Ep65: Top Issues Affecting America's Economic Recovery

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PATTI BRENNAN: Hi, everybody. Welcome to "The Patti Brennan Show," whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Joining me today is Brad Everett. Brad is our Chief Investment Officer here at Key Financial. Thank you so much, Brad, for joining us again for the show.

BRAD EVERETT: Hi, Patti. Thanks for having me.

PATTI: Absolutely. This is going to be a really cool opportunity for you and I to say OK. We had a conversation a few months back, and we talked about what we thought was going to happen. Now we get to say what really did happen and be accountable to everybody listening and taking their time to listen to our show and, "OK, what do we think now going forward from here?" Right?

BRAD: Yeah, exactly, right.

PATTI: We're going to talk about the themes that everybody has been talking about at nausea. We're going to talk about COVID, we'll talk about the election and the resolution of the election, and maybe a little bit about the Federal Reserve.

Most importantly, Brad, let's focus on what does it really mean for everybody listening today, and what should they be thinking about, and what should listeners be thinking about?

Let's start off COVID. I heard one person say that the only time, the only way that we're going to get a true recovery is when everybody gets a shot in the arm. That really comes down to the vaccine.

BRAD: This isn't something we've talked about, is it?

PATTI: No, not at all. Not at all. What has happened though, since the last time we talked is that the vaccine was a concept. We were hoping. Now we know we have it, and it has been released. It's been clunky in terms of getting it into the arms of Americans. Yeah, it's here.

Let's translate that into what does this recovery really look like, and what does that mean for the market?

BRAD: This seems like a race. You had the vaccines out. You know what it is. You know what to expect from it. It's just the matter of "Can you get it out fast enough if you feel confident that it was going to be wide dissemination by the third quarter?" Just as an example.

Can the economy, can the Congress put together stimulus package that would keep us afloat till then and avoid any major damage until then?

PATTI: Yeah, because that's a really important point. Just because there's a vaccine doesn't mean that people aren't still suffering. There are a lot of Americans, there are a lot of businesses that are still out of business. They are not back up and running. There are a lot of Americans who are still out of work.

That has important ramifications, not just for the next three months or even the next nine months, but longer term because companies are probably going to be making decisions that if we hadn't had this, they may not have been in a position to have to make, or, perhaps, the opportunity to make.

BRAD: Right.

PATTI: We've talked about that. You and I were talking, and I talked about it a little bit with Liz Young previously, and this concept of hysteresis. Tell us what that really means.

BRAD: I had heard the word before, but I knew it as a physics word, a word from science. I guess economists have taken it over at some point.

PATTI: They steal everything, don't they?

BRAD: Yeah, it seems like it. I think what we're trying to avoid with a stimulus is the idea of hysteresis. You don't want the trough to be so low that you never recover. The world is entirely different when it does recover.

You can think of hysteresis as the idea of a dynamic of a paperclip rather than a rubber band. In most cases, something goes wrong in the economy, everything snaps back like a rubber band. You stretch a rubber band, it comes back to the way it was fairly easily.

PATTI: OK, Brad. Let's visually do this. Here's the rubber band.

BRAD: You have a rubber band here?

PATTI: I do. I absolutely I got my visuals. I got that. There's a rubber band. It stretches, stretches, stretches, but when things calm down, it goes back to its original shape.

BRAD: In most cases, that's what happens any time there's a temporary economic shock. That's not uncommon. I think what you're trying avoid here is a paperclip. If you bend a paperclip, it's not going to go back in place.

PATTI: OK, Vanna White, look out. Here I am. There's the paperclip. I just bend it around and it stayed there. How do we compare that to the economy and the decisions that are being made?

BRAD: Hysteresis is this idea that the effects of some kind of a shock will persist long after the causes of that shock are gone. The issues that we think are causing economic troubles now have since been rectified, but we still have problems that aren't temporary anymore. They've become permanent.

I can give you a couple of examples. Massive unemployment several months ago, to an employer the decision to rehire an employee is a much different decision than retaining an employee. It's much easier, once you've already laid somebody off, to make the decision now do we have to rehire that person? Can we replace them with technology?

Maybe we just don't rehire anybody at all. Maybe we can get a smaller office if we don't have this many employees. It becomes much harder to rehire someone once they've already been let go.

Another example, think of the work from home idea. Companies have been investing significant amounts of money in digital tools to make this possible for the last year. It's become an accepted way of managing employees. Managers are comfortable now managing people that don't come to the office. That's fine.

Is it really a leap, then, to say, "Why do I need to hire this kid that lives in the middle of Westchester, when I can hire somebody overseas for a quarter of the price? There's no difference to me. We've got the technology. That five-mile difference makes no difference at all."

PATTI: It is interesting, because then it opens up a world of talent, no pun intended. It can be very interesting what this is going to look like. Be careful what we ask for. We might just get it.

BRAD: Yeah, and I think that the more vague thing is, what is the effect of general pessimism long-term? Does the pandemic change the way you think about and relate to the future?

Is the world perceived to be too volatile? This pessimism, then, can become self-fulfilling. Then, demand changes forever.

PATTI: I think that is one of the biggest reasons why the Federal Reserve and the Treasury were so aggressive. They were worried about that, because it does become a self-fulfilling prophecy. People stop spending. They have this money in the bank.

I don't know about you, but I have a certain comfort level with a certain amount of money in the bank. When we weren't doing anything during COVID, that balance grew. I'm comfortable with this new balance.

Something you said was also fascinating as it relates to that paperclip idea. I think about movie theaters, for example. We stopped going to movie theaters. What impact is that going to have? Is that more of a paperclip type of outcome? Are people ever going to go back to movie theaters, since we all have Netflix and Disney+ and these other alternatives, which are more convenient?

BRAD: I think, if 12 months ago, you had the foresight to invest in a nice television and surround sound system, maybe you'd never go back to the movies again. It's that decisions over millions and millions of consumers that dictate where the economy heads.

PATTI: Let's take this one step further. The next issue is the election. We now have resolution. It turned out a little bit different than I think you and I thought it might, in terms of a divided government with the Senate. It's not necessarily as people might think. It wasn't this big blue wave, for example.

BRAD: No. I actually heard the term "a blue ripple." It was a blue ripple.

PATTI: Right, so it's more of a ripple. What that really means is that, granted, there may be...I wouldn't even say a majority of Democrats in public service, in the office, that can vote on certain things. There's a slight advantage. It's just slight.

To your point earlier, we were talking about this, and you brought up the concept of the Independents. There's two Independents, right?

BRAD: Yeah, I think so. The way they count that, to say that it's 50 to 50 is based on the idea of the caucus. It's actually 50 Republicans, 48 Democrats, and two Independents. Those Independents just happen to caucus with the Democrats. That's a very informal organization.

That doesn't bind them to anything at all. It just says, "60 percent of the time, we're going to be thinking of the same kinds of things, so let's spend more time together thinking about these." They're just informal meeting groups where they talk about common interests. "What are we trying to accomplish? How are we going to do it?"

It's really 50 to 48 to 2, not 50 to 50, I think.

PATTI: That is very different. I know one of those Independents, they really are independent. They are independent thinkers. That's why they are registered that way. To think that there's going to be massive legislation that's going to change capitalism, as we know, is probably not realistic.

BRAD: Absolutely. I've heard that rule of thumb that if you had 60, 60 is the number where you can force through whatever you want. Anything shy of that, you're really, really nitpicking votes one way or another. You get one Democrat that doesn't agree with one part of the language and your bill doesn't go through anymore. It's that simple.

PATTI: We were talking about Angus King from Maine. He's one of the independents. He was on "60 Minutes" this weekend. I just found him to be so interesting to listen to, ironically, because he was talking about listening. Of course, he was talking about the January 6th event. His point was that we can never condone that behavior.

At the same point, we have to understand that there's a lot of people in America who have strong feelings about certain things. It's important that no matter where we are, we have to engage more in this concept – He used the term that I loved – eloquent listening.

To really take the time to understand why they felt, not necessarily them but people, why they feel so strongly about something, that's the role of our politicians. Together, they listen to the people in their community and people in their state. They go and do that brainstorming together and really talk it through, because it seems to me that the issues that are out there are really complicated.

I will tell you, I'm pretty well read, I'm pretty smart, what have you, but I really don't understand everything. The fact that Jeff Bezos from Amazon, Jamie Dimon from JPMorgan, and Warren Buffett from Berkshire, all got together three years ago to solve this healthcare issue.

They're going to reduce the cost for healthcare. They put together this company. Within three years, it has disbanded. They couldn't figure it out. It just tells me that these things are a lot more complicated.

To really understand that going in, and we all may have our opinions, I don't know, I've always gone into these things with a lot of humility and understanding that I really may not know everything about a particular issue. I have feelings, but I may not know absolutely everything that we need to consider.

BRAD: It almost seems like his take on the whole thing was to get away from this idea that politics is just a zero-sum game. You've got to believe that there's more than two types of people in this country. There's not just Republicans and Democrats. These issues are not just completely binary. It's way more complicated.

He was just saying you have to listen. The reason that you came to the decisions you made are cultural or economic. They're all these things. It's like what you learned from your parents, the experiences you've had growing up. It can't just be that simple as one side wins and the other side loses.

It's like a step [indecipherable 13:45] in a horoscope. If you're a Cancer, that means you fall in 1 of 12 personality types that dictate every action. Republicans and Democrats is way worse.

PATTI: Exactly. That's a great comparison. Being a Taurus, I can totally relate.

BRAD: Defines every single thing you think and do. Your lucky numbers for the day.

PATTI: Let's translate that from a financial planning perspective because, again, we haven't had a blue wave. It's been more of a ripple. Maybe it's a little bit more even, if you will. What people were really worried about is, "OK, what happens if there is this blue wave across the board? What does it mean from a tax perspective, a spending perspective?" On and on and on.

BRAD: An election like this is fascinating to me, the brilliance of a democracy. This is the brilliance of a group of 300 million people making a decision rather than one because if you pull apart the pieces, it telegraphs what people really wanted. You learn from the election, one, we're very much a 50/50 country. We're very close. It's not 60/40. It's not 55/45. It's 50/50.

You almost think there's an exhaustion. The Republican Party wasn't voted out of power. I don't think of it as being the Republicans were voted out of power. A person that was a representative of that party was voted out of power.

Again, this is just me, but it's almost like voters didn't necessarily like that person as the representative. Maybe they didn't dislike his policy so much, because he kept all the Republicans in Congress there. The Republicans gained seats in the House. Again, it's still no overwhelming majority in the Senate.

A lot of those things will continue. It's not like Biden was elected with such an overwhelming plurality that he can just do whatever he wants. You start with that. You start with this idea that there's a lot of moderates in power right now.

There's just no overwhelming majority. There's probably a list of things that Biden will have an easier time getting through and a list of things that probably just aren't likely based from what you heard during the campaign. These are things that he's thrown out there as possibilities. Some of them will probably get through. Some of them won't.

PATTI: You've brought this idea of this power and the rising to power. What I've learned, more than anything, is the fact that, really, there are a lot of people who are very, very moderate. If I've heard anything, I've heard time and time again that the people who are "Republican" really liked his policies, Trump's policies. They liked the impact that the policies had.

Everybody's got their opinions and that kind of stuff. The impact of social media, let's face it, it's the people who are the most extreme, they're the loudest people. They're the ones that are all over social media. Moderates aren't on social media. I'm not on social media. Are you on social media?

BRAD: No. Not talking about politics, for sure.

PATTI: No. Perhaps this perception that there's this real wave of extremism, yeah, it's out there and we certainly saw evidence of that on January 6th, but it's probably not the majority. It's probably not the majority of the people that are representing all of us.

With that in mind, the hope would be is that they take that and really take the opportunity to do that brainstorming together, the debate, the pros and cons of any policies that they want to think about going forward. Those policies would include tax law.

BRAD: That's, again, something that's more would affect what people who want to listen to us talk about financial planning topics.

PATTI: We're all about talking about the things that are going to affect the people that are going to want to listen to us.

Let's get to the bottom line. What should people listening think about depending on their situation? Income taxes.

BRAD: Again, we think through like what's likely, what's not likely. I don't think it's a terrible stretch to think that you could raise the highest marginal bracket, a percent or two. Maybe 39.6 was suggested. I don't know that that's farfetched or tough to pass.

PATTI: Brad, just for the record, do we think that is going to cripple the economy?

BRAD: No, I wouldn't think so.

PATTI: OK.

BRAD: We've had marginal tax rates far higher than that and managed to plug along. People still want to invest and make money, believe it or not, even at higher tax rates than that.

PATTI: I remember when Clinton was in office, the capital gains rate was 28 percent for everybody.

BRAD: Yeah. People still...

PATTI: People still invested, and the market, by the way, did really well. Basically, what I'm understanding with everything that we've read is that Biden's proposal would target people earning over $400,000.

BRAD: Yeah. It sounds like it's really that's the focus, just the very highest of income brackets.

PATTI: The ordinary tax rate's going to go up. What about capital gains?

BRAD: That's an interesting one. There's been some talk about increasing the capital gains rate. I would probably put this under the list of things that's not likely to happen would be actually removing the qualified status of dividends.

Again, I think businesses have shown that they can react to that. Before qualified dividends were a thing, they just didn't pay very much in dividends.

PATTI: In English, guys, what that means is that a dividend paid by a company is taxed at 15 percent. It is not included as ordinary income tax at a much higher rate.

BRAD: Because it was already being taxed at the corporate level.

PATTI: Yeah, and it's double taxation because the company's already paid taxes on that dividend, and you're going to pay taxes on it as well? The answer is yes. They reduced the amount that you have to pay to 15 percent.

BRAD: You'd probably find enough people that disagree with that idea. Corporate taxes, I don't know that I've ever heard anybody say that a corporate tax of 21 percent is sustainable. If that changed to 25, everybody will be like, "Yeah," probably figured that was happening.

PATTI: When it was passed, everybody knew this is going to last as long as it can last. Hopefully, we'll get re-elected, and then we can figure it out from there."

BRAD: I guess I would probably defer to your expertise on this, but I think in terms of estate taxes and things like that, I mean...

PATTI: Let's talk about that. On the estate tax front, we already know that effective 2026, this wonderful credit exemption of $11.7 million per person is going away. It's going to go. It will be cut in half.

That's already low, folks. Nothing has to happen for that to happen, if you will. A family can leave $23 million, plus or minus, to the next generation, and there is no Federal estate tax. The access over that amount would be taxed at 40 percent.

What Biden was proposing was he wanted to take that $11.7 million down to $3.5 million. That is a dramatic difference. When we talk about your estate, we're talking about everything, not just your portfolio. We're talking about your home, your vacation home, the value of your life insurance.

If you have a business, a small business or a large business, that's included in your taxable estate.

I just saw an article on someone who died recently. The IRS was coming back at the stay because they didn't agree with the value of the business. They're literally doubling the amount of the estate tax that the family has to pay, but the business is really an ongoing entity.

Where are they going to come up with that money?

All of a sudden, a fire sale happens, because they have to sell the business in order to pay the tax.

That's the problem. That's the issue that we have as it relates to this Federal estate tax.

It's a liquidity issue. The thing that caused the problem, how are we going to solve it? You have to sell, and everybody knows you have to sell, so they're not going to give tough dollar. No way. No way.

Well, the IRS might think it's valuable. The market says, "Well, that's fine, but we don't agree. We're going to give you $0.60 on the dollar." Not enough.

Let's say you get $0.60 on the dollar, Biden's tax is going to be $0.45, so the family ends up with $0.15?

BRAD: Yeah.

PATTI: Pretty crazy. That happens with businesses, small and large, as well as farms. Farms really get hit hard within estate tax. There's other entities, but that's something to think about.

Most of the people who are listening today, you may not be a farmer. If you are, heads up. Be aware. Do something about it.

BRAD: What's involved in changing that? Would that be for whoever is President in 2026 to extend or change or restart…?

PATTI: Congress will take it up before then. If it stayed the way it is, which I'm not sure it will, but if it stayed the way it is, it becomes law in 2026. They must take proactive action to extend it.

BRAD: You'd need a little more planning. You guys can't wait until December 2025 to figure this out.

PATTI: Absolutely, and I think it's important for those people who are listening that you also can't wait until then. By the way, there's some really cool things that you can do to lock in this $23 million. It's one of these things, if you don't use it, you're going to lose it, so let's use it.

That credit is available, yes, when you pass away, but it's also available when you're alive. I'm not going to get into the weeds today, but there's things called spousal lifetime access trusts, for example.

If, by any stretch of the imagination – and there is a lot of imagination in this – if by the stretch of the imagination we were in the situation I could take $11.7 million and stick it into a trust for Ed, my husband. I've used up my credit exemption, because the end beneficiaries are going to be my four children, but it's a spousal lifetime access trust.

Ed has access to the income and the principal, whatever he might need while he's alive. Whatever's left in that trust will go to the kids tax-free, even if that exemption goes back down to $3.5 million. It's a cool tool to, like I said earlier, use it before you lose it.

BRAD: It's based on the amount at the time, not what it grows to.

PATTI: Which is even better, because guess what. If Ed can finally go on a budget, which is heresy to Ed Brennan. I'm not kidding there. He engages in retail therapy literally on a daily basis. That being said, I will be working for the rest of my life.

Now, all kidding aside, if he left that trust alone, 11.7, and if it grew at seven percent, seven percent, money doubles every 10 years. 11.7 becomes 23, becomes 45 or 50 million dollars. We have left, in this fantasy land that we're talking about, [laughs] 50 million dollars to the kids, and there is no federal estate tax. Zippo. That's pretty cool.

Now again, not for everybody. It may be overkill for most people, but there are tools out there that can be used. There's caveats to this, strings attached. You've got to know what you're getting into, but there's five examples of other things that you can do to take advantage of the estate tax law that we have today.

It will be important for everybody to be aware of. You'd be surprised how quickly it can sneak up on someone. I'll tell you, Brad, it's one of those problems that you want to have. You kind of want to have this.

BRAD: Yeah. Not the worst thing, I guess.

PATTI: Exactly, and if you can be proactive about it and preserve it, that's what we're all about. If you want to preserve, grow, and use your assets, that's the way to do it. The estate taxes – it's a long explanation that could be vulnerable.

They're also talking about removing this step-up in cost basis. That's an important thing to keep on the lookout for. It doesn't matter how much money you have. If we lose that wonderful little loophole, everybody listening needs to be aware of that.

That's got some important planning under current law, lots of great things to think about, because we still have it. If we lose it, again, very important considerations.

I know I'm being vague here, but we're not going to give advice or tell people what to do. It's all based on their situation and whether or not it's even a problem for them. Let's not solve a problem that doesn't exist. Just keep aware of what they're thinking and what they're talking about.

Next topic – Federal Reserve.

BRAD: Yeah. I think the Fed's been doing the same thing they've been doing. I think they've made their plans known that they're probably going to keep doing the same thing they've been doing.

Knowing their mandate, it's funny. I don't think the Fed's so mysterious. They have two major goals. One of them is to keep inflation around two percent. As long as it's below that...I think since 2012 it's poked up above two twice. It's consistently below that, so interest rates I would assume would stay low until that becomes a problem.

PATTI: Yeah. They telegraph that – lower for longer. Jerome Powell has pretty much said, "We're not even thinking about increasing interest rates." That's clear, and it has had a ripple effect or domino effect in different sectors, like real estate.

BRAD: Yeah. Low interest rates affect every kind of investment differently. Real estate's an interesting one. Normally, in most cases, you would think that's good for real estate. You can buy a lot more house if the interest rate's three percent instead of seven, so that would cause values to go up.

Home ownership's a lot different than commercial real estate. You have to consider what the property's used for. If you're talking about office space or retail space or malls and things like that, it's hard to value real estate if you don't know what the cash flows are going to be. There'll probably be a little bit of a lag there before real estate becomes too appealing again.

PATTI: We're back to the rubber band and the paperclip thing again.

BRAD: Yeah. We just don't know. Office buildings could remain empty for a long time.

PATTI: What other areas? We talk about the impact of the vaccine, and the market, and this concept of rear-view mirror investing – growth, growth, growth. We were talking earlier. I thought it was incredible, your number, in terms of the difference in performance between growth and value. Why don't you share that?

BRAD: For the year of 2020, all you see is the S&P. You hear that number every night, but they don't break it apart. The value portion of that, the half, was only up 2.8 percent. That's largely because of dividends. I think the actual total return is 2.8. I think the dividend yield is probably 2.3 or 4. The growth, though, is up 38.5 percent. There's a wide disparity there.

PATTI: I cannot remember a time when there was such a wide gap between growth and value. It's been that way for a lot of years. Last five years, growth has significantly out-performed value year after year after year.

BRAD: Depending on how you define it, I think it never has been this overvalued relative to value. Rob Arnott was on Bloomberg this morning, and he made the comment…Let me take a step back. Usually, the comparison we use is price-to-earnings. That, even by itself, only 11 percent of time has the disparity been as great as it is.

It's already pretty far away from normal, but Rob Arnott said, if you use the comparison of price-to-book value, it's the highest it's ever been. Growth is now 12 times more valuable on a price-to-book basis than value.

PATTI: When we say more valuable, what we're talking about is the value of the companies that represent that index. Just because something has that as the value, it's based on the price per share. The price per share can get out of whack. People's opinions, in terms of what the value of that stock, tends to go further than anybody thinks it might, like a Tesla or an Amazon, an Apple, etc.

There's usually the argument, "This time is different. Look at that company. We're never going to go back. The paper clip is going to stay that way, and that company is just going to continue to make money hand over fist. That's the future. That's why that company needs to be at that value. In fact, we're not even giving it fair value for the future, so I'm going to buy more of it."

It becomes, again, another self-fulfilling prophecy. It's a momentum market. It goes up because it's been going up, so it continues to grow.

In the meantime, you've got these other companies that are paying their dividends, making their money. They're unloved companies, just because they're not as sexy. They may not have that. Included in those are the banks, for example, and energy companies. We're not going to stop using gasoline and oil. We're not going to stop using the banks.

They got hit hard last year. They did not perform nearly as well until that magic moment, folks, in November, when Pfizer's vaccine got approved and then Moderna's. All of a sudden, it was like clockwork. It was like a dime. I don't know that I would have thought that banks would have skyrocketed as a result of a vaccine, but they did.

When I say skyrocketed, their stocks started to grow. They got to the point, if you look from September to the end of the year, value out-performed growth. A lot of people don't know that, because we only look at from January to December.

Take a look from September 30th to the end of the year. Look at value and value companies, dividend-paying companies, really good companies. Compare them to some of the companies that we've all been talking about – the Apples, the Amazons, the Googles, etc. You might be surprised.

Here's a question. I don't want to put words in your mouth, but you're a CFA. You've got all of the letters after your name. You are a brilliant Chief Investment Officer. In all of the things that you know and have read and have learned, how different is that in terms of when you're coming out of a recession?

We're still in the recession. We know that the market is a leading indicator, so it's forward-looking. You look at the pockets of the market, and what tends to come out of a recession – businesses, companies, markets – what areas of the market tend to come out faster?

BRAD: The only thing I really know is that I don't know anything.

PATTI: You and me both, which is why we're probably effective, to be honest with you. We don't assume that we know.

BRAD: To answer your question, I think a lot of times out of a recession, value tends to come out of a recession pretty well. Small-cap value has been a place that's been beaten down for the last decade. Not beaten down, but relative to large-cap growth, for example. That's had a great year, and especially a great last six months.

There's a couple things. Part of what makes these companies slingshot out of a recession is probably not the fact that it's the end of a recession, but the fact that low interest rates tend to be there when you're coming out of a recession.

The thing that fueled the exit from a recession...Would we exit a recession at very high interest rates and see the same thing? Probably not, but I think a lot of the companies that's slingshot out of recessions are companies that you'd expect to do well anytime rates are very low.

PATTI: That's a really good point. When rates are really low, those companies are refinancing. Just like we're financing our mortgages, they're refinancing as well.

Small companies are nimbler. They are smaller. They see the impact of something like that faster. Their cash flows are benefiting, and quickly.

BRAD: I tried to think of a distinction between a short-duration asset and a long-duration asset, so you think of a company like Johnson & Johnson. It's not Netflix. They're not innovative like Netflix is. They have a huge portfolio of products, many of which operate under patents.

To a large degree, you can predict their cash flows for a very long period of time. Netflix, I don't know how anybody can do that. Google, I don't know how you do that, but a company like Johnson & Johnson or Procter & Gamble who's got a thousand products in your grocery store, you can predict their cash flows for long time.

A lot of analysts would use a discounted cash-flow analysis to try to value those. Interest rates being low makes that stream of cash flows at the end much more valuable.

They get rewarded almost for having longer, less volatile, predictable income streams than a very high-growth company that you would hope to make your return very soon because you have no idea what's going to happen later.

PATTI: This idea of the cash flows, we also want to keep in mind that the value of a company... The only way a company grows is if their profits grow, their revenue grows. It's the growth of the cash flow that is also really important.

If, all of a sudden, you go from paying six percent interest down to three percent, you've instantly got growth of your cash flow. That's really how to boil it down into simple things.

Brad, let's wrap this up. In terms of where we see the opportunities, we've talked about COVID, light at the end of the tunnel.

Election, there has been resolution, may not be as much clarity in terms of what laws are going to change, the impact. The impact of spending, stimulus, things of that nature, but it's probably likely we're going to see a third stimulus. Is that safe to say?

BRAD: Yeah, I think there's effort behind that, for sure.

PATTI: I think that everybody recognizes that we need to keep people afloat until we get that herd immunity. There are a lot of people who are not afloat right now. Yes, the $900 billion was a good band-aid, but it probably wasn't enough to get us to that third quarter. So, that is probable.

BRAD: I think both parties agree that it's something to do. It's just the details.

PATTI: Exactly. Then, we've got the Federal Reserve. We have a good feel for what the Fed's going to do and the opportunities that that could present. I think that everybody listening today…I don't like to "should" on people, but I would take this opportunity to recognize where we are today and this new environment that we now have.

It is very different than it was in October, so please take the opportunity from a financial planning perspective. Look at your tax situation. Look at your estate, your wills, your trusts. What is relevant in your personal situation?

Then, drill down to your portfolio and your personal cash flow. Things are different. Some of you may be fully-employed and be doing great, and things are seamless. Some of you may not. What implication does that have in your future financial planning?

Then, really drilling down in terms of the asset allocation in the portfolio itself, do you have the asset allocation and the weightings in such a way that you're comfortable in this new world, in this new environment?

Again, with the understanding that Brad nor I know for sure what's going to happen in the future, my recommendation is to go out and be gardeners. You want something blooming all the time. Diversification is the only…We don't have any free lunches, but it is an important concept that you really want to stick with.

Yes, there are going to be periods of time when your international funds or your small-cap value funds, just like Brad was talking about, they are just sucking wind and not doing anything. You might be thinking, "Why in the world should I continue to hold onto this thing? It hasn't done anything for five years." Then, boom. The second half of 2020 happens, and it goes through the roof.

That's why you want something blooming all the time. That math helps to accumulate your wealth, because you have something that's doing well. Sometimes, you can't – I mean, Brad, you're the expert in this with your background – you want to something that's not doing so hard, right?

BRAD: It'd be nice if everything could go up all the time, but this is not practical. I think you can't...I just think of it like a flow of funds for money to go into something and make that asset go up. It has to be coming from somewhere else.

It's an impossible idea to think that everything is going to always go up, but it's the way the market seem to work.

PATTI: OK, folks, so here's the deal. It's January. On that big, on this New Year's resolutions, and yet I do think it's a great opportunity for you to take a look at what you've been doing, get rid of that rear-view mirror, and say, "Where do I want to be a year from now, five years from now, and long into the future?"

Try to make the best decisions for you and your family. That's the key. Chances are there're going to be different decisions than what you've done in the past.

Brad, thank you so much for joining me. It's always fun doing this with you. You prepare, you read, you're just amazing. Thank you so much for joining us. We really appreciate it.

Feel free to go to our website, keyfinancialinc.com. Write in some questions, let us know if you'd like to hear from us. We're here to help you, we're here to help your families.

Thank you so much for joining us today. I am Patti Brennan, and we'll see you in a couple of weeks. Take care.