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Truth, Knowledge, Experience

3rd Quarter 2021

Hi Everyone,

As we head into the holiday season we look back at a year where a lot has happened. COVID has ebbed and flowed with the country almost fully reopening earlier this year. We have seen a change in the White House, another Tom Brady Super Bowl, and the "reddit armies" shake up the markets. 2021 has been an ever-changing year, however the market continued to plug along reaching new highs. As we head into the winter months look for a continuation of solid consumer spending this holiday season.

We Hope you enjoy the holidays with family and friends!

Best– Steve and Matt

In This Issue:

Has Reddit Revealed Major Cracks in the Market?

Presented by Matthew Geremia

With concerns growing over a potential stock market bubble and a recent market pullback, it seems another crisis has hit the headlines: a group of retail traders has come after the market itself. Specifically, these retail investors tried to beat Wall Street by trading up several stocks well beyond what the professionals think they are worth. In doing so, the headlines claim, they have broken the market. Could that possibly be true? Let's take a look at the details.

Redditors Hack the System

What happened here has two parts. First, a group of people on an online message board got together and all decided to buy a stock at the same time. More demand means a higher price. But that also means the market is working, not broken. Pumping a stock is something we have seen before, many times, usually in the context of a "pump and dump," when a group of buyers attempts to drive the price higher in order to sell out at that higher price. That practice is criminal. Although that doesn't necessarily seem to be the case this time, the technique itself is well known and has a long history.

Second, because of the way they bought the stock (i.e., using options), they were able to generate far more buying demand than their actual investment would warrant. The details are technical. Briefly, when someone buys an option, the option seller buys some of the stock to limit their exposure. The more options, the more stock buying. The Redditors found a way to hack the system by generating more buying demand than their actual investments, but the underlying processes that drive this result are standard. A group of small investors, using typical option markets, does not necessarily indicate that the system itself is broken.

Panic Ensues

Some of the headlines have talked about the damage to other market participants, notably hedge funds and some Wall Street banks. The damage, while real, is also part of the game. Hedge funds (and banks) routinely make mistakes and suffer for it. Traders losing money is not a sign that the system is broken. Another source of worry is that somehow markets have become less reliable because of the price surges. Perhaps so, but the dot-com boom didn't destroy the capital markets, and the distortions were much greater then than now.

"The real key to making money in stock is not to get scared out of them."
~ Peter Lynch

Everything that is going on now has been seen before. The market is not broken.

There is something different going on here though that is worth paying attention to. If you go to the Reddit forum that is driving all of this, you do see the pump behavior from a pump and dump. What you don't see, however, is the explicit profit motive—the dump. There's more, "Let's stick it to Wall Street!" than "We're all going to be rich!" Not that being rich is despised, quite the contrary, but this is more of a protest mob than a bank robbery. The bank may get smashed either way, but the motivation is different.

What Happens Now?
That's one reason this likely won't break the system: the "protesters" are acting within the system—and in many cases benefiting from it. The second reason is that, simply, this is an easily solved problem.

The first thing that will happen is that regulators and brokerage houses will be taking a much harder look at the internet as a source of market disruption. Fool me once, shame on you; fool me twice, shame on me. The regulators and the brokers won't get fooled again. Expect a crackdown in some form.

The other thing that will likely change is option pricing. Much of the impact here comes from the ability of small investors to trade call options, bets that stock prices will rise, cheaply. The reason they have been cheap is because, to the option makers, they have been relatively low risk. After 1987, the risks of a meltdown were much clearer, and put options—bets on stock prices going down—rose to reflect those risks. Until now, the risk of a melt-up seemed entirely theoretical, so market makers did not include them in their pricing. That practice will very likely change, making it much costlier for investors to use options to hack prices.

Cracks in the Market
What we are seeing here is a new version of an old pattern of events. We haven't seen it much in recent decades because the regulators and brokers decided it wasn't going to be allowed. Yes, it is a problem, but it is a fixable one. The market is not broken, but recent events have revealed some cracks. That is good news, as the repair team is already planning the fix.

Options trading involves risk and is not appropriate for all investors. Please consult a financial advisor and read the options disclosure document titled [Characteristics & Risks of Standardized Options] before making any investment decisions.

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"Beware of little expenses; a small leak will sink a great ship"
~Benjamin Franklin

To Keep or Not to Keep: A Guide to Common Records-Retention Questions

Presented by Stephen A Geremia

Living in an increasingly paperless world has its benefits, but when it comes to records retention, does it make a difference? Sure, digital recordkeeping on the cloud means more storage space, easy access, and less vulnerability to inadvertent destruction. But the questions of what to keep and for how long feel just as confusing as ever.

Keep or Toss

Whether your files are physical or electronic, the same principles and time frames for record retention apply. Below, we review some rules of thumb to consider for a few common financial documents. Keep in mind, though, this list is not exhaustive, and professional responsibilities and potential liability risks may vary.

ATM receipts, deposit slips, and credit card receipts. In general, you don't need to hold onto monthly financial statements after you verified your transactions—that is, unless statements include tax-related information. Also keep in mind that if you dispute a transaction included in a statement, in most cases, you have 60 days from the statement date. Beyond 60 days, the bank may be alleviated of liability associated with the charge—so you may be on your own to try to get your money back.

Paycheck stubs. Once you receive your annual W-2, it's usually not necessary to retain your paystubs for the prior year. You may want to keep your year-end stub if it includes any tax-related information not reported on your W-2, however. Additionally, if you anticipate a life event in the near future that will require proof of recent income—applying for a home loan, for example—then plan to hang onto pay stubs from at least the past two months.

Tax returns. Determining when to purge tax returns usually depends on how long the IRS has to contest a given year's return. In most cases, it's a period of three years—assuming tax returns are filed properly and do not contain any knowingly fraudulent information. The time frame can extend up to six years for severely underreported income, and there's no time limit for the IRS to contest fraudulent returns. The same timing applies to the supporting documentation used in preparing a tax return, so you should also retain the financial and tax documentation—investment statements showing gains or losses and evidence of charitable contributions, for example—pertinent to the corresponding year's return. If you're unsure how long you should keep a specific tax return and accompanying paperwork, be sure to check with your accountant. Additionally, the IRS offers some useful information on time limitations that apply to retaining tax returns.

Old 401(k) statements. Once you've confirmed your contributions are recorded accurately, there's little need to keep each quarterly or monthly statement. It may be a good idea to keep each annual summary until the account is no longer active, however.

Estate planning documents. Although there's usually no distinction about whether records need to be retained in paper or digital form, there are certain instances where it's essential to have original legal documentation with the "wet" signature. This requirement holds true for estate planning documents. In most circumstances, a court will only accept a decedent's original last will and testament—a copy will not suffice. If you're unable to produce the original, the court may presume it doesn't exist, deeming the copy invalid. It's possible there are legal avenues you can pursue to get the court to accept a photocopy of a will, but this could prove to be a costly and stressful process.

Get Organized and Be Sure to Shred

A good records-filing system is key to helping you maintain and easily access important documents. If you're storing things digitally, you can retain much more than any filing cabinet could hold, making it easy to take a more liberal approach to what you save. Keep in mind, the retention guidelines for many documents aren't clear-cut. When you're unsure, start by assessing what purpose the document may serve in the future. And it's always important to consult the appropriate financial, tax, or legal professional for advice on specific records. Finally, remember when it comes to materials that include personal information, if you're not keeping it, then you should be shredding it.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

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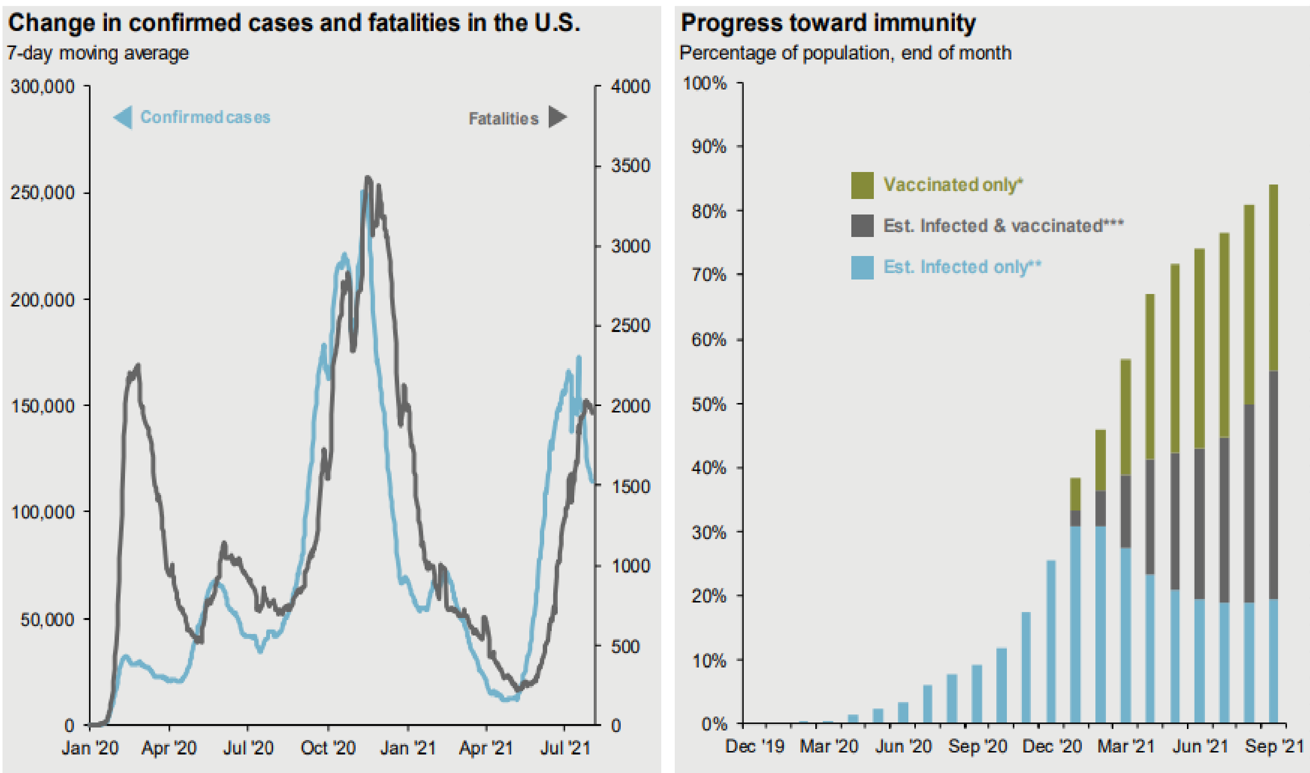
COVID-19: Cases, fatalities and immunity

GTM – U.S. | 19

Economy



Source: Centers for Disease Control and Prevention, Johns Hopkins CSSE, Our World in Data, J.P. Morgan Asset Management.
*Share of the total population that has received at least one vaccine dose. **Est. Infected represents the number of people who may have been infected by COVID-19 by using the CDC's estimate that 1 in 4.2 COVID-19 infections were reported. ***Est. Infected & vaccinated assumes those infected equally likely to be vaccinated as those not infected.
Guide to the Markets – U.S. Data are as of September 30, 2021.

J.P.Morgan Asset Management