The ACM Journal

Eww.

One look at your portfolio, and it is not hard to see that value stocks have been laggards recently. However, over the long-term, value stocks that trade at cheap valuations have historically provided the strongest returns. This is the strategy espoused by Warren Buffett and many other famous investors. The idea is to find good assets, buy them at great prices, and watch them grow and improve over time.

While that value mindset works well for long-term investing, it can prove a liability in real life. Sure, buying things on sale, haggling for the best deals, and generally being cognizant of the value of your dollars all make sense. But maybe one can go overboard.

Such was the case at my house a few weeks ago. It was Sunday afternoon. I had already done what I needed to do for the weekend and was lounging in bed watching TV when Nipa came in to get a plunger from our bathroom. I didn't think much of it.

However, twenty minutes later she reappeared looking nonplussed, and requested my assistance. I reluctantly went downstairs to find that not only was the toilet clogged, but there

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Portfolio Review

The stock market's movements so far this year can best be described as weird. That may not be an apt technical definition, but there's no better way to put it.

The stock market dropped 35% in 31 days, and then recovered all of its losses just five months later. The S&P 500 is now close to its all-time high, which was reached in early September, post-Covid.

There is still much uncertainty in the economy. Job loss is still a pervasive issue, businesses continue to struggle, and parts of the economy are still effectively paralyzed either by government fiat or consumer choice.

This seems like an odd environment for stocks to be achieving all-time highs. However, a look beneath the surface does offer some insights. The S&P 500 index has indeed achieved all-time highs, but other market segments, including mid-cap, small-cap, international, and value stocks are all still well below their previous records.

When looking at the stock market through our factor lens, value stocks have suffered the most during the downturn, and have been slow to recover. Low volatility stocks have done better than value but have still struggled. Quality stocks have performed roughly in-line with the S&P 500. And, momentum stocks have continued to dominate.

Momentum stocks currently include all the largest technology companies. Tesla, Apple, Amazon, Microsoft, Netflix, and Google are among the largest holdings in the momentum fund we own. These stocks have performed exceptionally well and have driven the overall stock market to new heights.

However, the overall market's gains seem fragile, as only a relative handful of stocks have accounted for literally all of the gains. The dominance of the technology stocks is starting to feel a lot like the technology boom of the 1990s, and indeed, by some valuation metrics it is worse today. Investors have largely focused their attention, and their dollars, on the largest, but also the most overvalued, and in some cases the least profitable stocks. That doesn't seem sustainable. Over time the cheapest, most profitable stocks have generated the best returns for investors. It seems likely the pendulum will swing back that way before long.

Also supporting eye-popping valuations in some segments of the stock market is today's historically low interest rate environment. We have data going back to the late 1700s, and interest rates have never been even close to as low as they are now. The 10-year Treasury bond yields a paltry 0.75%, and even that is up from the 0.50% it was yielding back in March. Bond prices go up as interest rates decline, so this year has

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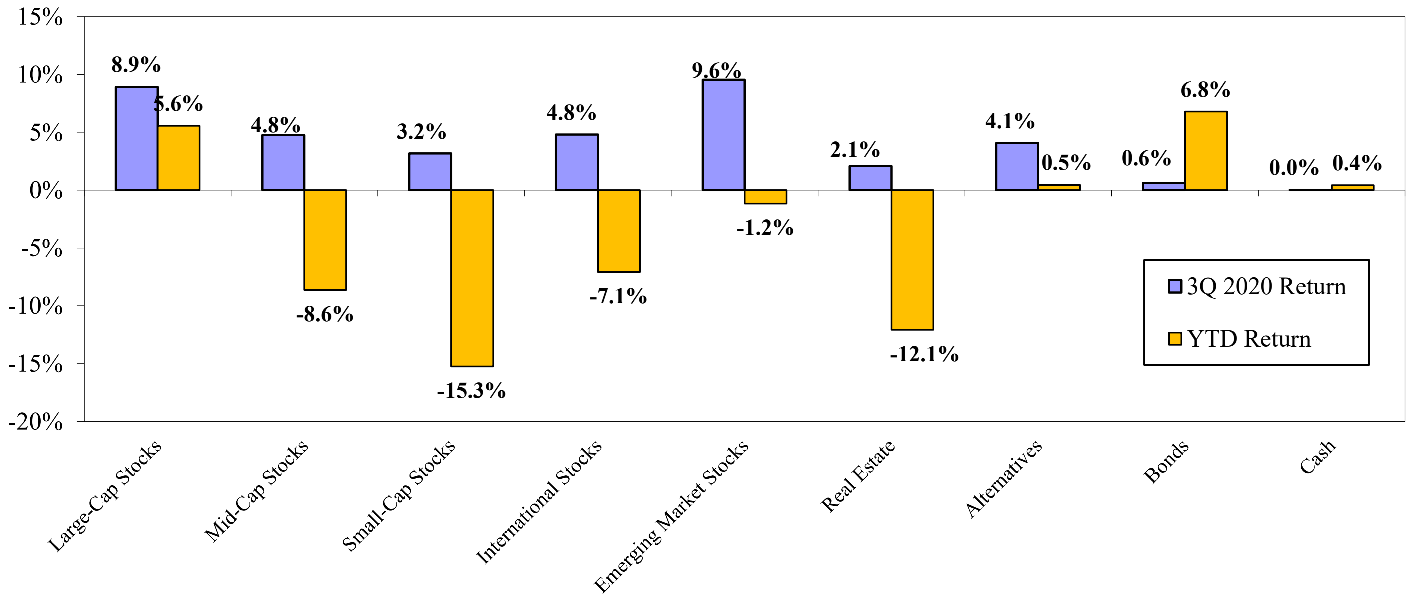
Third Quarter 2020 Asset Class Returns



Large-cap, mid-cap, and small-cap stocks are represented by the S&P 500, 400, and 600 indices. International and emerging market stocks are represented by MSCI indices. Real estate is the Dow Jones Real Estate index. Alternatives are represented by the HFRI Fund Weighted Composite index. Bonds are the Barclays Aggregate Bond Index. Cash is the yield on the 30-day T-Bill.

actually been pretty good for bond investors. However, the outlook is less rosy. It is possible that interest rates decline from here, or even go negative, but we believe the odds of rising rates is stronger, and a greater risk.

Just over a year ago, in July of 2019, the 10-year Treasury yield was over 2.0%. It was above 3.0% in November of 2018. Over the very long term, rates have averaged closer to 5.5%. It would not be surprising to see interest rates start to return to more "normal" levels before long. The catalyst could be a continued economic recovery, additional government stimulus that degrades the credit quality of the U.S. government, or any hint of inflation. The Fed has signaled its intention to keep short-term interest rates low for some time, but the Fed does not set longer-term rates. Market forces will ultimately dictate longer-term interest rates, and as we've seen, market forces can take effect quickly.

The third quarter of 2020 was a solid one for investors if viewed in a vacuum. Most stock market segments rose in value, as did bonds. However, when viewed over the year-to-date period, the markets still have a lot of catching up to do. There seems to be a shift in market leadership getting underway, but much will depend on if and how the economy recovers in coming quarters.

Chris's Corner: Charitable Giving

As we enter the final quarter of 2020 many of us start to think of year-end charitable giving. Despite a difficult year for the economy and wild stock market swings, preliminary data from Fidelity and Giving USA suggest that Americans have stepped up their philanthropy, increasing donations by almost 16% so far in 2020. Perhaps that should not be surprising, as it turns out America is the most generous nation when it comes to charitable giving. Per Philanthropy Roundtable, annual private philanthropy in the U.S. represents almost 1.44% of GDP.

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Does the Election Really Matter?

That's the way that the world goes 'round
You're up one day and the next you're down
It's a half an inch of water and you think you're gonna drown
That's the way that the world goes 'round
- John Prine

Vice President Joe Biden says the coming election is a "battle for the soul of the nation." President Donald Trump has declared this the "most important election in U.S. history." Perhaps. Or perhaps the nation's deep partisan divide is just the way the world goes 'round. Maybe, as John Prine suggests, we're extrapolating out the worst-case scenarios because that is human nature.

John Prine was a singer-songwriter that may not have achieved fame among the masses, but he was hugely influential among die-hard musicians. He has been cited as an inspiration by Bob Dylan, Johnny Cash, and Pink Floyd's Roger Waters. His songs have been covered by countless artists. One of the most intriguing aspects of his music is the insight into the human condition reflected in his lyrics. This is clear from the lines cited above. While humans are often alarmist, the worst-case scenario usually does not come to pass. A little unwanted water starting to rise does not mean it will continue indefinitely. Eventually the metaphorical water subsides, and some level of normalcy returns.

I think politicians, the news media, political pundits, and the most partisan among us could learn a lot from John Prine.

The most radical leftist policies that have garnered airtime the past few years seem unlikely. The dramatic changes in tax policy and government influence required to enact these policies would be rejected by a majority of Americans. Similarly, the hate, racism, misogyny, and fascism that the left accuses the right of are viewed as unacceptable to decent people.

So, would a Biden victory result in a new, China-style ruling philosophy and a catastrophic redefinition of our economy? Would a Trump win mean minority groups should fear for their lives and their basic rights? Some may think so, but both of those seem extreme and unlikely.

It is clear that four more years under Trump would result in a presidency focused on the economy and the stock market. Stock market gains are a frequently cited measure by the President for his perceived success in office. But what about a Biden presidency? We've received a number of calls with concerns about what will happen to the economy and stocks if Biden wins on November 3rd. We certainly can't predict what the market's knee-jerk reaction will be, but over time, history suggests there isn't much to worry about. Increased regulation and higher taxes would certainly weigh on business activity and economic growth. However, that doesn't mean they will be a disaster. We've had periods in the past when regulations were tighter, and the country has experienced much higher tax rates. Yet, our economic growth over time has been the envy of the world.

It is human nature to want to improve your lot in life. People will still wake up in the morning to go to their jobs or start new businesses. This is true irrespective of which party the president hails from. Democracy and capitalism ensure the rights to pursue "life and liberty". While these values may sometimes appear to be under attack, lawsuits and the courts ultimately correct dire imbalances. So do the voters. An extreme direction, one way or the other, that results in adverse effects has generally been fixed at the polls. A platform that results in a lagging economy will frustrate voters, who will ultimately oust the ruling party. A minority group feeling repressed or underrepresented will protest and demonstrate. This has historically resulted in changes to policy, and ultimately social acceptance.

While many challenges remain, and will always remain, life is getting better. Minority rights have improved. Using census data, Mark Perry at the American Enterprise Institute points out that in 1967 only 9.1% of black households made $75,000 or more (in 2019 dollars). In 2019 29.4% of black households were in that category, a record high. This may still trail behind other racial groups, and much work remains to be done, but the trend is moving in a positive direction.

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Does the Election Really Matter? *continued from page 3*

I have a relative whose father-in-law was gay. He was also the General Counsel for one of the largest public companies in America. Had he been honest about his sexuality, he would have lost his job and found it difficult to find a new one. However, that was decades ago. Today there are openly gay people running for and holding public office, as well as running the largest public company in the world, Apple. Clearly societal norms have evolved, making life better for diverse groups over time.

Could the coming election change all that? A Freakonomics podcast earlier this year addressed the importance of the president to daily life. The hypothesis was that because of the separation of powers and the backstop of the courts, the president was not really as important as is often portrayed. Some guests interviewed on the podcast agreed, but others said that because of the increasing popularity of executive actions, the president was still vastly important.

History suggests that from an economic and stock market perspective, the choice isn't so stark. Most of us have seen charts comparing historical stock market returns under Democratic and Republican presidents. Stocks have risen a bit more under Democrats. However, the Republicans are weighed down by the 65% decline in stocks from election day in 1928 until the end of Herbert Hoover's term in 1932, during the Great Depression.

Dimensional Fund Advisors has an interactive chart at its website showing how stocks performed under each president since Hoover. It shows which party controlled the houses of Congress, as well as some basic economic data. Interestingly, the chart shows that the stock market only declined during the administrations of three presidents: Hoover, Nixon, and George W. Bush. Each coincides with significant bear markets, such as the Great Depression, the bursting of the Nifty Fifty bubble, and the Global Financial Crisis. Does this mean that Republicans are more likely to be responsible for major economic disruptions? Probably not. Business cycles may be modestly influenced by presidential policies, but it is a stretch to think that they alone are responsible for these events.

What is most striking about the Dimensional chart is that stocks tend to go up regardless of who occupies the Oval Office. Businesses continue, people strive to earn a living, and the economy grows, despite dire campaign predictions.

There are certainly other issues that are as or even more important than the economy. Yet, historical evidence suggests that on most fronts, we don't have to worry too much about a dramatic change to our lives regardless of the outcome of the election in November. I'm reminded of Robert Frost's observation on overreacting: "In three words I can sum up everything I've learned about life: it goes on."

What is ACM?

Armbruster Capital Management, Inc. (ACM) is a boutique wealth management firm serving high-net-worth individual and institutional clients. The firm's innovative "Passive Quant" investment approach incorporates cutting edge financial research to help control risk and pursue superior returns. ACM uses index funds, exchange-traded funds (ETFs), and other investment vehicles to build portfolios designed to reduce investment-related costs and taxes in order to maximize net returns.

Located in Pittsford, NY, ACM is employee owned, independent, and minimizes conflicts of interest. Acting as a fiduciary, the firm creates truly customized investment portfolios tailored to each client's unique objectives.

Chris's Corner: Charitable Giving *continued from page 2*

This is twice as high as the 0.77% recorded in Canada, nearly three times as high as the U.K.'s 0.54%, and in stark contrast to China's 0.03%.

For those of you helping our country's generous reputation, we thought we would highlight some of the more efficient ways to give, as well as recap some of the changes to relevant laws in 2020.

$300 Charitable Deduction

The CARES Act will allow taxpayers who donate to qualifying charities, but don't itemize deductions on their tax return and who normally don't receive a charitable tax benefit, to deduct up to $300 from gross income for 2020. So, save your receipts for any charitable contributions this year, even relatively small gifts.

Donating Appreciated Stock

Donating stocks (or mutual funds or bonds) that have appreciated in value and that you have held for more than one year directly to a charity is one of the most efficient ways to give. You receive the deduction for the full fair market value of the stock you donate but avoid realizing any capital gains on the appreciation, and subsequently avoid paying taxes on those gains. This is also an efficient way to manage a large, concentrated position in your portfolio or to lock in the results of a recent highflyer.

Qualified Charitable Distribution (QCD)

Although the CARES Act waived required minimum distributions for 2020, it did not remove QCDs as an option. QCDs allow IRA owners who are over 70 ½ to distribute up to $100,000 ($200,000 for married filing jointly) per year directly to a charity without it counting as income. Typically distributions from a qualified retirement account are taxed as ordinary income. However, QCDs are not considered income. This offers a couple benefits.

First, most taxpayers no longer itemize deductions because of the 2018 tax law change, and just use the standard deduction. This does not provide a tax benefit for charitable donations. However, QCDs are not counted as income, which results in a tax benefit for the amount of the donation. In addition, if your income is too high, you can avoid the loss of certain exemptions, deductions, and credits, or worse, it could trigger alternative minim tax, an increase in Medicare premiums, and the 3.8% surtax on net investment income. Because QCDs do not register as income, this approach can help avoid what could be significant tax pitfalls and offer benefits in excess of the value of the donation.

Donor Advised Funds (DAF)

A DAF can be thought of as a charitable investment account, for which the only purpose is supporting charitable organizations. You can contribute cash, stocks, or other assets to a DAF as a public charity. You do not retain legal control of these assets or any recourse to reclaim the assets, but many DAF sponsors will allow you to recommend grants to any qualifying charity over time. You receive an immediate tax deduction in the year that you gift the assets, but not again in the years they are disbursed. This can be an effective strategy if you are using the standard deduction and not receiving a taxable deduction for your charitable gifts. You can frontload a larger contribution in a given tax year, itemize your deductions on your tax returns, and still fulfil any charitable giving from the DAF over the upcoming years. As an added benefit, while your DAF is awaiting your disbursement instructions it can be invested and continue to grow.

There are many nuances to optimizing your charitable giving strategy. Feel free to contact us to discuss your plans.

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were now two inches of very dingy looking water in the shower stall.

I tried plunging a few times, but that only seemed to make it worse. So, I called my very handy friend who lives around the corner. He let me borrow his plumber's snake and gave me a few words of encouragement. I noticed that he never offered to come help.

Armed with the proper implements, I next donned my battle gear. Gloves were of course required, as were old clothes that could be disposed of after the job was done, but I found that a mask that covered my nose was equally necessary, and not to protect from Covid.

I set to work trying to fish the snake down the toilet but couldn't get it to feed down the drain. I next tried the snake in the shower drain and was able to get it to extend its entire 25 feet. However, the clog still didn't clear. The next step was to head to the basement. Knocking on the pipes helped identify roughly where the problem was located since I could hear which pipes were full and which sounded hollow. It became clear that I would either need a much longer snake or a better plan.Unfortunately, I didn't have either.

After gathering even more tools, I opened up one of the plumbing cleanouts in the basement. I fed the snake down this pipe, but it also didn't help much. This left me in the unenviable position of having to open up the next "downstream" cleanout.

I suspected that this could get ugly. I laid down a tarp and got a huge tub for the overflow. However, I was unprepared for the virtual Niagara Falls of effluent that awaited me. Despite my precautions, the mess that ensued clearly included weeks of waste, that was of epic proportions. The basement was gross, and I didn't fare much better. At this point I didn't dare think about my predicament. It would have been like looking down midway through a mountain climb. Nothing good would come of examining my situation.

Rather, I pushed on with the snake and did finally clear the offending clog. It took at least another hour to reassemble all the plumbing, ShopVac things I'd rather not remember, and dump out the gallons of nastiness I had collected. I'm not sure how much Clorox we went through that day, but it was a lot.

In my defense, it was Sunday night and I'm sure an off-hours plumbing emergency would have cost a fortune, but this was certainly a situation where being a "value guy" was not a good idea.

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