



TEXAS CAPITAL MANAGEMENT

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Financial insights from Texas Capital Management

Third Quarter 2021

When Forecasts are Bearish and Bullish....

Which way is the market headed for the second half of 2021? There are plenty of opinions on both the bull and bear sides of the coin. Bears see an overpriced market, inflation and a threatening recession with growth stalling out. Historically, to quote money manager Meb Faber, “... investing in stocks at sky-high multiples is a horrible, terrible, no good idea.” Bulls, however, see opportunity for the economy rebounding post-pandemic with a resurgence of buying, government spending, and an explosion in innovation and entrepreneurship.

Given we will only know the answer in hindsight, for now we need to make certain fear doesn't take us out of the market, missing opportunities. Nor can we be so aggressive that

our portfolios are badly hurt if there is a downturn. This is the strength of an active management approach. We don't have to have a conviction one way or the other. What we need is to keep an eye on managing downside exposure and have a plan to respond to changes in the market.

A tremendous amount of energy and intelligence goes into trying to rationalize financial markets. But in the end, stocks will go up as long as people want to buy them: bad times in markets and economies often follow the good times. And vice versa. While there can be no guarantee that active management will be successful, we have the flexibility to adapt portfolio positions to changes in the market to manage risk.

The Coming Tax Tsunami

President Biden came into office with a very expensive agenda. Making that agenda a reality requires finding the money to pay for it. And therein lies what are arguably the most aggressive tax proposals since the Revenue Act of 1942. The Biden tax increases will *theoretically* affect only high-income households, are still just proposals, and must be enacted into law by Congress before they become a reality. The push to raise taxes is very real, however, and the potential for higher taxes should be a part of your investment considerations and planning for future income needs and your estate.

Top Marginal Income Rate

The Biden tax plan raises the top individual income tax rate for taxable incomes above \$400,000 to 39.6%.

Capital Gains

The current long-term capital gains tax rates are 15%, 20% or 23.8% for higher income taxpayers. Under the Biden plan, for taxpayers with income above \$1 million the long-term capital gains rate would mirror the top marginal income tax rate of 39.6%. When the Affordable Care Act's extra 3.8% for the Net Investment Income Tax (NIIT) is added in,

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To Live Longer, Be Happy

After a year like 2020, it's important to step back and remember that happy people live longer and have healthier lives. How can we be happier? One approach is to surround ourselves with happy, positive people. But if you are visibility unhappy, the odds are you are not only driving happy people away but making those around you and yourself unhappier.

A very basic approach to changing your mood is to put a smile on your face. Consciously act like a happy person would, even if you don't feel like it. For starters, the act of smiling, even if forced, helps relax your facial muscles and it helps others view you as a nicer person.

Sounds too simple to work? Before you spend a fortune on psychotherapy trying to figure out why you are unhappy, try to act like an extrovert for one week. Smile at others. Deliberately take a moment to thank others. Volunteer to help others. Try spending money on others. If you want to feel a certain way, act as if you already do and often your brain will go along. Richard Wiseman, a psychologist at the University of Hertfordshire, in the United Kingdom, calls this the “As If Principle.” In other words, “Fake it 'til you make it.” Another tool – memorize the words to Bobby McFerrin's “Don't Worry, Be Happy” and when you start feeling blue, start singing.



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Online Shopping Increased in 2020; So Did Online Scams

Online purchase scams boomed during the pandemic as more people bought items online. According to the Better Business Bureau Scam Tracker Risk Report, nearly 40% of Scam Tracker reports were about online purchases. More than 80% of consumers reporting these scams lost money - on average \$93, but sometimes thousands of dollars.

While many scams resulted from searching for a specific product, a great many also resulted from unsolicited product offers, designed to match items in which you may have shown a recent interest. Facebook may be good at squashing postings it feels are inaccurate, but when it comes to products offered on Facebook and other media sites, you are on your own. Anyone can set up an online shop or post an ad on social media. Scammers know the rules better than most legitimate advertisers and know how to optimize the exposure and attractiveness of their products.

How can you avoid online scams?

(1) **Know your seller.** Make certain the url is legitimate and not a knock-off of a real company. Search the seller's name online and see if negative reviews show up. Find out where the company is located.

(2) **Follow the website's fraud prevention guidelines** if you are buying through PayPal, Ebay, Craigslist or other "auction-type" platforms.

(3) **Use credit cards but have alerts set.** Using credit cards for purchases creates the vulnerability for credit card fraud, but it also gives you more protection than debit card purchases or direct bank withdrawals. You can dispute a fraudulent sale with your credit card company. Once money is withdrawn from your bank account via debit card, check or even cashier's check, it's gone. To minimize the risk of credit card fraud, set alerts with your credit card company to notify you of transactions above certain dollar amounts, charges made without a card, international charges, current balances, payments, etc.

(4) **Don't rush into a decision** and remember that something too good to be true probably isn't. Pressure to buy before the deal disappears is a good indication of a scam. Scammers are anything but stupid. They know how to prey on people's desires and fear, and pressure you to act before you have time to verify the offer.

(5) **Scarce products and popular items are also great for scammers,**

because they know people are willing to overpay or take a chance to buy the item. If you can't buy in person, or from an established seller, you could be the victim of a scam.

(6) **Check before you decide to contribute money** to an online appeal, even if the cause sounds legitimate. The nicer you are and the older you are, the more effort scammers will make to reach you, believing you will be an easy touch for the right sob story.

(7) **Know the signs of a fake check scam.** A fake check scam encourages you to deposit a fraudulent check and then send some of the money back. A cashier's check is not a guarantee that the check is good. Cashier's check fraud is so widespread that many companies will not accept them.

It can take weeks for a bank to confirm a bad check. If you have sent the scammer back money, it's gone and you are going to have bad check fees and overdraft expenses if you use the funds. Your best defense is to NOT deposit suspicious checks.

In most cases of fraud, you will never get your money back. Use caution to minimize chances that you will be a victim.