Dear Clients and Friends,

The last few months have been an exciting time for our company! After 28 years we have rebranded BRAVE to more accurately reflect our evolved mission of working with our clients on much more than just portfolio management. In this letter we also share some thoughts on how the upcoming election may impact your finances, the current expensive state of the equity market, how we are managing our client portfolios in reaction to that situation, and an update on all things BRAVE.

BRAVE Family Advisors Rebrand

After a lot of discussion, we decided earlier this year to rename our company BRAVE Family Advisors to better reflect the evolution of the mission of the company. When Brett and Dave started Brave Asset Management in August of 1992, the focus of the company was primarily on managing the portfolios of our clients. Since then, we have found that helping with other aspects of people's financial worlds can be just as important. Examples include working with a client to build a financial plan to ensure they are on the right path to the retirement that they desire. Or helping ensure that the appropriate trust and estate plan is in place to protect a client's assets for future generations. Or making sure that there is sufficient life insurance so that a family's financial needs will be covered in the event of the untimely death of a spouse/parent. Or stepping in to help a family pick up the financial pieces after the loss of a loved one.

From your perspective nothing has changed…the same BRAVE team will continue to work with you to help ensure your financial future is secure!

Potential Election Impact on Your Finances

The focus over the next six weeks is going to increasingly be on the U.S. election on November 3rd. The results of that election will likely have far-reaching impacts on our country not least of which will be our federal tax code. If President Trump is re-elected and/or the Senate stays in Republican control, then not much will likely change. However, if Vice President Biden wins the election and the Democrats gain control of the Senate, then there could be significant changes in how income and estates are taxed. Biden's proposed tax policy includes returning the top marginal ordinary income rate to the Obama-era 39.6% from the current 37.0%. For taxpayers with annual income in excess of $1 million, the tax on long-term capital gains would also go to 39.6% from the current 20.0%.

Changes to how estates are taxed would also be significant. The current exemption on the Federal estate tax rate of 40.0% is currently at $11.58 million or $23.16 million for a couple. This exemption is scheduled to be cut in half on January 1, 2026. Biden's proposal calls for accelerating the halving of the exemption. There has been no mention of whether the 40% tax rate would be increased. The other material change would be the elimination of the "step-up in basis" of appreciated assets. The step-up in basis resets the cost basis of an asset to the value at the time of the owner's death. Under Biden's proposal the cost basis on an inherited asset would remain at the deceased's cost basis.

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There are several things that wealthy taxpayers may want to contemplate prior to the end of 2020 if Vice President Biden wins the election and the Democrats win control of the Senate:

1.) Realize long-term capital gains: Since your capital gains tax rate may nearly double if you make more than $1 million per year, locking in a gain at the current rate could represent a significant tax savings.

2.) Gift assets: You can take advantage of the current $11.58/$23.16 million exemption to move up to that amount of value out of your taxable estate to heirs or irrevocable trusts before the exemption is possibly cut in half.

3.) Consider a ROTH conversion of an IRA: Converting part or all of an IRA to a ROTH IRA would allow you to pay taxes on it at current ordinary income tax rates rather than being taxed at a higher rate when you or your heirs take future required distributions.

4.) Make charitable contributions from your IRA: Even though RMDs are not required this year, making a charitable contribution from your IRA before the end of the year may make sense. The IRS allows direct charitable contributions from IRAs of up to $100,000 per year. Using IRA funds to make charitable donations this year that you would otherwise make from other sources could provide a benefit if the top marginal ordinary tax rate is increased. The tax write-off at current tax rates could very well be less than the tax you will pay on the future IRA distributions that you and your heirs will be required to take at future higher tax rates.

There are a number of implications with each of these potential actions that need to be fully considered so please contact us and/or consult your accountant and trust & estate lawyer before making any decisions.

Market Thoughts

Most financial markets are expensive…PERIOD. The last seven months have seen the markets pushed and pulled by the conflicting forces of a weak outlook for profits on one side and ultra-easy fiscal and monetary policies on the other. So far, governments are winning!

Unfortunately, their success has resulted in virtually unprecedented valuation levels for U.S. stocks. The S&P 500 is currently trading at 21.5 times forward earnings which is well above average in absolute terms. The U.S. total market capitalization as a % of GDP has quickly rebounded to a new modern high **(Chart 1)**. The current CAPE ratio (Cyclically Adjusted Price to Earnings ratio) indicates that stocks are at among their most expensive levels in the last 100 years **(Chart 2)**. U.S. stocks are also expensive relative to those in other regions. Their latest spate of outperformance puts them more than three standard deviations above their 50-year valuation mean relative to European stocks **(Chart 3)**. Within the U.S. market, growth stocks are what's driving the stretched valuations as cheap money, slow economic growth, and rampant speculation have now pushed that sector to an even more extreme level relative to value stocks than even was seen at the peak of the dot com bubble twenty years ago **(Chart 4)**.

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Chart 1: Wilshire 5000 Total Market Capitalization to US Annual GDP

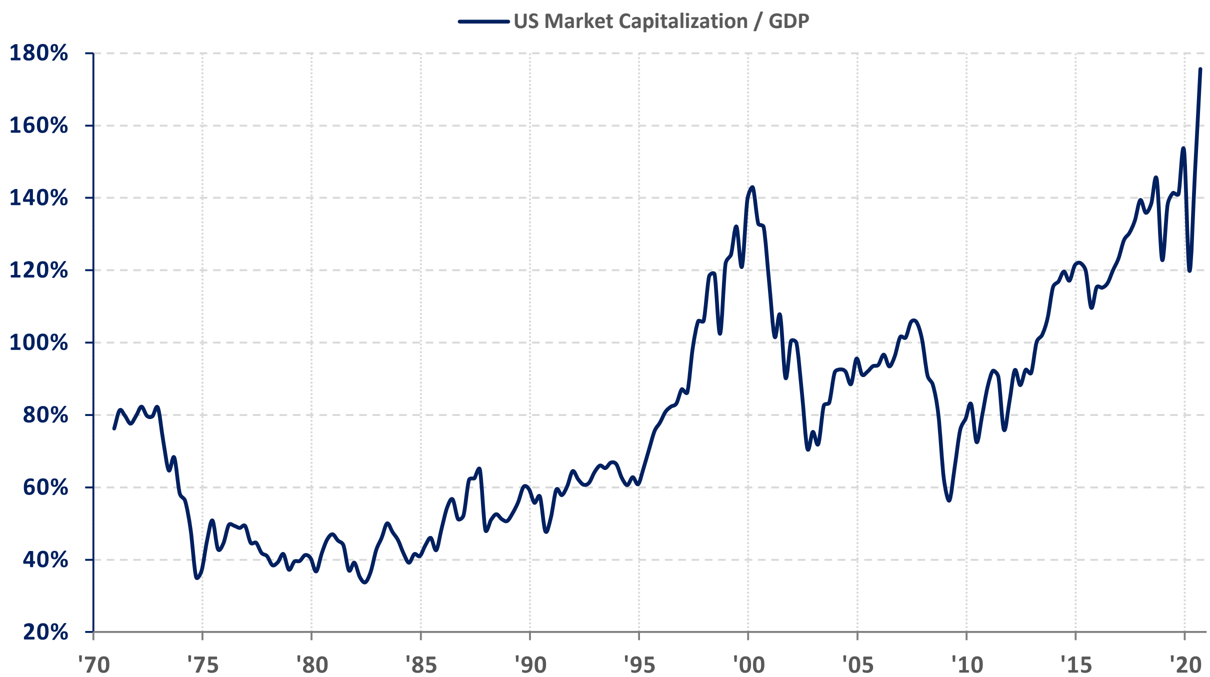

Chart 2: Long-term Historical Cyclically Adjusted PE Ratio with Recessions

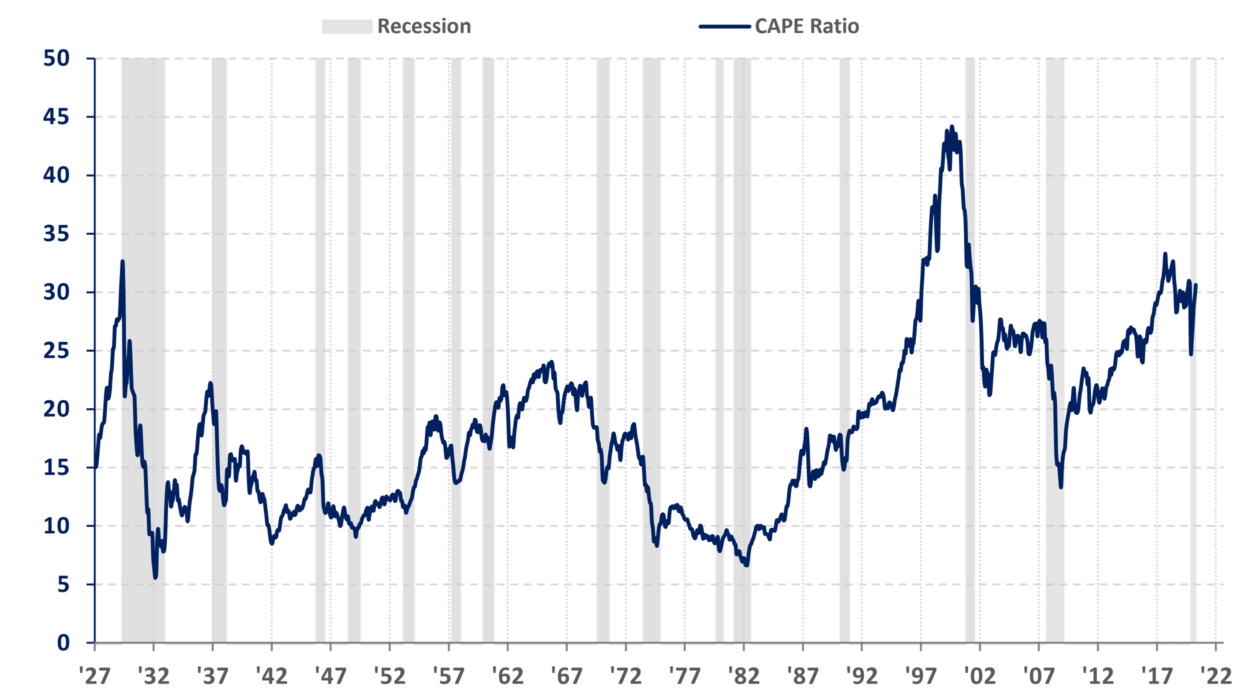

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Chart 3: MSCI United States Index vs. MSCI Europe Index

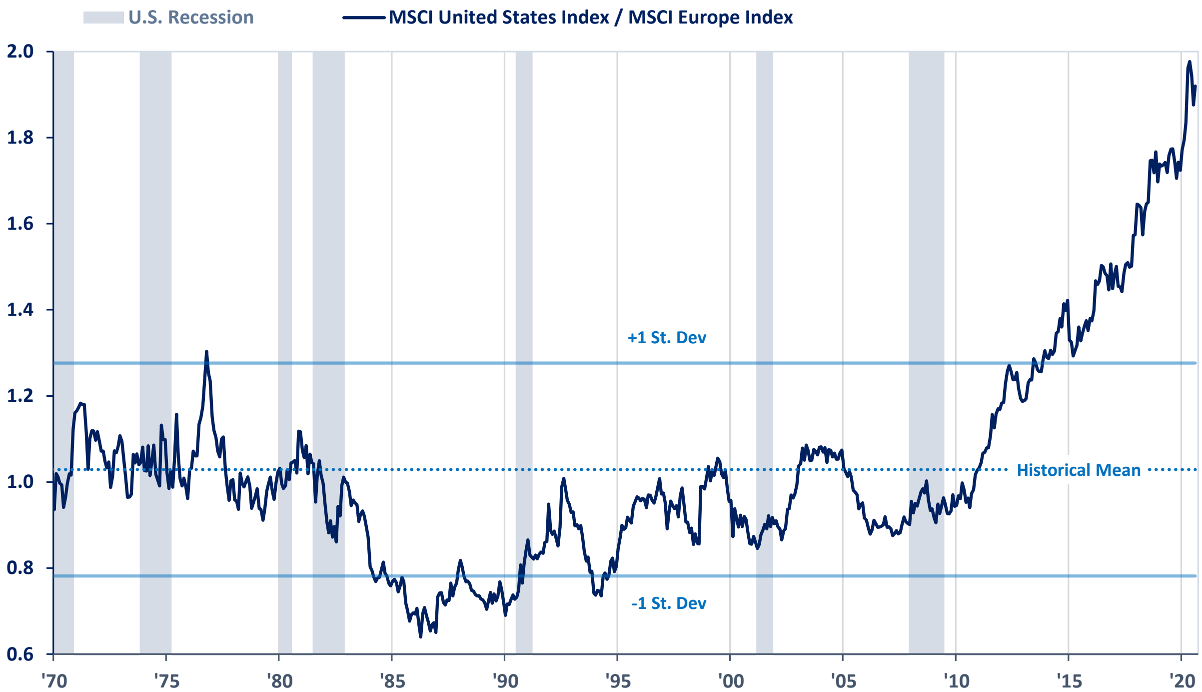
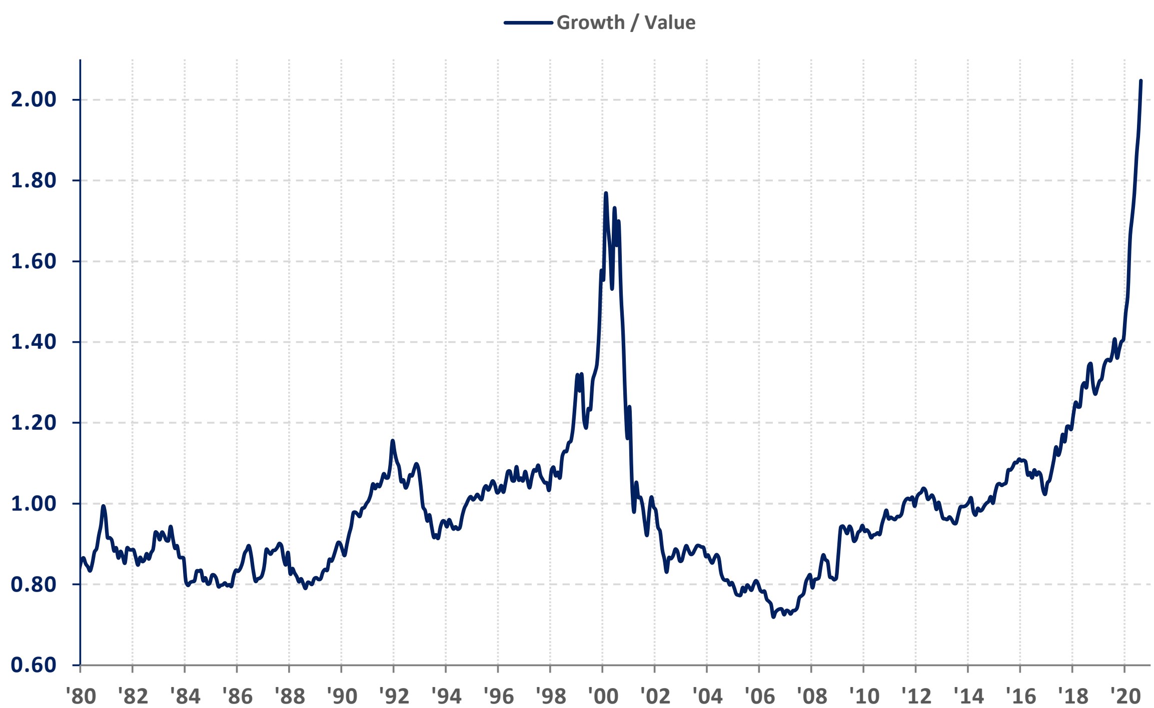


Chart 4: Russell 2000 Growth Index vs. Russell 2000 Value Index



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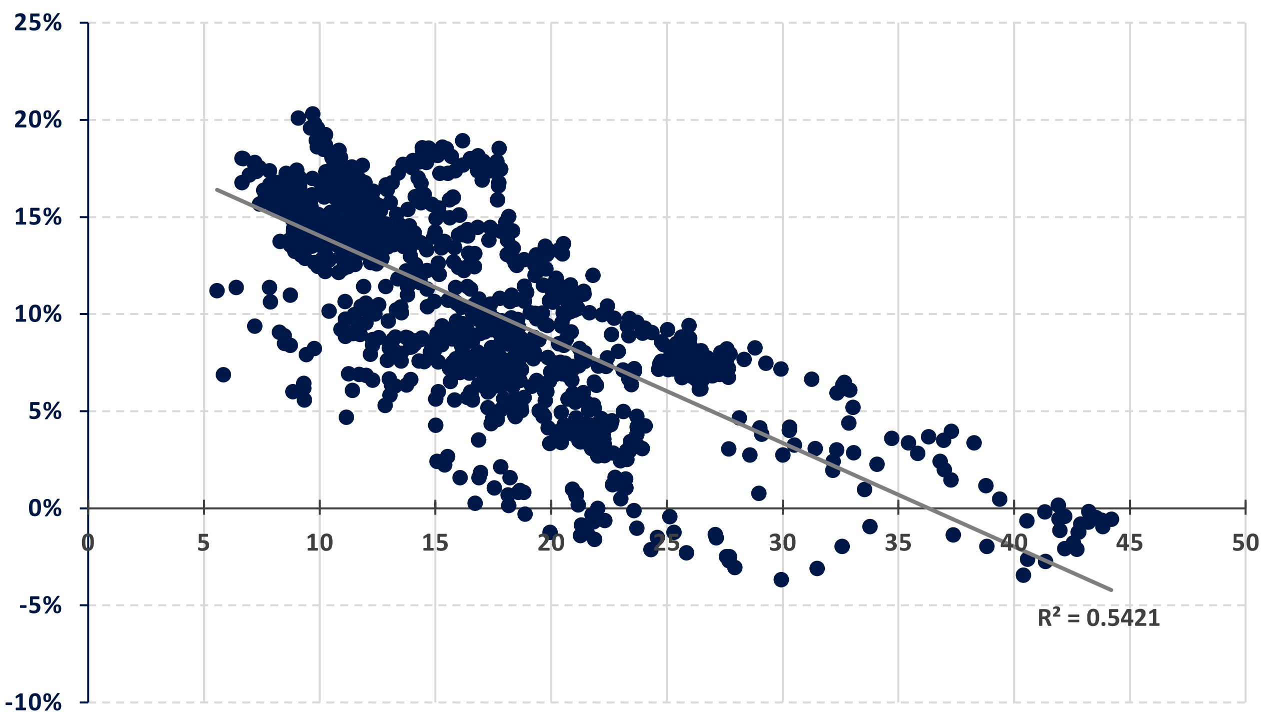
We wonder whether the recent initial public offering of Snowflake (SNOW) is a watershed moment in this market cycle. The company was slated to come public at $75-85 per share, ultimately priced at $120, and is now trading at $225. This values the company at $62.5 billion which is 156 times its $403 million of revenues in the last four quarters. That is almost double Zoom's (ZM) valuation which was the most expensive technology stock before SNOW's debut. Even the world's most famous value investor, Warren Buffet, participated as Berkshire Hathaway bought about $730 million of SNOW shares!

The high valuation of U.S. stocks suggests that future returns are likely to be below historical averages. There is a strong correlation between current valuation levels and future returns. Typically, the cheaper stocks are, the higher future returns will be and vice versa. This relationship can be seen in **Chart 5** which illustrates the relationship between the CAPE ratio and stock market returns over the next 10 years. The current CAPE ratio of 30 has yielded 10-year annual returns in a range of -4% to +7% over the last 93 years. This suggests that investors may need to adjust their expectations to something less than the historical average equity return of close to 10% per year.

Chart 5: Next 10 Year Annualized Returns of S&P 500 Index (Vertical Axis) vs. Beginning CAPE Ratio (Horizontal Axis)



Portfolio Management

We have client portfolios relatively defensively positioned as the result of the current rich valuation levels. Equity allocations are below target and cash levels are higher than normal in most cases. We have trimmed some of our holdings of the mega-cap tech stocks this month and have added to our holdings of value stocks via the iShares S&P 500 Value ETF (IVE). The IVE has a current P/E ratio of 15.4 compared to the 21.5 for the entire S&P 500 index and a dividend yield of 2.7% versus the 1.8% yield on the entire index. At some point we will likely look to add exposure to non-U.S. stocks.

We have owned gold for two years and it currently accounts for the equivalent of 15-20% of most of our equity portfolios. There are times to own gold and there are times to not own it. We believe that with the current environment of easy money, exploding government debt levels, and political uncertainty now remains one of those times to own it.

In our fixed income portfolios, we are keeping duration longer than benchmark and credit quality at very high levels.

BRAVE Update

The team continues to work under Covid-19 restrictions but has begun to return to a little more normal situation. Suzie, Jamie, and Lisa have begun going to the Summit office a couple of days per week. Brett, David, and Yiorgos are continuing to work primarily from home. Since Scott is the only person in the Rhode Island office much of the year, he has continued to go into the office most days and has been to Summit twice in the last couple of months for the first time since February. Fortunately, our investments in technology including moving to the cloud last year has put us in an excellent position to continue to serve our clients pretty much under any conditions.

We are excited to announce that Yiorgos recently received his Chartered Financial Analyst (CFA) credential! This is one of the most challenging achievements in the financial services industry consisting of three rigorous exams spaced at least a year apart, significant relevant work experience, and multiple recommendations. Please join us in congratulating Yiorgos Georgeson CFA!

Administrative Items

The CARES Act eliminated the requirement to take minimum distributions from IRA accounts in 2020. As a result, we will not be processing RMDs this year unless you specifically request us to. In most cases taking distributions from a taxable account in place of money that is typically taken from an IRA will be more favorable from a tax perspective.

We encourage you to make your yearend gifting requests from your accounts at BRAVE as early as possible this year. Most of the staff at Pershing LLC is still working from home and mail delivery in general has been slow so the earlier you can communicate your instructions to us the easier it will be to ensure the gifts are received by 12/31/20.

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Please review your year-to-date realized gains/losses report through the NetXInvestor or Tamarac portal to aid your yearend tax planning. We can also supply the report to you.

As always, we welcome your comments and questions. Please don't hesitate to call, visit or email at any time.

Your team at the BRAVE