KOA WEALTH MANAGEMENT®

2021 FIRST QUARTER SUMMARY AND YEAR AHEAD MARKET OUTLOOK

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KOA WEALTH MANAGEMENT®

Q1 MARKET SUMMARY – A CHANGE IN MARKET LEADERSHIP & UNDERSTATED VOLATILITY

On the surface, the first quarter of 2021 featured many noteworthy firsts: Joseph Biden took over as President, the Democrats held both houses of Congress after nearly 6 years, Coronavirus cases were on a steady decline even as the arrival of vaccines from Pfizer-Biontech, Moderna and Johnson & Johnson finally pointed to the light at the end of the Coronavirus tunnel, Bitcoin crossed the $50K threshold, the Gamestop stock whipsaw of the WallStreetBets crowd saw individual investors (at least temporarily) gain an edge over institutions and Non-Fungible Tokens (NFTs) entered the investor lexicon as the next "new new thing".

On the market front, while Q1 2021 saw a continuation of some Q4 2020 trends especially the run up in most equity markets with the S&P up 6% YTD and International markets up 2-4%, there was a more pronounced change in market leadership with small caps outperforming large caps, cyclicals beating defensives, beaten-down value sectors such as Energy/Financials/Industrials posting 10-30% returns while prior high-fliers such as Technology/Consumer Discretionary eked out low single-digit returns. In the bond market, the most notable development was the spike in the 10-year yield to 1.7%, which roiled the bond markets and sent Treasuries & Investment Grade Corporate bonds into selloffs.

PORTFOLIO POSITIONING – ASSET ALLOCATION DISCIPLINE & MEAN REVERSION

One of the well-worn maxims in investing is the following: "Diversification is the only free lunch". With that in mind, we spotlight the importance of asset allocation and prudent diversification through a recent chart in JP Morgan's "Guide to the Markets" publication. We favor this chart since it highlights mean reversion, a key tenet of investing, whereby the best and worst-performing style factors flipped spots multiple times over the past 15-20 years. To us, this highlights why we rebalance portfolios periodically and build globally diversified portfolios which are built to withstand market volatility and take advantage of various multiple market cycles.

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD
High Div. 21.1%	Momen. 17.8%	Min. Vol. -25.7%	Value 38.8%	Small Cap 26.9%	High Div. 14.3%	Cyclical 20.1%	Value 43.2%	Value 17.7%	Momen. 9.3%	Small Cap 21.3%	Momen. 37.8%	Min. Vol. 1.5%	Cyclical 36.3%	Momen. 29.6%	Value 18.5%
Value 19.7%	Defens. 17.7%	Defens. -26.7%	Cyclical 36.9%	Multi-Factor 18.3%	Min. Vol. 12.9%	Value 16.8%	Small Cap 38.8%	Min. Vol. 16.5%	Min. Vol. 5.6%	High Div. 16.3%	Cyclical 27.3%	Momen. -1.6%	Quality 34.4%	Cyclical 27.8%	Small Cap 12.7%
Small Cap 18.4%	Quality 10.1%	High Div. -27.6%	Multi-Factor 29.8%	Momen. 18.2%	Defens. 10.1%	Small Cap 16.3%	Multi-Factor 37.4%	High Div. 14.9%	Quality 4.6%	Value 15.9%	Quality 22.5%	High Div. -2.3%	Momen. 28.1%	Small Cap 20.0%	Multi-Factor 8.0%
Multi-Factor 16.6%	Multi-Factor 5.5%	Quality -31.2%	Small Cap 27.2%	Cyclical 17.9%	Quality 7.5%	Multi-Factor 15.7%	Cyclical 35.0%	Multi-Factor 14.8%	Cyclical 2.6%	Cyclical 14.0%	Value 22.2%	Defens. -2.9%	Min. Vol. 28.0%	Quality 17.1%	High Div. 7.8%
Defens. 15.9%	Min. Vol. 4.3%	Small Cap -33.8%	Quality 24.9%	High Div. 15.9%	Multi-Factor 7.3%	Momen. 15.1%	Momen. 34.8%	Momen. 14.7%	High Div. 0.7%	Multi-Factor 13.7%	Multi-Factor 21.5%	Cyclical -5.3%	Value 27.7%	Multi-Factor 11.4%	Cyclical 5.7%
Cyclical 15.0%	Value 1.1%	Value -36.9%	High Div. 18.4%	Min. Vol. 14.7%	Momen. 6.1%	Quality 12.8%	Quality 34.3%	Cyclical 13.6%	Multi-Factor 0.4%	Min. Vol. 10.7%	High Div. 19.5%	Quality -5.6%	Multi-Factor 26.6%	Min. Vol. 5.8%	Quality 5.2%
Min. Vol. 15.0%	High Div. 0.0%	Multi-Factor -39.3%	Min. Vol. 18.4%	Quality 14.2%	Value -2.7%	Min. Vol. 11.2%	High Div. 28.9%	Defens. 13.0%	Defens. -0.9%	Quality 9.4%	Min. Vol. 19.2%	Multi-Factor -9.7%	Small Cap 25.5%	Defens. 5.2%	Defens. 4.7%
Quality 12.8%	Cyclical -0.8%	Momen. -40.9%	Momen. 17.6%	Value 12.7%	Cyclical -3.4%	Defens. 10.7%	Defens. 28.9%	Quality 10.7%	Small Cap -4.4%	Defens. 7.7%	Small Cap 14.6%	Small Cap -11.0%	High Div. 22.5%	High Div. 1.7%	Min. Vol. 2.3%
Momen. 10.7%	Small Cap -1.6%	Cyclical -44.8%	Defens. 16.5%	Defens. 12.0%	Small Cap -4.2%	High Div. 10.6%	Min. Vol. 25.3%	Small Cap 4.9%	Value -6.4%	Momen. 5.1%	Defens. 12.3%	Value -11.1%	Defens. 21.4%	Value -0.2%	Momen. -0.2%

OUR MARKET THOUGHTS – VACCINES, STIMULUS, MARKET CYCLES, INTEREST RATES, TAXES/SPENDING

As we ponder what will likely be a volatile road ahead for the markets, we maintain a cautiously optimistic stance and expect that the gradual re-opening of the economy which began in Spring, to continue through summer, while ushering in above-trend GDP growth and subsequently a return to normalized sales/earnings growth for companies worldwide. Below are key drivers/topics for the year ahead:

1 CORONAVIRUS VACCINES & A RETURN TO NORMALCY.

To date, we have seen a robust period of vaccinations over the past quarter globally thanks to one of the fastest vaccine deliveries on record from the likes of Pfizer-Biontech, Moderna & AstraZeneca. In the US, close to 20% of the US population has been fully vaccinated per the CDC and a 1/3rd of the population has gotten at least 1 vaccine shot, with the expectations that herd immunity should be achieved by the summer. We expect Europe will achieve herd immunity by September, and emerging market countries like Brazil and India to do so by the end of 2021. Barring any setbacks due to Coronavirus variants, this bodes well for unprecedented consumer demand and an ensuing economic recovery in 2021 and 2022.

2 FEDERAL RESERVE/CONGRESS/STIMULUS, INTEREST RATES AND INFLATION.

Among reasons for the swift pullbacks off March 2020 lows, the combined stimulus from both the Federal Reserve and Congress is at the forefront. The Federal Reserve slashed rates to near zero during the pandemic, boosted its balance sheet in excess of $4 trillion, and resolved to leave rates unchanged for the foreseeable future. Congress signed a $3.0 trillion stimulus plan (via the CARES act) into law last year and followed it up with a recent $1.9 trillion stimulus plan to help individuals and small businesses hurt by the pandemic, which will likely boost US GDP growth but at the expense of stoking inflation fears. We expect the 10-year to be range bound for the rest of 2021 as the Federal Reserve likely keeps rates unchanged. Bond proxies such as Real Estate Investment Trusts (REITs) and Staples, have been helpful "Tells" in forecasting the recent slowing of the ascent in rates… should they start to sell-off again later this year, they may again signal another move higher in rates (Potentially).

OUR MARKET THOUGHTS – VACCINES, STIMULUS, MARKET CYCLES, INTEREST RATES, TAXES/SPENDING - CONT.

3 MARKET CYCLES AND INVESTMENT IMPLICATIONS.

After years of pondering whether we were in mid or late cycle, the Covid pandemic abruptly brought the market cycle to a halt and plunged us into a sharp, yet short, recession. Based on the quick rebound in Global Composite PMIs which slid into contractionary territory (i.e., readings below 50) in 1H2020 but are now in expansionary territory, and Global Real GDP growth which slid 3.6% in 2020 but is projected to hit above-trend 6.2%/4.5% growth in 2021, we are likely hovering between early-mid-cycle mode. Typically, early stages of any market cycle witness International Growth trumping US growth, which has translated into a weak dollar and outperformance of foreign markets, which trade at a 20%+ discount to historical average forward P/E ratios vs. US markets which trade at a 30% premium. They also favor Cyclical value-oriented sectors such as Industrials/Materials which benefit from robust global aggregate demand/diminished supply, and Financials which benefit from a steepening yield curve, over more defensive sectors.

4 HIGHER TAXES/INFRASTRUCTURE SPENDING.

As of this writing, the Biden administration has proposed preliminary corporate taxation and infrastructure plans. Given that any major legislation undergoes multiple revisions before it passes through Congress, we have nothing meaningful to add now other than to state that the former will likely result in a low single-digit hit % to S&P 500 EPS, and some of the latter may have been priced into Industrials' sector performance post-election.

KEY PORTFOLIO CHANGES – A NOD TO QUALITY, CYCLICALS, SMALL CAPS & ALTERNATIVES

Recently, we wrote about how our Investment philosophy has a few key tenets in mind: preference for quality franchises or funds from top-notch investment organizations that have good track records spanning market cycles, reasonable investment valuations relative to future growth prospects, and construction of portfolios that can weather the inevitable market downturns while patiently compounding capital. We also adopt a barbell approach within our Equity bucket, splitting it into Secular Growers, Cyclical Growers and Defensive Dividend Payers and utilize a balanced approach within our Fixed Income bucket.

For instance, we made the following changes/tweaks to our investment portfolios of late, keeping a 3-5-year investment timeframe in mind:

1. **WE ADDED TO OUR HOME DEPOT (HD)/LOWE'S (LOW) POSITIONS.**

2. **WE ENHANCED OUR POSITIONING IN CYCLICAL SECTORS INCLUDING FINANCIALS (BLACKSTONE (BX)), INDUSTRIALS (BOEING (BA)) & MATERIALS AT THE EXPENSE OF DEFENSIVE CONSUMER STAPLES AND HEALTHCARE HOLDINGS**

3. **WE INITIATED A POSITION IN A GLOBAL SMALL CAP FUND FROM A WELL-RECOGNIZED FUND FAMILY.**

4. **WE CONTINUE TO WORK ON RESEARCHING/ENHANCING OUR ALTERNATIVES ALLOCATIONS.**

KEY PORTFOLIO CHANGES – A NOD TO QUALITY, CYCLICALS, SMALL CAPS & ALTERNATIVES - EXPLAINED

1 WE ADDED TO OUR HOME DEPOT (HD)/LOWE'S (LOW) POSITIONS.

Within Retail, we start with retailers that Amazon would find hard to disrupt, and we believe both HD/LOW qualify amongst a handful of retailers. We favor both home improvement retailers as they benefit from strong housing tailwinds due to limited supply across most markets, rising millennial household formations, low mortgage rates and higher home-improvement spending as more corporations favor work-from-home schedules. In addition, both retailers have strong opportunities to enhance margins through better merchandising, supply chain enhancements and can post double-digit earnings growth for the foreseeable future while trading justifiably a few turns above the S&P 500's earnings multiple.

2 WE ENHANCED OUR POSITIONING IN CYCLICAL SECTORS INCLUDING FINANCIALS (BLACKSTONE (BX)), INDUSTRIALS (BOEING (BA)) & MATERIALS AT THE EXPENSE OF DEFENSIVE CONSUMER STAPLES AND HEALTHCARE HOLDINGS

Consistent with our belief that institutional allocations to alternatives will only increase as investors seek non-traditional sources of income or equity-market like returns with less volatility, we believe Blackstone is a best-in-class alternatives investment firm with over $600 billion in assets, ~$150 billion in dry power with industry leading franchises in Private Equity, Real Estate, Private Credit & Growth Equity which should help it generate mid-teens AUM growth and high-teens fee-related earnings growth. In contrast, we added Boeing (BA) as our non-consensus post-vaccine return-to-normalcy play as we believe that a pickup in airline travel/ a resurgence of airline orders from major airlines favors what is in effect a global duopoly with Airbus; further, we believe that the Street will begin to value Boeing based on normalized post-Covid earnings which we believe likely occurs by 2024.

3 WE INITIATED A POSITION IN A GLOBAL SMALL CAP FUND FROM A WELL-RECOGNIZED FUND FAMILY.

Consistent with our view that Small Caps globally should fare well in the early stages of a market cycle, and our view that beaten-down International markets are more favorably valued than domestic markets (i.e., the former trades at a 30% premium while the latter trades at a discount), we added to our weighting in Global Small Caps. In this specific case, we chose a stellar Portfolio Management team that has invested across multiple market cycles, has a 20+ year track record of compounding capital in excess of its benchmarks and has reasonable side-by-side ownership within the fund.

4 WE CONTINUE TO WORK ON RESEARCHING/ENHANCING OUR ALTERNATIVES ALLOCATIONS.

IIn a low-interest-rate higher-volatility world where the outlook for traditional fixed income is uninspiring and 2020 returns may have pulled forward future equity market returns, we continue to research/allocate to areas like private real estate, private credit and hedge funds run by institutional quality firms such as Blackstone/Starwood with a track record of investing private market capital successfully across multiple market cycles.

Q1 PLANNING SUMMARY

Over the last 3 months we have seen many changes implemented into legislation as our government continues to try and goose the economy into more rapid growth as we look to reopen. While some of these changes may not affect all our clients, I wanted to highlight a few that could apply to you. With the new administration working day and night to push their agendas, we believe this is just the start to the new planning changes that will affect our clients.

1 IRS EXTENDS THE TAX DEADLINE TO MAY 17TH, 2021.

Each state announced their separate guidance on the extension, but all taxpayers can now delay filing their Federal taxes up until mid-May. This may be helpful for many pre-retirees as it provides more time to contribute to a traditional IRA, Roth IRA, and Health Saving Accounts. For those who qualify and can make direct contributions to these accounts, you can now make contributions for the 2020 tax year all the way up to May 17th. If you already filed your 2020 tax return you will need to amend them if you decide to contribute to a traditional IRA or Health Savings Account, as these contributions are tax deductible. However, you don't need to amend your tax return to make a directcontribution to a Roth IRA as this contribution is not tax deductible. Please keep in mind, if you are using the backdoor Roth IRA contribution strategy because your income is too high to qualify for a direct Roth IRA contribution, you will need to report this on form 8606 when you file your taxes.

2 THE AMERICAN RESCUE PLAN ACT (ARPA) TEMPORARILY INCREASED THE DEPENDENT CARE FSA CONTRIBUTION FROM $5,000/YEAR (FOR A MARRIED COUPLE FILING JOINTLY) TO $10,500/YEAR.

We all know kids are expensive and most parents spend more than $5k/year on childcare expenses, so this change could be a huge tax benefit for families. For now, this increase has only been made for the 2021 tax year, but parents should try and take advantage of the increase while they can. According to the legislation, participants are allowed to make changes to their Dependent Care FSA contributions outside of the open enrollment period as long as their plan sponsors implemented these new rules to their plan. If you'd like to participate in this tax-deductible benefit, reach out to your HR contact to find out if and when the changes will go in to affect for your company plan.

In addition to this childcare tax strategy, I'd like to highlight that Dependent Care FSAs can be used for eldercare expenses as well. According to the IRS, expenses for eldercare can be used with Dependent Care FSAs if the elder dependents are claimed on the FSA holder's taxes and they live with FSA holder for at least 8 hours a day.

Q1 PLANNING SUMMARY - CONT

3 THE AMERICAN RESCUE PLAN PROVIDES TAX BREAKS FOR THOSE WHO RECEIVED UNEMPLOYMENT INCOME.

Lastly, if you received unemployment income you could qualify for $10,200 of that income to be excluded from Federal taxes. According to the IRS, if your Modified Adjusted Gross Income (MAGI) was less than $150k (no matter what your filing status was) then $10,200 of unemployment income can be excluded for each spouse that received unemployment income in 2020. The IRS has stated that they will begin to refund the difference in taxes paid for those who filed before the tax rules were changed, starting in May. Talk with your CPA to see if amending your taxes is necessary to receive all the benefits this change generates for your situation.

As always, please feel free to reach out if you have any questions on any of the topics discussed above.

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