ROBERTS WEALTH ADVISORS

Quarterly Commentary

October 2021

In This Issue:

Lingering Pandemic Slows Economic Reopening

The colors of fall have begun to appear in the landscape signaling change; however, the societal and economic impacts of COVID stubbornly persist. The equity markets continued their ascension to all-time highs unabated through the month of August spurred by a strong corporate earnings environment, healthy wage growth, and accommodative policy by legislators and FOMC policymakers. Market returns through the first three quarters of 2021 remain robust. The S&P 500 appreciated 15.9% and its small cap counterpart, the Russell 2000, appreciated by 12.4%. The international markets were more challenged. Developed International were up 8.8% and International emerging markets declined -1.0%. The strong appreciation year to date across most indices hides heightened concerns as we enter the calendar fourth quarter. In the month of September there were declines across the major stock market indices. The S&P 500 declined -4.7%. The small company index fell -3.5% and both developed and emerging international experienced declines of -3.7% and -4.2% respectively.

The weakness in the markets stem largely from the lingering effects of the Delta variant of COVID. The torrid pace of recovery from the depths of the pandemic's lockdown slowed with the return of social restrictions. Recent economic data indicates consumers are pulling back from the initial pace of the reopening of the U.S. economy. Despite strong readings midsummer, hotel occupancy rates fell below the 2019 average by the end of summer and TSA checkpoint clearances declined below the levels of mid-July. The pullback is worrisome, but consumer households remain capable of spending with replenished savings accounts. August retail sales numbers were up 0.7%, a signal that the late summer softness in the travel sector may prove to be temporary.

Current estimates of Gross Domestic Product (GDP) for 2021, if

Continued from page 1

achieved, would mark the highest level since the 1980s. The near-term health of the U.S. economy remains strong, and the current levels of the investment market are supported by its underlying fundamentals. Revenues of U.S. companies have increased by double-digits and profit margins have expanded. These robust profit levels have led to businesses increasing their own spending. Business investment in equipment is expected to grow 13.9% in 2021, another positive indicator for sustained growth.

Economic recoveries are rarely smooth and this one is proving to be no different. Inflation is the cause for much consternation among market prognosticators. Fed Chairman, Jerome Powell, has described much of the inflation we are experiencing in the system today as transitory. This suggests that elevated price levels will moderate and ultimately return to pre-pandemic levels. Current inflated price levels, however, have proven to be sticky, raising concern they will linger much longer than previously thought. Global supply chains are constrained, extending delivery times and challenging global manufacturing companies in a period already complicated by a healthcare crisis. The logjam at the ports of Los Angeles and Long Beach will result in pricing pressure as retailers look to stock up in advance of the critical holiday shopping season.

The recovery of the labor markets has not been without issue. The Job Openings and Labor Turnover (JOLT) employment survey indicates that employers stand ready to welcome workers back to the workforce. Workers have returned more slowly causing labor shortages, particularly in food and beverage related service jobs. Restaurants have responded by reducing hours and even choosing to close their doors to give their workforce a much-needed break.

Through the first three quarters of 2021, the investment markets reflected the optimism of reopening and a wave of pent-up demand for consumers to spend. The fourth quarter is likely to be much choppier, as participants turn their attention to external events that may have significant market impact. The U.S. Infrastructure Investment and Jobs Act is working its way through the legislative process. The bill is anticipated to be a significant government investment in the U.S. economy for years to come. The scale of the package and the corresponding tax changes to pay for it are still up for debate. A substantive reduction in that spending program could have a negative impact on the stock markets.

The global economic landscape is also uncertain. The real estate markets in China sent shockwaves through the investment markets in September. Evergrande, a Chinese real estate company, declared an inability to meet their creditor payment obligations. Comparisons were quickly made to Lehman Brothers in the early days of the U.S. financial crisis and the domino effect it caused to global credit markets. The Chinese government is focused on containing the impact and has responded quickly to provide a liquidity backstop to their debt markets.

We are optimistic about the growth of the U.S. economy and the equity markets participation in that growth. There will be hand-wringing about the impact of supply chain and labor markets on corporate earnings, but the demand environment remains robust with both consumers and corporations looking to deploy their elevated saving levels. The stock market will react negatively to discussion about the FOMC reducing their bond buying program (aka tapering) and interest rates adjusting upwards in response to stickier price levels. Though concern is warranted, the facts remain that interest rates linger near historical lows, the FOMC will continue to infuse stimulus into the economy through 2022, and an infrastructure spending package will emerge from the legislative process supporting future economic growth.

"Economic recoveries are rarely smooth and this one is proving to be no different."

American Families Tax Plan

Last month, the House Ways and Means Committee approved tax policy changes intended to pay for President Biden's American Families Plan. This proposal still requires a Senate vote to pass, but with the democrats' holding a slim majority, it is clear that a change to the tax code is coming.

What form the final version of the tax code will take is difficult to surmise. The current proposal offers us some clues and a timeline as to when those changes might take place, providing us an opportunity to re-examine traditional tax planning strategies. The conventional approach of deferring income recognition and accelerating deductions may not be the most advantageous plan this year.

The most notable proposed change is an increase to the top tax rates on both income and long-term capital gains for higher earners. The top rate of 37% would increase to 39.6%. More impactful is that the top rate will kick in once joint filers have reached $450,000, significantly lower than the $628,300 of taxable income today. This change, if approved, would not take effect until January 1, 2022, which allows for some planning to be done now to consider accelerating income into 2021 to lock in the lower rate. Depending on your filing status, if you expect your 2021 taxable income to be in the range of $400-$650K, please reach out before the end of the year so we may help you better plan.

Also impactful to clients is the proposed increase in the top capital gains rate tier from 20% to 25%. This higher capital gains rate tier would kick in at the same $450,000 described above for joint filers. This would be effective immediately (as of September 14, 2021), leaving little opportunity to plan in the fourth quarter.

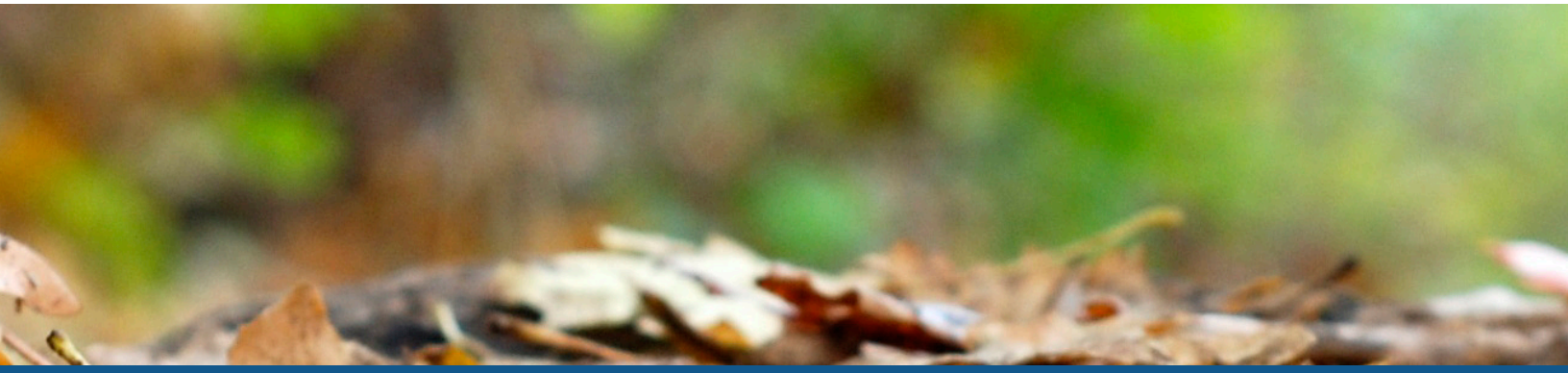
The proposed plan also affects the estate and gift tax exemption, currently at a historic high of $11.7M per taxpayer. Rather than adjusting the exemption to $6.02M per taxpayer in 2025 as currently scheduled, the exemption would be reduced effective January 1, 2022. Taxpayers with significant estates should consider options of gifting assets before the end of 2021 to utilize the current exemption. Notably, the proposed plan did not include President Biden's proposal to impose capital gains on appreciated assets held by all taxpayers at death, which would end a benefit known as a step-up in basis.

Retirement accounts would also be impacted if the proposed plan is passed. The proposal would prohibit conversions of after-tax dollars held in IRAs and employer-sponsored plans beginning in 2022. This would effectively eliminate a popular strategy known as the "Backdoor Roth IRA". In addition, for high-income taxpayers ($400K Single / $450K Joint), this proposal would disallow conversions from an IRA to a Roth altogether. However, this piece would not take effect until 2032, intentionally designed by legislators to encourage taxpayers to continue conversions for the next ten years to ensure tax revenue projections.

What is not addressed in the current proposed bill but is expected to make its way into the final version is a change or repeal of the SALT cap. SALT stands for State and Local Taxes, which include both income and property taxes paid to state and local agencies. This cap limits the deduction of these taxes to $10K, and disproportionately affects taxpayers living in states with high tax rates like California, New York and New Jersey. According to the Institute on Taxation and Economic Policy, a total repeal of the deduction limit is unlikely as it would cost an estimated $100 billion in 2022 alone. An adjustment to the SALT cap would provide some relief to many higher earning taxpayers impacted by the changes described previously.

Again, these are still "proposed" legislation changes and are not final. A lot can and will change between now and the enacted version. The chart below highlights just a few of the more significant pieces of the plan. We are closely monitoring the progress in Washington and are here to answer questions you may have.

Proposal	*Current*	*After*	*Revenue Raised Over 10 Yrs*
Restore the top tax bracket for households earning > $400K (S) and $450K (J)	37% $523.6K (S) | $628.3K (J)	39.60% $400K (S) | $450K (J)	$157B
Increase capital gains rate for households earning > $400K (S) and $450K (J)	20%	25%	$78B
Reduction in estate tax exemption	$11.7M I $23.4M	$6.02M I $12.04M	$65B
Surtax for ultra-high earners ($5M)	0%	3%	$131B
Expand NIIT for high-income S Corp owners	0%	3.80% $400K (S) I $450K (J)	$183B



Portfolio Activity

Stock market performance during the third quarter continued an upward trajectory, with U.S. markets noticeably outpacing their international rivals. Earnings growth continues to drive that momentum and is now up over 26% year-to-date. The Delta variant has slowed the pace of economic recovery, but the markets remain optimistic for further normalization.

We were given the opportunity during the quarter to make strategic adjustments to our portfolio and did so by trimming our position in Linde PLC (tkr: LIN) and adding to DuPont (tkr: DD). With Linde, we believe that short-term performance advanced ahead of the fundamentals and we preferred to reallocate our cash within that sector to DuPont. DuPont was an existing position that had declined from our initial entry point and one we believe is substantially undervalued.

We also added to our position in GlaxoSmithKline (tkr: GSK) and initiated a position in Aspen Technology Inc (tkr: AZPN). With Glaxo, we believe we are investing in a world-class biopharma company with a significant catalog of existing medicines and vaccines with a vast and underappreciated pipeline. As global vaccination campaigns subdue the spread of COVID, Glaxo's businesses should return to normal and specialty treatments should resume across the country (particularly HIV, oncology, and infectious diseases). Additionally, Glaxo's exclusive partnership with genomics company, 23and-Me, could be a game-changer in the way future vaccines and treatments are developed, giving Glaxo a major strategic advantage. The recent entrance of activist investor Elliott Management gives us further confidence that Glaxo is in the midst of recalibrating itself into a more profitable and higher growth biotech firm going forward.

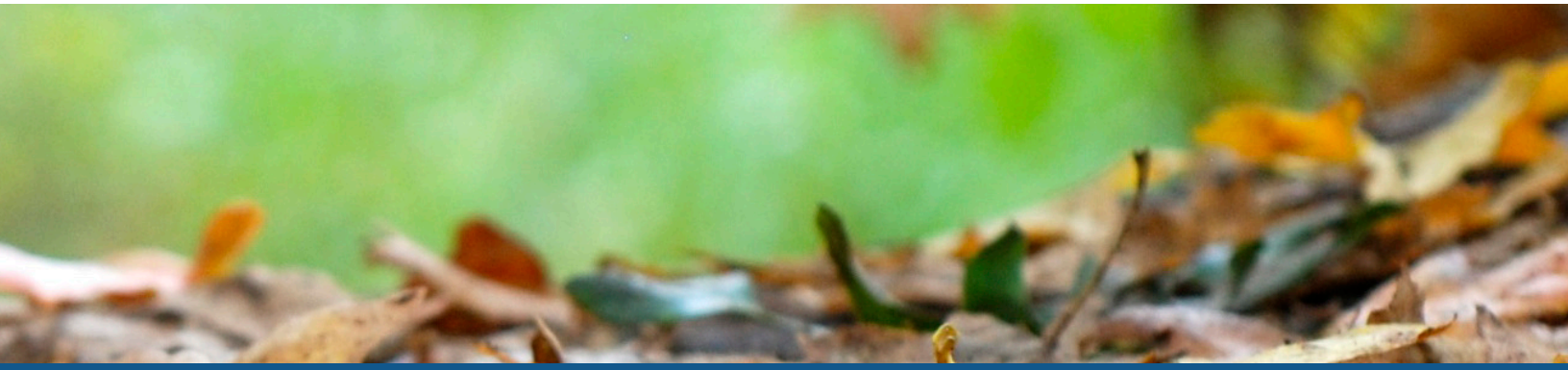
> *"The Delta variant has slowed the pace of economic recovery, but the markets remain optimistic for further normalization."*

Aspen Technology, Inc. is our featured stock for this quarter. We elaborate on our thesis for that position later in this commentary.

Index Performance	Q3	YTD
Dow Jones Industrial	-1.46%	12.12%
Standard & Poor's 500	0.58%	15.92%
Russell 2000 (Small Company)	-4.36%	12.41%
MSCI EAFE (International)	-0.45%	8.35%
MSCI ACWI (Global Stock)	-1.05%	11.12%
BbgBarc US Gov/Credit 1-5 Yr Bond (ST Bond)	0.05%	-0.25%
BbgBarc US Agg Bond (Interm Bond)	0.05%	-1.55%
Barclays Municipal Bond	-0.27%	0.79%

TOP 10 U.S. HOLDINGS

- Amazon
- Microsoft
- Apple
- Disney
- Qualcomm
- Illumina
- First Republic Bank
- Medtronic
- Trane Technologies
- Home Depot



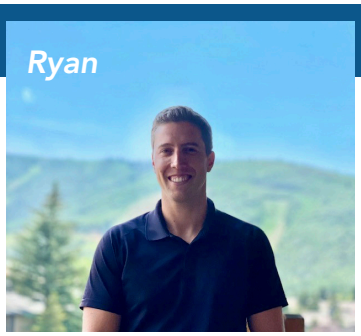
Firm Announcements

Roberts Wealth Advisors is excited to announce additions to our team. In July, Ella Pepin and Ryan Walsh, CFA joined the Park City office as a Financial Planning Associate and Senior Research Analyst, respectively.

Ella is a recent graduate from St. Lawrence University in Canton, New York. There she majored in Economics and Business, graduating with honors, and earning a Bachelor of Arts degree. Ella developed a passion for pursuing a career within financial services as a Summer Analyst at Dynasty Financial Partners. As a former collegiate alpine ski racer, Ella is right at home in the office in Park City.

Ryan joins the RWA team with nearly a decade of experience in the investment advisory industry. Ryan graduated from the University of Washington in 2013, having earned a Bachelor of Business Administration. He gained experience at hedge fund Glacier Peak Capital, performing a role as a research analyst. He moved to Northwest Asset Management, where he spent 7 ½ years on the portfolio management team, servicing dozens of independent financial advisory firms. Ryan holds the Chartered Financial Analyst® (CFA) designation, having completed the rigorous program in 2017. He added a Financial Risk Manager (FRM) certification in 2019.

The Roberts Wealth Advisors extended team is growing as well. In August, Sarah Whitman and her husband welcomed baby Asher to their family. Please join us in congratulating the proud new parents.



Featured Stock: Aspen Technology, Inc. (AZPN)

Aspen Technology, Inc. (AspenTech) is a software provider that specializes in asset optimization for companies across a range of manufacturing sectors. Founded in 1981, AspenTech combines decades of process modeling and operations expertise with big data, artificial intelligence (AI), and advanced analytics. Their purpose-built software improves the competitiveness and profitability for their manufacturing customers by increasing throughput, energy efficiency, and production levels while reducing unplanned downtime, plant emissions, and safety risks. AspenTech provides software solutions to more than 2,300 companies, including many of the largest energy, chemical, pharmaceutical, and mining companies and generates more than 60% of its revenue from outside the U.S.

These capital-intensive companies have highly complex processes and will need to adopt AI and machine learning solutions to stay competitive. Executives of AspenTech's customers are focused on two key initiatives – profitability and sustainability. There is heightened pressure for companies in the Industrial space

to find new ways to increase efficiency, improve margins, remain competitive and most importantly, reduce their climate footprint. The ability to utilize AI and aggregate valuable data is vital for future success. This, combined with their superior technology and experienced industry know-how, is at the heart of what AspenTech offers.

Non-Fungible Tokens (NFTs)

Topic Spotlight

Blockchain technology has gained recent traction, particularly among digital creators and crypto aficionados. Central to the rise in blockchain technology is the emerging interest and potential functionality of Non-Fungible Tokens. The rising popularity of NFTs warrants further explanation of both its craze and potential use-cases. By definition, non-fungible means that something is unique and cannot be replaced. In other words, it is one-of-a kind. This differs from a U.S. dollar or a Bitcoin which has the same equivalence as any other U.S. dollar or Bitcoin. The unique NFT and its ownership credentials are stored on blockchains, which cannot be tampered with or replicated. Ethereum blockchain is the most prominent supporter of NFTs.

In theory, NFTs can be applied to anything unique. However, the current frenzy surrounds virtual art and other creative digital assets, such as Twitter Co-Founder, Jack Dorsey's first-ever tweet, which sold for an eye-popping $3.0 million.

Moreover, a celebrated digital artist, known as Beeple, sold his digital collage for an unbelievable $69.3 million at auction earlier this year. Those spending money on NFTs believe that the purchase of digital assets is the future of exclusive art collecting. Digital artists validate the authenticity of their one-of-a-kind digital assets via blockchain technology. Emerging blockchain technology creates a distinct market for digital artists to monetize their creations and for prospective buyers to acquire digital asset ownership.

As interest in NFTs grow, so has the willingness for digital artists and consumers to establish online marketplaces to auction their assets. OpenSea, the self-proclaimed largest NFT marketplace, is a popular, dynamic platform where crypto collectibles and NFTs can be both bought and sold.

NFTs use-cases extend beyond the digital art world. The tokenization of documents to prove legal ownership of physical assets, like real estate, may become common in the not-too-distant future. For example, the ability to easily validate the chain of title on a home would have a significant impact on the current home buying process.

Along with many emerging technologies that gain attention from a hype cycle or absurd sales prices, NFTs attract opportunistic participants looking to make a buck. At its core, NFTs are a product with a unique following that will likely reshape the market in which consumers can exchange crypto collectibles and acquire digital assets.