% |

Note: These results were developed by simulating past returns in the various markets included in each benchmark, assuming the reinvestment of dividends and other earnings. The BofA Merrill Lynch 3-Month U.S. Treasury Bill Index represents money market/cash; the Bloomberg Barclays US Aggregate Bond Index represents the total U.S. bond market; the Bloomberg Barclays 1-5 Yr Credit Index represents the U.S. corporate bond market; the S&P 500, S&P 500 Value Index and S&P 500 Growth Index represent the domestic large-cap market; the Russell 2500, Russell 2500 Value Index and Russell 2500 Growth Index represent the domestic small-cap market; the MSCI U.S. REIT Index represents the U.S. real estate market; the MSCI EAFE Index represents the developed international equity market; the MSCI Emerging Markets Index represents international emerging markets. Benchmark Portfolio returns include Real Estate and Emerging Markets allocations beginning in July 2011. Benchmark Portfolio returns do not include allocations to these asset classes prior to June 30, 2011. Benchmark portfolio returns include Corporate Bond Market as of January 1, 2019 and do not include an allocation to this asset class prior to this. This data is presented to show the long-term relationship between returns at various levels of investment risk. It is not intended to present performance results experienced by clients of Rockbridge Investment Management, but is intended to provide a benchmark against which actual performance might be judged. Also, readers should recognize that future investments would be made under different economic conditions. It should not be assumed that future investors would experience returns, if any, comparable to those shown above. The information given is historic and should not be taken as any indication of future investment results.