Wealth Management Bulletin
Fall 2020

Welcome to Fall …

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… A time for Heroes. As defined by the dictionary, a hero is a person who is admired or idealized for courage, outstanding achievements, or noble qualities. Surely, our doctors, first responders, and others intimately involved in our current pandemic battle can be certified as such. But heroes come in all different forms.

To be known as a hero, one must be viewed as such. As a young baseball fan my heroes were the baseball players whose exploits I read about in the daily newspaper and whose games I heard on the radio. Lou Brock, Tom Seaver, Bob Gibson, Whitey Ford, and Joe Morgan were all heroes who have, sadly, passed on recently leaving only their baseball legacies behind. The games, the pitches, the stolen bases, the hits, and the memorable moments are the things I remember to this day.

And that's the thing with heroism. It is viewed in the moment, but it's the ramifications of the actions that last. Our founding fathers were heroes. They created a system of Government whose legacy can be seen through the lens of our upcoming election. Every four years we have the opportunity for a peaceful transition of power, made possible only by the heroes who came before us. Honor our founding father heroes by letting your voice be heard. Make a plan to vote.

And speaking of planning, you too can be a hero and leave a legacy for your family. Solid Estate Planning, Investment Planning, and Financial Planning allow you to provide your loved ones with peace of mind and financial stability long after you are gone. Solid, thoughtful planning provides a roadmap that can be followed to the benefit of your heirs for years to come. You may not think of this "heroism" as equivalent to that of the soldier, or first responder and on some level that is true. But the positive impact of proper planning on your loved ones can be just as important to them.

We in the LCNB Wealth group stand ready to assist you with your Investment, Financial, and Estate Planning. Let's get together so we can help you be the hero that your family deserves.

Thank you for your confidence in LCNB.

Welcome to Fall. Be safe …

…and Rest in Peace "Little Joe".

Best Regards,
Mike

Courageous Conversations – Talking to Your Heirs about Estate Planning

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A 2017 survey by CNBC found that 44% of families with investible assets of $1 million or more had not discussed their estate plans with their children. A 2015 survey by Caring.com revealed that among adult children who knew their parents had a will or living trust, 52% didn't know where the documents could be found and 58% didn't know the content of them. While these statistics might startle, we know from professional and personal experience how difficult it can be to talk about your estate plan. Death is an uncomfortable topic and discussion of financial matters can be awkward. Some parents fear their children will be less motivated if they know of a coming inheritance. Others worry their kids may end up unduly relying on monies that ultimately never come. Where the will or trust contains distribution restrictions or treats each child differently, the urge to avoid or postpone such discussions can be especially strong.

While every family's situation is different and there are circumstances where it is necessary and appropriate to withhold or limit details of an estate plan, communication around these issues can benefit both generations. Discussion of sensitive financial issues allows parents to set expectations and children the opportunity to plan ahead – minimizing the chance that they will mismanage the inheritance. Disclosing the contents of the will or trust can allow parents to provide context so that provisions designed to preserve wealth or promote education aren't misinterpreted. Even if you share only the most basic information ahead of time - such as the location of documents and contact information for professional advisors – this can give children peace of mind now and prevent delay and confusion later.

How best to proceed? While there are now hard and fast rules, consider the following:

START SOONER RATHER THAN LATER. Having a frank and thorough discussion about all the issues around end of life takes time, and rarely do families find they can do it in one conversation. Don't wait for a health scare … this should be a discussion focused on the future. Ideally, try to engage before completing or revising your documents, as it is much easier to start a conversation with "here are our ideas, what are your thoughts" than with "here is what you get."

HAVE A PLAN (but be ready to listen). Preparation will help ensure you clearly communicate your intentions and how they serve important family values. Listening will help your children feel a part of this process and reduce the chances of future misunderstandings.

TALK TO YOUR PROSPECTIVE FIDUCIARY BEFORE NAMING THEM. Most basic estate planning documents (Will, Trust, Financial Power of Attorney and Health Care Power of Attorney) name a fiduciary (executor, trustee or agent) who, if they choose to serve, will be charged with managing your affairs or carrying out your wishes per the terms of those documents. Given the enormity of this responsibility, it is critical that you talk frankly with the person (or entity) about what would be involved to determine if they are able and willing to serve.

LEAVE A LIST OF IMPORTANT DOCUMENTS. Every estate attorney or professional administrator has several 'war stories' that begin something like "We couldn't find the will." When your executor or trustee has to go searching for estate documents and other important information, the resulting delay can have real consequences and when the fiduciary is a family member in mourning, the frustration of such a search can be debilitating. To avoid these problems, create an organized list of information your executor and/or trustee will need. At minimum this list will identify the relevant estate documents and where to find them. Better still it will include detailed asset information (account numbers and contacts for bank, etc) and names and numbers for you advisors (attorney, trust officer, CPA, insurance agent, et al.)

CHARITIES. If your estate plan includes gifts to charity, to discuss that gift with the charity during life. Even though the timing and amount of the bequest may be uncertain, this advance notice allows the charity a chance to plan and budget to do the most good with the gift. If you want to give anonymously, have your attorney or other agent communicate with the charity.

GIFTS OUTSIDE IMMEDIATE FAMILY. If your estate plan includes gifts to individuals other than a spouse, children or lineal descendant it may not be practical or appropriate TO discuss the gift during life. If such case, take care to gather as much information as possible about the beneficiary (full legal name, address, phone, email). This will make it easier for your executor to find them.

INVOLVE A PROFESSIONAL IN THE DISCUSSION. Having your attorney, CPA or other trusted advisor participate in this conversation can be invaluable. Beyond answering questions about documents or the estate process, these professionals have experience facilitating and mediating family situations.

Economic Summary – Forming a baseline?

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Economic data has been on a wild ride for the past two quarters and may finally be settling into more normal, post recessionary levels. Pick almost any economic data point and it is going to look somewhat like the chart below, which plots the unemployment rate and wage gain data through the past three cycles. Comparing the most recent data to past recessions (vertical red bars), there are some obvious differences this time around. Clearly the recession caused by the COVID-19 pandemic is an animal of a different sort.

The most obvious difference is how quickly the data spiked up and then came back down. As we noted in the previous bulletin, this can be attributed to the artificial nature of the initial shutdown phase and subsequent stimulus driven by reopening. Also notice that in past cycles, the unemployment rate (green line) and the wage gain data (blue line) tend to be negatively correlated. When one is going up, the other is typically headed lower. This makes perfect sense, as the unemployment rate falls businesses compete more for skilled labor and wages rise. This relationship broke down as the COVID-19 shutdown had a bigger impact on many lower wage jobs associated with retail and hospitality. As more low wage earnings left the workforce the average wage data spiked higher even as unemployment went up.

Moving forward, we expect the negative correlation of these data points to resume. The unemployment rate may drift sideways or even higher through the first half of 2021 as a base is formed. Wage gains will likely drift lower as lower wage jobs return and businesses tighten their budgets going forward.

A great deal of uncertainty still lies ahead with respect to the virus's impact on the economy and the timing of an eventual vaccine. Throw in unknown election outcomes and the resulting fiscal policy, we expect more noise in economic data and financial markets. While choppy data and markets will likely remain through the first half of 2021, we suspect the extreme data swings are behind us. We advise market participants to look past the extreme data points from earlier this year and focus more on the baseline that will likely form in early 2021. The Fed is expected to remain very accommodative for an extended period of time and regardless of the election outcome, we expect a fiscal stimulus deal to be reached sometime after the election.

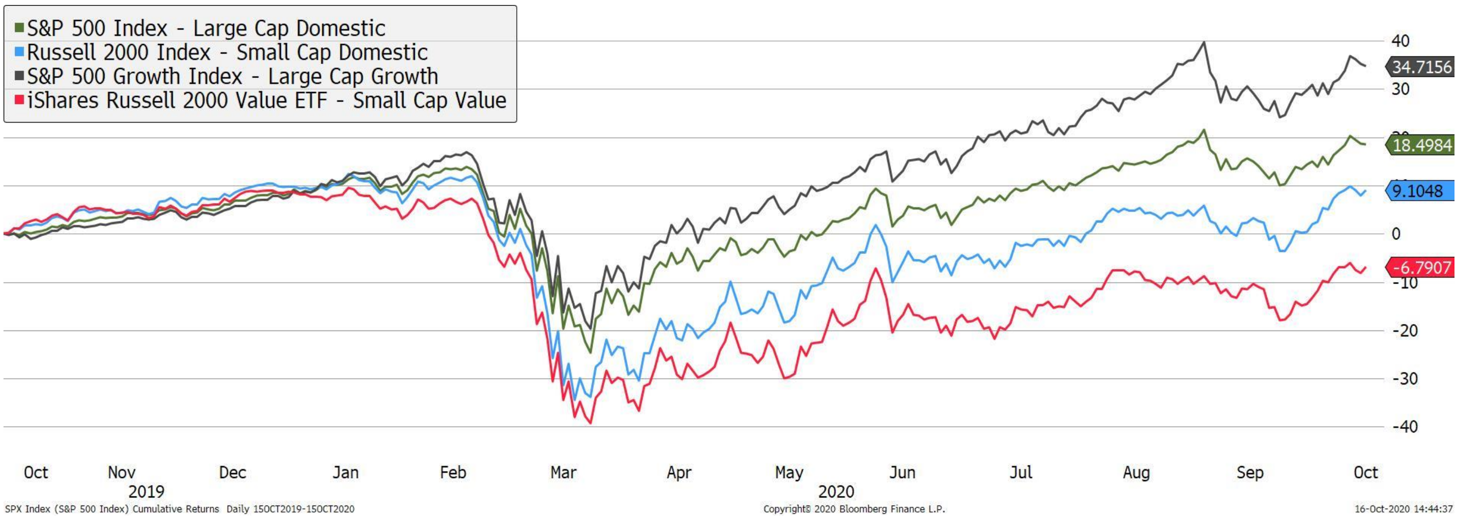
Equity Summary:	**3rd Qtr**	**YTD**	**12 Month**	**3 YR**	**5 YR**
S&P 500 (Large Cap Domestic)	8.93	5.57	15.15	12.28	14.15
Russell 2000 (Small Cap Domestic)	4.93	-8.69	0.39	1.77	8.00
MSCI ACWI Ex US (International)	6.25	-5.44	3.00	1.16	6.23

Equity Update – Have we seen this movie before?

Mark Twain once said "History doesn't repeat itself, but it often rhymes." Despite a rough September, the S&P ended the quarter 8.93% higher led by large cap. growth stocks. As one industry or sector starts to dominate the performance of an index, more and more money starts to flow into that sector. Eventually valuations get stretched and those investors that are late to the party get burned as the bubble deflates. We saw it in the early 90's with biotech, the late 90's with the internet and technology, and again in 2006 with housing and financial stocks.

For much of the past decade, large growth stocks have dominated returns. The so called FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google) and a few others like Microsoft and Tesla have massively outperformed all other stocks. As the chart on the previous page shows, the onset of COVID has only exacerbated this trend. Larger, technology-based companies have drastically outperformed smaller or value-based stocks. It stands to reason that these stocks should do better as people stay home and rely on technology more than ever.

However, at some point investors need to ask if the trend has gone too far. Are we now seeing a bubble in these very large technology stocks? The top 5 stocks in the S&P 500 Index now account for over 25% of the total market value. Historically, the top 5 stocks have accounted for closer to 15% of the index or less. Apple alone now makes up more than 7% of the S&P 500 Index and with a $2 Trillion market cap is now more valuable than all the companies in the Russell 2000 Index (small cap stocks) combined. This even though those 2000 companies combine for nearly $2 Trillion in annual revenue as compared to Apple's estimated $270 billion in revenue.



We view the market as somewhat top heavy and are looking for ways to lighten exposure to some of these very large names. One strategy for investors with large gains is to write calls on these positions to generate extra income or potentially sell the stock at a higher price. In other accounts, we added more exposure to smaller growth stocks or added an equal weight S&P Index fund that does not carry as much exposure to just a handful of stocks.

Fixed Income Summary:	**3rd Qtr**	**YTD**	**12 Month**	**3 YR**	**5 YR**
US T – Bill 90 Day Index	0.03	0.34	0.73	1.54	1.12
BC Municipals 5YR	1.00	3.63	4.73	3.30	2.74
BC Intermediate Government/Credit	0.61	5.92	6.32	4.43	3.39

Fixed Income Update – The Buck Stops Here

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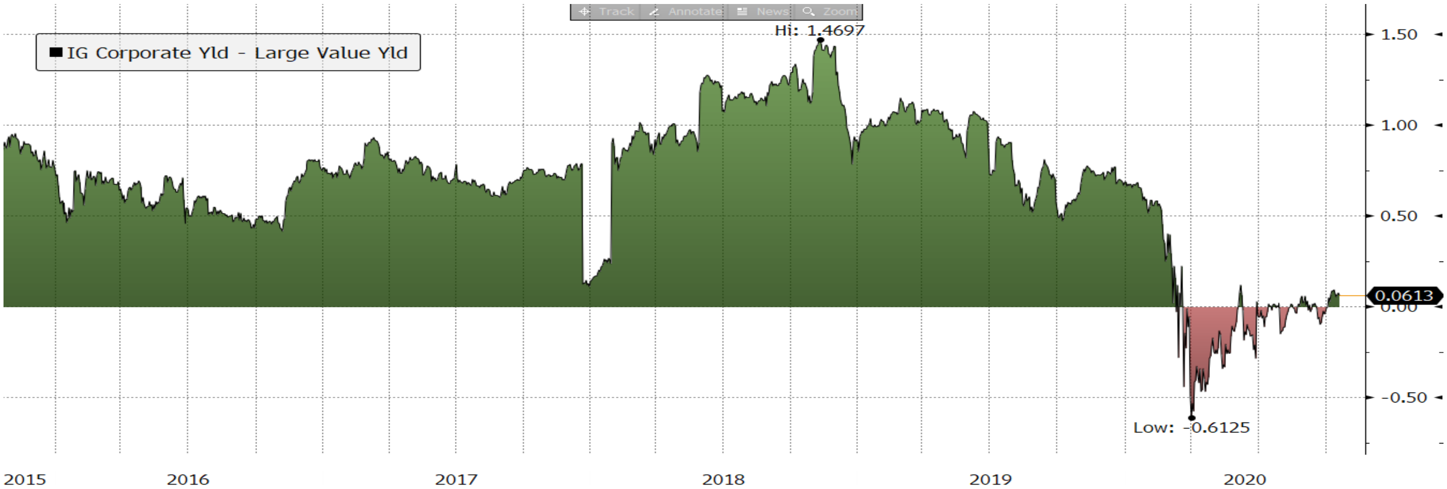
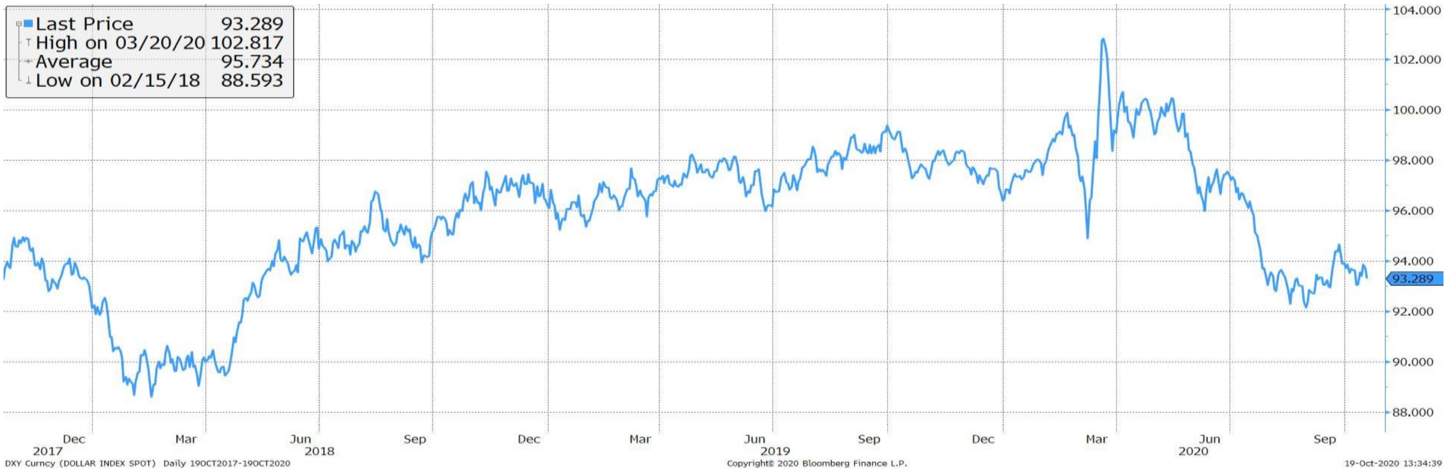
The total global COVID-19 economic stimulus has surpassed $11 trillion. The U.S. government has infused over $2.5 trillion in fiscal stimulus and is currently negotiating another round that could add an additional $2 trillion. The stimulus in the U.S. is roughly 13% of GDP thus far. Currently, Japan has issued the most economic stimulus relative to GDP: 21% YTD. If a second round of stimulus is approved at $2 trillion, it will make the United States' stimulus 22% of GDP - this would push the U.S. higher than any other country. These numbers don't even take into consideration indirect stimulus such as the Federal Reserve's ever-expanding balance sheet in the U.S. which could grow by another $4 trillion.

The 10-year treasury started the quarter yielding 0.66% and ended the quarter with a yield of .68%, moving up just 2 basis points. While the treasury market remained relatively quiet for the second consecutive quarter, we did see some slight movement in the credit spread markets. Continuing their rallies from the second quarter, floating interest rate bonds and high yield bonds rallied in the third quarter. Floating interest rate bonds returned 3.5% while high yield returned 4.6% to investors. As you can see in the chart below, the yield of Large Cap Value stocks surpassed that of Investment Grade Corporate bonds for the first time.



The Fed maintained their target rate at 0-0.25% and continued their "unlimited" bond purchase program, purchasing just under $3 trillion of bonds for the year. This has pushed their balance sheet assets to over $7 trillion. The Fed did reassure us that they do not foresee negative rates in the U.S. despite rates reaching negative territory in other developed parts of the world. Additionally, they changed their tune in regards to inflation: they are now saying they will target average inflation of 2% meaning they will let inflation go above that at times. However, they do not see inflation even reaching 2% until 2023.

The weight of growing deficits and lower interest rates has pushed the value of the U.S. dollar lower relative to other major currencies. Pricing in a second round of economic stimulus, the U.S. Dollar Spot hit its lowest level in over 2 years during the third quarter of 2020. The price hit $91.75 on September 1st, rallied slightly and closed the quarter at $93.88. During the third quarter, we added some credit risk to bond portfolios while still keeping some cash. We are continuing to look for opportunities to re-deploy this cash into the bond market. COVID-19 remains the biggest question for the markets. We don't know when a vaccine will be discovered or if an uptick in cases could lead to another state issued stay at home order. Until we see more clarity, we hope that our clients stay safe.



Alternative Investments Summary:	3rd Qtr	YTD	12 Month	3 YR	5 YR
Bloomberg Commodity	9.07	-12.08	-8.20	-4.18	-3.09
Dow Jones Global Real Estate	2.98	-14.50	-11.36	1.32	5.14
Morningstar Broad Hedge Fund TR	2.12	-8.65	-5.65	0.66	1.81

Alternatives Update – The New Normal

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Despite how chaotic the world currently is, not much has changed in the realm of alternative investments since our last bulletin. Gold continued to rise as the U.S. dollar has weakened and it remained steady near $1900/ounce. WTI crude oil began the quarter at $39.27/barrel and only increased 2.4% to $40.22/barrel by quarter's end. Real estate investments may offer some value now. Specifically, the industrial real estate sector provides opportunities as e-commerce continues to thrive creating the need for additional warehouses for inventory and cell towers/data centers having increased demand from the continuation of employees working from home.

The VIX index measures implied volatility – the expected price movements – over the next 30 days. This index tends to be negatively correlated to the stock market, which is useful in making tactical asset allocation decisions. The VIX can have wide ranging movements, as demonstrated in 2020 where it went as low as 12.39 and as high as 75.91. Typically, a value below 20 is considered a stable market. Currently, the VIX has settled around 26 which indicates that the market is MORE stable than it has been in the past 6 months, but there is still uncertainty and volatility expected. This uncertainty can lead to higher premiums in the options markets. With some areas of the market having run up, this may present an opportunity to take advantage of these higher premiums by writing calls, as Brad mentioned earlier, which can provide an exit strategy for overpriced assets or just generate some extra income in your portfolio. As always, if you would like to discuss our market outlook or have any other questions/concerns regarding your portfolio, please reach out to any of our LCNB Officers.

Introducing Brady Fening - Trust Compliance Officer & Director of Financial Planning

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Brady brings to the Bank over fifteen years in wealth management, most recently with PNC and prior to that First Financial. Brady earned his Bachelor's degree from Miami University and a Juris Doctorate from the University of Toledo, subsequently practicing law for four years.

Brady is from a family of nine children (he is eighth in the line-up) and grew up in Middletown, OH, where he still resides today. Brady and his wife, Shannon, have two children, 16-year-old daughter Olivia and 14-year-old son, Alex. They have three feline family members, Holly, Bea and Leo.

Brady has served on several non-profit boards, including Lifespan, Big Brothers/Big Sisters, and United Way. He enjoys reading books on history as well as attending live sporting events and concerts. Brady shares that over the past 30 years, he has seen the Rolling Stones in concert *17 times!* Brady also shared that he had the opportunity to hold in his hands an Oscar award following a talk by the Dayton area producers of the Netflix documentary "American Factory". Another interesting tidbit about Brady is that he was Campaign Treasurer for our very own Larry Mulligan while he served as Mayor for the City of Middletown.

LCNB National Bank

We hope that we are exceeding your expectations. The best compliment we could receive would be a referral of your friends and family. Please contact Mike Miller @ 513.932.1414, ext. 59101 or mmiller@LCNB.com for more information.