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Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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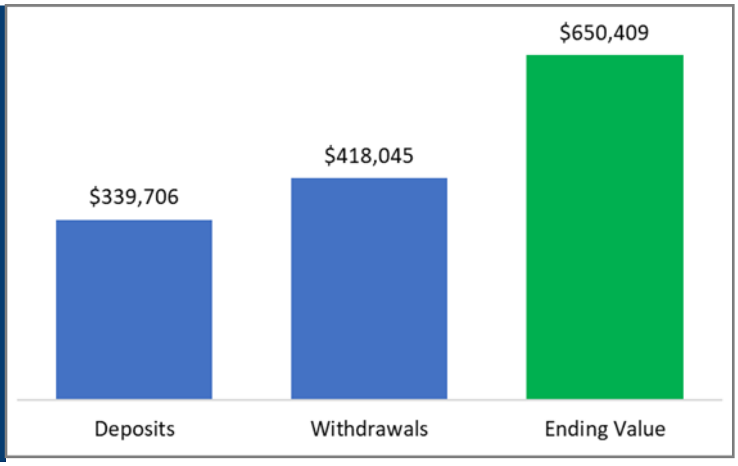
The chart to the right shows the contribution, withdrawals and ending market value of a Charitable Remainder Unitrust managed by VCM for the past 21 years utilizing an active thematic growth equity approach. This portfolio has held large cash reserves during market downturns.



"The key to making money in stocks is not to get scared out of them."

- Peter Lynch

Market Commentary

November will be a month to remember. As COVID-19 surged and the election results were in question, stocks were zooming ahead. The DJIA hit another milestone crossing over the 30,000-point level with both the S&P 500 and NASDAQ composite posting double-digit returns. For the first time since 1982, the S&P 500 has logged a double-digit monthly gain. Small-cap stocks jumped nearly 20% and energy stocks exploded by 30%! With the news of not 1 but 3 viable vaccines, the stock market losers became the winners as optimism about the implementation of the vaccine before the end of the year dominated trading. Last month's big move in the markets was much more broad-based than for the earlier part of the year indicating that if the news flow continues to be positive, the trend is your friend.

How to Manage a Charitable Remainder Unitrust (CRUT) Part I

A Charitable Remainder Unitrust is an irrevocable trust that has several important tax advantages. The creator of the trust benefits from a tax deduction of a portion of the funds used to create the trust depending on the donor's age. The portfolio can be diversified without immediate tax consequences. However, there is a minimum of a 5% annual distribution to the donor. The payout can be higher subject to certain IRS limitations. When the donor dies, the principal of the trust goes to a designated charity. Here is an important benefit based on the trust in this example: If the trust is managed using a diversified portfolio of growth stocks, the taxation of distributions from the trust can be minimized based on the character of the distributions: principal is taxed at zero, capital gains are taxed at a capital gains rate and dividends can be taxed as ordinary income or capital gains depending on your taxable income and filing status. This investment management strategy is advantageous from a tax point of view versus the traditional approach that utilizes bonds to produce income. Bond income is taxed as ordinary income and the portfolio will likely depreciate over time. Note that the growth equity strategy creates the opportunity to grow both principal and income.

The above exhibit reflects the long-term performance of an actual CRUT. The trust was created in late 1999 with six low-cost information technology stocks that were contributed rather than sold that would have resulted in a huge capital gain for the client. The trust has provided a stream of income at a 5% annual rate that has exceeded the initial contribution after all trading and trustee fees. The growing market value has created an ever-increasing stream of income to the client.

Many investors do not like giving money away, yet the CRUT is an investment vehicle that makes sense during one's lifetime and beyond.

Total health care spending in the USA in 2020 is forecasted to be 3.3% to as much as 8.8% less than what had been projected for 2020 before the pandemic began.

(source: Willis Towers Watson)