NORTHSTAR FINANCIAL PLANNERS INC.

AUGUST 2020

FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

IN THIS ISSUE:

ALERT: COVID SCAMS

It should come as a surprise to no one, given the fear and uncertainty surrounding the global pandemic; the abundant stimulus, grant, and loan money flying about; and the tax-filing deadline, that grifters are out there in full force, looking to scam people. We are experiencing a triple play of scam opportunities.

The IRS recently released its top 12 most common deceptions for this year. Here are some highlights:

1. **Fear phishing:** There has been a big surge in phishing attempts with keywords such as coronavirus and COVID-19. These are usually large-scale email blasts intended to get you to open and follow a link where you provide personal identity information.
2. **Charity scams:** All these scams are awful, but something about the appeal to charitable giving that occurs during and after disasters gives this deception a special place at the top of the Hall of Shame. Emails and calls from organizations that look and sound a lot like legitimate charities will prey on your good heart.
3. **The threatening phone call:** "Federal agents have a warrant for your arrest and will arrive in 30 minutes." This is a terrifying message, even though it is *always* a scam. I was a little freaked out the first time I got the call—can you imagine how panic-inducing this might be for an older person with any degree of mental impairment?
4. **Social connection:** The age of social media makes it relatively easy for a scam artist to research you, get a good profile of people close to you, and contact you, claiming to be a friend of a friend. Once they've earned your trust, there are many schemes they can run to get the information they need to rob you. This scam is targeting seniors as well, as more of them are becoming regular Facebook users.
5. **CPA fraud:** This year, most of us have not met with our accountants face-to-face to get our taxes filed. Fraudsters understand that with most brick-and-mortar businesses closed indefinitely, if not permanently, it's easier to impersonate a professional practitioner, such as a CPA, tax attorney, or even financial planner. Just make up a room in the house to look like an office, hang a couple of fake diplomas, and you've got a convincing Zoom meeting setting. Once trust is established, people will send pretty much everything a criminal needs to rob them blind.

Generally, these scams follow a similar pattern: Use fear or trust to get someone to provide private information. Here are some important tips to keep in mind and to share with others, particularly your older loved ones:

- The IRS will *never* call you about coronavirus payments, to ask for your bank account number to make a deposit or to withdraw an overpayment, or for anything else.

- Any legitimate charitable organization will be happy to provide you with information, including their tax ID number (TIN or EIN), so that you can research them online at Charity Navigator or CharityWatch. If they hedge, hang up.
- Even back in the day when you met with tax professionals face-to-face, you probably should have been getting their TIN and researching them (Florida Sunbiz is a good place to start) to make sure they were legitimate. But honestly, a professional-looking office made most of us skip that step. In the age of the Zoom meeting, it is critical to take these extra steps before sending confidential tax and investment information to a stranger.
- If you receive an unsolicited email claiming to be the IRS or a related agency, report it to phishing@irs.gov. If you suspect you are the victim or intended victim of a scam, follow this link: https://www.treasury.gov/tigta/contact_report_scam.shtml. And if you have concerns about how any organization is handling your personal information, report it here: https://www.ftccomplaintassistant.gov/Information.

—Steve Tepper

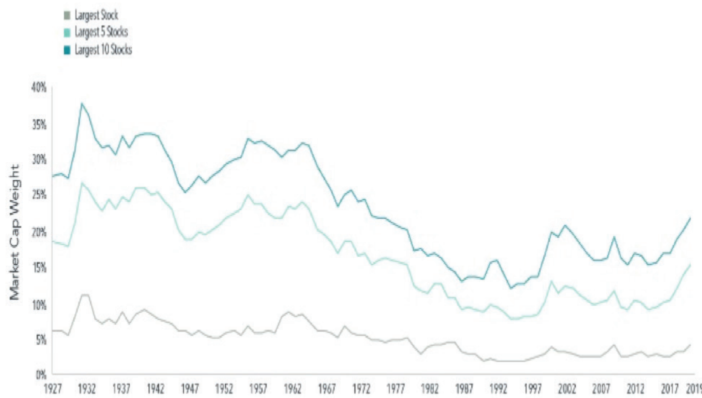
Source: "Top 12 Tax Scams Show Fraudsters Target Coronavirus Tax Relief: IRS" by Jeff Stimpson, *Financial Planning* Magazine, July 20, 2020.

LARGE AND IN CHARGE

A top-heavy stock market with the largest 10 stocks accounting for over 20% of market capitalization and a marquee technology firm perched at No. 1? This may sound like a description of the current U.S. stock market, dominated by Apple and the other FAANG stocks (Facebook, Amazon, Apple, Netflix, and Google), but it is actually a reference to 1967, when IBM represented a larger portion of the market than Apple at the end of 2019 (5.8% vs. 4.1%).

As we see in Exhibit 1, it is not particularly unusual for the market to be concentrated in a handful of stocks. The combined market capitalization weight of the 10 largest stocks, just over 20% at the end of last year, has been even higher in the past.

Exhibit 1.
Weight of Largest Stocks as % of Total U.S. Market



Source: Dimensional, using data from CRSP and Compustat. Includes all US common stocks. Largest stocks identified at the end of each calendar year by sorting stocks on market capitalization. CRSP and Compustat data provided by the Center for Research in Security Prices, University of Chicago.

A breakdown of the top stocks by decade shows a lot of stability decade to decade, even though (unsurprisingly) there has been a lot of change over 100 years.

Exhibit 2.
Largest U.S. Stocks at Start of Decade

	1930	1940	1950	1960	1970	1980	1990	2000	2010	2020
1	AT&T	AT&T	AT&T	AT&T	IBM	IBM	Exxon	MSFT	Exxon	Apple
2	GM	GM	GM	GM	AT&T	AT&T	GE	GE	MSFT	MSFT
3	GE	DuPont	DuPont	DuPont	GM	Exxon	IBM	Cisco	WalMt	Amazon
4	Exxon	Exxon	Exxon	Exxon	Kodak	GM	AT&T	WalMt	Apple	Google
5	Marathon	GE	UnCarb	GE	Exxon	Amoco	Altria	Exxon	J&J	Berkshire
Top10	27%	33%	27%	31%	25%	17%	13%	20%	16%	22%

Source: Dimensional, using data from CRSP and Compustat. Includes all US common stocks. Largest stocks identified at the end of the calendar year preceding the respective decade by sorting eligible US stocks on market capitalization using data provided by the Center for Research in Security Prices, University of Chicago.

From 1930 to 2010, just a handful of stocks (Marathon, Union Carbide, Kodak, Amoco, Altria, and Cisco) only appear in the top 5 once. On the other hand, another small handful (AT&T, GM, GE, and Exxon) occupy 58% of all the top 5 spots between 1930 and 2010. Add just a few more (Dupont, IBM, Microsoft) and you've accounted for 70% of the top 5 stocks over one hundred years!

In fact, the top 10 U.S. stocks in any year account for anywhere from 13% to 33% of total U.S. market capitalization. That's a lot of wealth concentrated in just a few companies.

While the definition of "high-tech" is constantly evolving, firms dominating the market have often been on the cutting edge of technology. AT&T offered the first mobile telephone service in 1946. General Motors pioneered such innovations as the electric car starter, airbags, and automatic transmission. General Electric built upon the original Edison light bulb invention, contributing to further breakthroughs in lighting technology, such as the fluorescent bulb, halogen bulb, and LED.

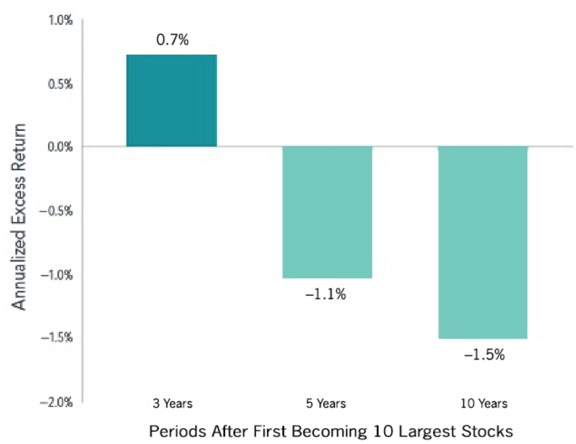
So technological innovation dominating the stock market is not a new normal; it is a normal normal.

Another trend attributed to a new normal is the extraordinary performance of FAANG stocks over the past decade, leading some to wonder if we should expect these stocks to continue such strong performance going forward.

Investors should remember that any expectations about the future operational performance of a firm are already reflected in its current price. While positive developments for the company that exceed current expectations may lead to further appreciation of its stock price, those unexpected changes are not predictable.

To this point, charting the performance of stocks following the year they joined the list of the 10 largest firms shows decidedly less stratospheric results. On average, these stocks outperformed the market by an annualized 0.7% in the subsequent three-year period. Over five- and 10-year periods, these stocks underperformed the market on average.

Exhibit 3. Annualized Market Premium (return in excess of market return) For Stocks After Joining 10 Largest U.S. Stocks



Past performance is not a guarantee of future results.

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Source: Dimensional, using data from CRSP and Compustat. Includes all US common stocks. Largest stocks identified at the end of each calendar year by sorting eligible US stocks on market capitalization using data from CRSP. Market is represented by the Fama/French Total US Market Research Index. Excess return for each stock is the difference in annualized compound returns between the stock and the market, computed from the first month following initial classification in the top 10. Stocks in the sample are required to have at least 36 months of returns data following classification in the top 10.

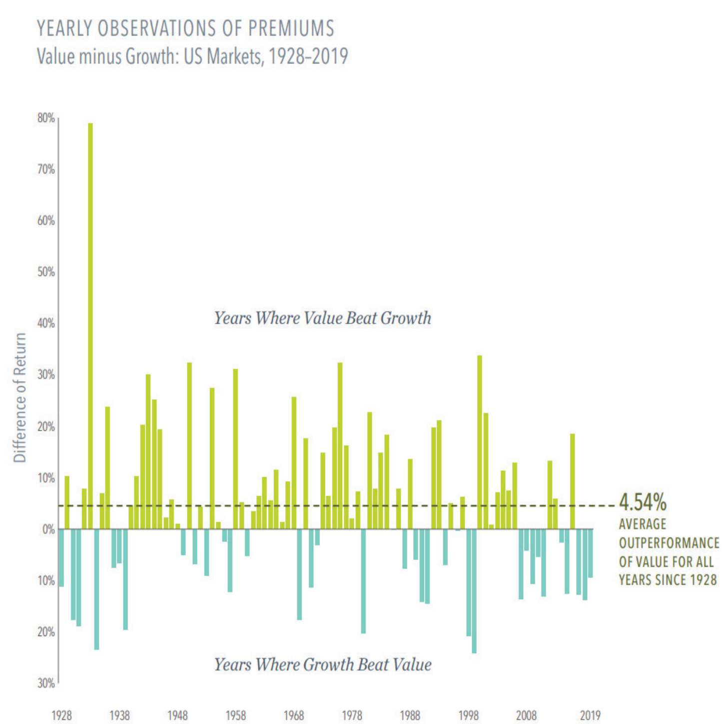
The only constant is change, and the more things change the more they stay the same. This seems an apt description of the dominant stocks atop the market.

While the types of businesses most prominent in the market vary through time, the fact that a small subset of companies' stocks account for an outsized portion of the stock market is not new. And it remains impossible to systematically predict which large companies will outperform the stock market and which will underperform it.

This underscores the importance of having a broadly diversified equity portfolio that provides exposure to a vast array of companies and sectors.

—Adapted from content provided by Dimensional Fund Advisors

VALUE VS. GROWTH: 92 YEARS OF HISTORY



Historically, value stocks have outperformed growth stocks in the US, though recently that hasn't been the case. While disappointing periods emerge from time to time, the principle that lower relative prices lead to higher expected returns remains the same.

WHO WE ARE

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- Data covering nearly a century backs up the notion that value stocks—those with lower relative prices—have higher expected returns. On average, they have outperformed growth stocks by 4.54% annually since 1928.
- But there are no guarantees, and results vary over time. Growth stocks have recently outperformed value stocks. That outperformance has been a stark departure from long-term averages.
- While there's no way to know where stocks are going next, value has trailed growth in the past before rebounding strongly.

Logic and history argue for a commitment to value stocks, so investors can be positioned to take part when those shares outperform in the future.

Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

In US dollars. Yearly premiums are calculated as the difference in one-year returns between the two indices described. Value minus growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index.

Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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