

On Tuesday, November 3rd, US elections will take place, and early voting has already begun! In preparation for the first US presidential debate on Tuesday, September 29th, our Investment Committee developed this edition of “Procyon Perspectives”.

We are continuously digesting dynamic events, including political news, to protect our clients’ financial interests and identify new financial opportunities for them. Regardless of who holds an elected office, Procyon is devoted to understanding what’s important to our clients and how we can provide them peace of mind when it comes to their finances.



We work with clients whose views encompass the full political spectrum, and many have expressed appreciation for the conversations we have shared regarding the upcoming election. Inspired by these exchanges, our Investment Committee composed the enclosed insights on possible outcomes and some practical actions you may want to consider given various possible scenarios.

Let us begin by reviewing some facts around our current political environment.

Part I - Political polarization and the incredible shrinking middle

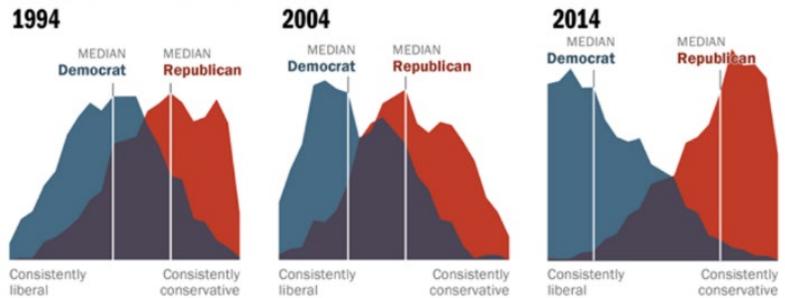
It was not that long ago, in 1994, when the ideology of the median Democratic voter was not that different than the median Republican voter. Sure, there were always people in both parties who leaned more towards the edges of the political spectrum, but a moderate middle existed, and it was sizeable with many viewpoints overlapping.

As the graphics from the Pew research center show, the “middle” has shrunk dramatically, especially for those who consider themselves “politically

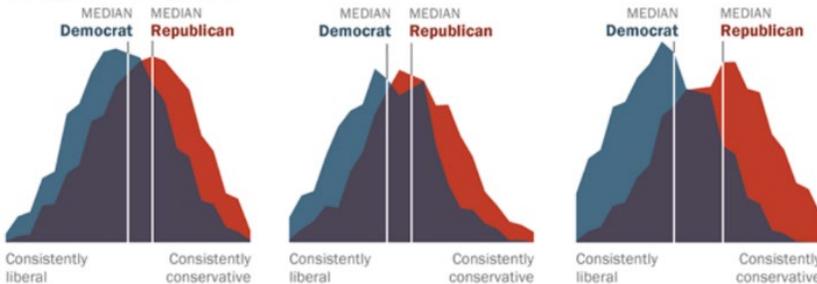
Polarization Surges Among the Politically Engaged

Distribution of Democrats and Republicans on a 10-item scale of political values, by level of political engagement

Among the politically engaged



Among the less engaged



Source: 2014 Political Polarization in the American Public
Notes: Ideological consistency based on a scale of 10 political values questions (see Appendix A). Republicans include Republican-leaning independents; Democrats include Democratic-leaning independents (see Appendix B). Politically engaged are defined as those who are registered to vote, follow government and public affairs most of the time and say they vote always or nearly always.

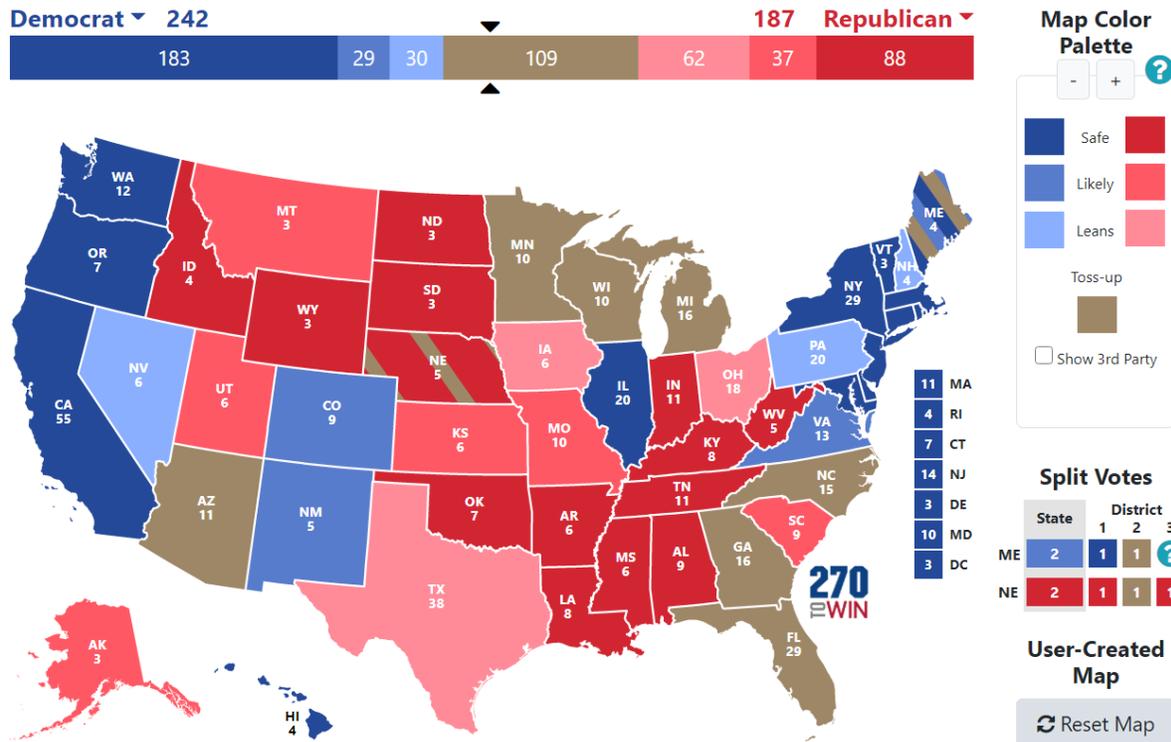
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engaged”—they are far more polarized than the “less engaged”.

Our representatives in Congress exhibit this trend as well. Conservative Democrats and Liberal Republicans are disappearing or gone, and fewer legislators in Congress are voting across party lines these days.

The US has an Electoral College, of course, and Electoral votes are allocated at the individual state level. We are currently focusing on eight critical

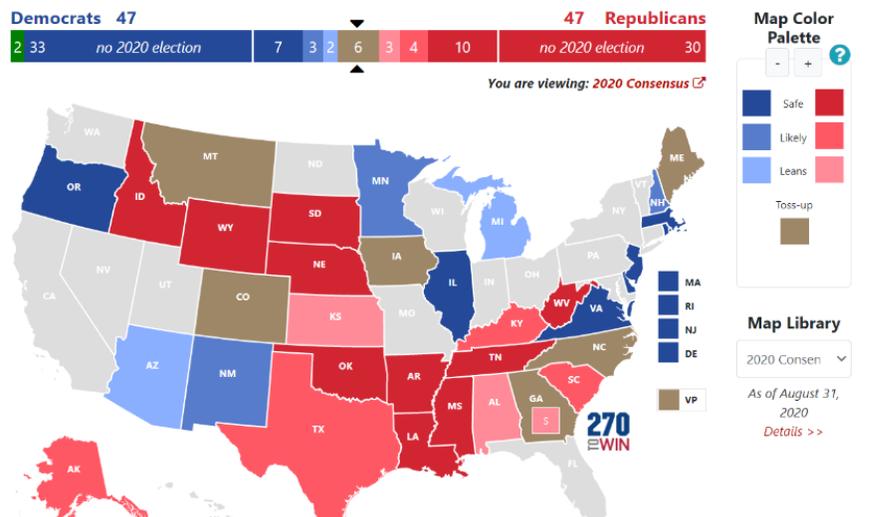
battlegrounds where the 2020 election is likely to be won or lost: Arizona, Florida, Georgia, Michigan, Minnesota, North Carolina, Pennsylvania, and Wisconsin. Campaigns may claim another state, or two, is in play, but these are currently the focus in the battle for the all-important 270 electoral college votes needed to win the presidency. Currently in all states, except for Maine and Nebraska, electoral votes are allocated on a 'winner-take-all' basis. These two states use the 'congressional district method' and allocate votes by district winner. Additionally, if you are looking to go to bed early on election night, the outcome in Florida will be particularly important. If Donald Trump does not win Florida's 29 electoral votes, he would have to sweep virtually all the other swing states and will be facing an uphill battle for reelection.



The battle for the US Senate will also be a key fight and is being fought primarily in six states.

There may not be a clear winner on election night

While we all hope there is a clear winner on election night, we are also keenly aware this may not be the case. The rules around alternatives to voting in person are being defined and debated in different states, and there are growing concerns around various timelines and potential delays. With Democrats indicating they will vote via mail-in ballots by a much larger



margin than Republicans, we can see how reconciling the “law” and what is “fair” will be contentious. The highly fragmented, emerging, and potentially partisan approach to voting is causing confusion, and it seems nearly certain that this confusion will contribute to incomplete results on election night, and legal intervention. The following are just a few examples of the current challenges, and frustrations.

Absentee and Mail Ballots

There has been a lot of discussion and debate around absentee ballots, and Georgia and battleground state Minnesota are making news in this regard. Georgia’s voting deadline is defined by law. Absentee ballots are due when the polls close on Election Day. Ballots received after that date are not to be counted and should be destroyed without being opened. However, in response to a Democratic legal challenge a federal judge issued a preliminary injunction, that orders Georgia officials to count all ballots postmarked by Election Day, even if they don’t show up until three days later. Additionally, Minnesota recently waived its rule that absentee ballots must be signed by a witness. This change to election law has been challenged by the Trump campaign and the state Supreme Court is currently deciding the case.

It is important to note that in previous elections, mail-in ballots were rejected in significant quantities. Ballots filed by first-time mail-in voters were often rejected because these voters did not follow instructions properly. Imagine the scrutiny these will receive in a close contest. Either party has the potential to sue to force the counting of rejected and late-arriving ballots.

Potential Delays

To give you an idea of how significantly delays might impact election results, consider this: voters in 10 states can *request* an absentee ballot as late as Nov. 2 according to a report by the Inspector General of the USPS.

The first source of delay arises from when ballots must be received. In seven contested states—Arizona, Florida, Maine, Michigan, New Hampshire, Pennsylvania, and Wisconsin—election authorities must receive ballots by Election Day, but, as we pointed out earlier, those laws are under protest.

Table 2. States with Ballot Request Deadlines Seven Days or Less Before Election Day

Number of Days Before Election Day							
No Deadline	1 day	2 days	3 days	4 days	5 days	6 days	7 days
MS	CT		ME	GA	AL	WV	AR
NH	DE		OH	LA	IL		CA
ND	MN			MA	NM		DC
	MT			MI	WI		HI
	SD			SC			KS
	VT						KY
	WY						MD
							NJ
							NY
							NC
							OK
							PA
							TN

Source: OIG analysis of USPS legal policy and legislative advice on U.S. Elections Voting Requirements, dated August 3, 2020.

In addition to the delay in receiving ballots, a second source of delay derives from when officials can begin to process absentee votes. About a dozen states, including Michigan, Wisconsin and Pennsylvania, don’t begin processing absentee votes until Election Day. This is a time-consuming and difficult task. Seven states in contention let authorities begin verification early: Georgia, Minnesota and Nevada upon a ballot’s receipt, Florida starting 22 days before the election, Arizona 14 days ahead, and North Carolina and Ohio at the discretion of local election boards.

Six battleground states do not allow verification to begin until the day before Election Day (Iowa) or on Election Day itself (Maine, Michigan, New Hampshire, Pennsylvania, and Wisconsin). Real problems will emerge here, especially when there is a big increase in mail-in ballots over 2016. Take Pennsylvania for example, in the 2016 primaries, 84,000 people voted by mail; this year 1.5 million did so—and that is without a strongly contested Republican primary.

At first glance it may seem like these issues are all just the result of partisan bickering as opposed to the fundamental logistics. In fact, according to a report by NPR, 558,032 absentee votes were tossed out in this year's primaries alone when partisanship is not even a factor. We can also use this year's NY Democratic primary as an example. Six weeks after the election, a close democratic primary in two districts was still undecided as election officials worked through the deluge of absentee votes. Over 12,000 absentee ballots were disqualified which was greater than the margin of victory. This was a primary for just one political party.

These delays will quickly conflict with some hard deadlines after the election. By December 8th, election disputes must be resolved. By December 14th, electors in each state must commence casting their votes. By December 23rd, the votes must be received by the president of the Senate, and on January 6th, the counting of the electoral votes takes place during a joint session of Congress. On January 21, 2021, the President Elect becomes the President of the United States. It is not difficult to imagine the uncertainty that will ensue if counting is continuing and pressure is mounting for judicial rulings as these deadlines approach.

Worries also abound that "the other side" will refuse to concede and our hope is for a "clear" victory by one side or the other. America's founding fathers knew both their ancient and modern history. Benjamin Franklin is supposed to have famously replied to an anxious lady who asked him which form of government the Constitutional Convention of 1787 had decided on... "A republic, if you can keep it."

To that end, this is not our nation's first time in this situation. Our country has seen this kind of division before, pitting globalism against a more isolationist, even nationalist, mindset. The Great Depression and the post-Civil War Reconstruction period both produced political polarization, protectionist ideas, and a rethinking of our position in the world.

There was also an enormously contentious US Presidential Election in 1876 during the Reconstruction period following the Civil War. The winner of that election was Republican Rutherford B. Hayes. He won the electoral college but lost the popular vote. In addition, both parties claimed victory before the last 3 states reported their totals. When the totals did get reported, they were rendered inadmissible due to large scale fraud by both parties. The final tally and decision were not made until January as a special committee was assigned to the task, including members of the Supreme Court. Despite this, the United States came through a tumultuous period ready for the Industrial Revolution and economic dominance during the 20th century.

Part II - The Issues and Opinions

In 1992, James Carville, a strategist for Bill Clinton, coined the phrase used by so many – "It's the economy, stupid." This phrase may prove to be particularly significant heading into the November 3rd elections, as we continue to recover from the COVID-19 pandemic. The current debate, regarding how much additional fiscal stimulus is needed, and how to best allocate those funds in the context of debt, deficits, and future inflationary pressure, will certainly be in focus. There are a multitude of issues that concern voters, especially given the heated political climate.

We will start with the easiest observations. The House will likely remain in Democratic hands. Even though every member of the House is up for reelection, due in part to gerrymandering by both parties, only 22 seats are fundamentally contested. With the current Democratic lead, the Republicans need to pick up 19 of the 22, and the Democrats only need to keep four.

The Senate is a closer call. As we discussed above, there are six contested US Senate seats and the Democrats are likely to lose a seat in Alabama, meaning they need to pick up four seats if they win the Presidency, or five if they do not. In 2016, all 34 Senate seats were won by the party winning the Presidential contest in the state so the coattail effect on down ticket races is powerful. If Joe Biden wins, the Democrats have a decent chance to take control of the Senate. Conversely, if Donald Trump wins, the Republicans are more likely to retain control of the Senate. Further, it is almost certain that neither side would control a 60-vote filibuster-proof majority, though tax legislation can certainly be passed with just 51 senators.

Closest 2020 Senate Races by How State Is Leaning in the Presidential Race (per Cook Report)

Likely+ Dem	Lean Dem	Toss Ups	Lean GOP	Likely+ GOP
ME (Collins)	CO (Gardner) MI (Peters)	AZ (McSally) GA (Perdue) GA (Loeffler) NC (Tillis)	IA (Ernst)	AL (Jones) MT (Daines)

While we will not opine on individual state races, control of statehouses and the governor’s mansions is important with the 2020 Census finishing up. Parties in control are sure to gerrymander their state to their benefit, helping to tilt power in their favor for the next decade.

So, the big one, the Presidential race. We anticipate that the losing candidate will likely litigate (as evidenced by the advance legal preparation), in hopes of quickly invalidating enough ballots to swing a key state. Campaigns are both already working on legal strategies and any of those efforts would likely end up in the US Supreme Court. We think that there are now eight key variables that are most likely to influence undecided voters in swing states:

- **Economy** – Donald Trump consistently polls better than Joe Biden on handling the economy.
- **COVID 19** – Donald Trump has received low marks for his handling of the pandemic.
- **Taxes** – Joe Biden is proposing tax increases which is often politically dangerous
- **Social justice and civil unrest** - How will voters respond to this evolving and controversial topic?
- **Foreign Affairs** - Will the globalist approach of Joe Biden or the nationalist approach of Donald Trump prevail?
- **Policy Agenda** - With the most progressive platform ever for a major political party, will undecided voters think that the Democratic party has gone too far?
- **Debates** – With high expectations for Donald Trump and a low bar set for Joe Biden, how will their debate performance be weighted by the electorate? The first half hour of each debate may prove critical.
- **US Supreme Court**- A late addition to the list with RBG’s vacancy complicating an already complex election.

Interestingly, neither Donald Trump nor Joe Biden has released a formal tax plan. Donald Trump has generally expressed his intent to preserve, and expand on, the Tax Cuts and Jobs Act (TCJA) of 2017. Joe Biden has proposed many tax changes and increased spending on issues like climate change, infrastructure, health care, education, and research & development. Most of Biden’s proposals center around raising income taxes on “high earners” as well as on businesses.

We acknowledge that they are both politicians, and what they say or promise on the campaign trail is not always turned into law. We also think its unlikely either candidate would do anything to harm employment until we have returned to pre-COVID employment levels.

There are also some economic issues that we believe are of particular interest to clients that either directly, or indirectly, impact current taxation, wealth accumulation, or wealth preservation.



Item	Donald Trump	Joe Biden
Individual Income Tax Rates	Highest marginal rate remains 37%. Implement a rate cut for “Middle income” taxpayers lowering the 22% rate to 15%.	Marginal rate increased from 37% to 39.6% for income above \$400,000
Social Security	Deferment for the September 1 through December 31, 2020 employee-side payroll tax and permanent cuts to the payroll tax (Social Security Tax).	New application of social security tax (12.4%) on incomes above \$400,000. Currently wages are taxed up to \$137,700. This would create a “donut hole” in the current Social Security payroll tax, where wages between \$137,700, the current wage cap, and \$400,000 are not taxed.
Long-Term Capital Gains	Reducing the maximum rate from 20 percent to 15 percent (whether this is inclusive of the 3.8 percent Net Investment Income Tax (NIIT) is unclear) as well as indexing capital gains to inflation.	Taxed as ordinary income when income is above \$1 million.
Individual Tax Credits	No major changes for the CTC and dependent credit or the dependent care credit. Social security numbers would be required to be eligible for these credits.	Raise to \$8,000 (\$16,000 for two or more children). Current law includes a maximum \$2,000, plus a \$500 dependent credit, and a maximum dependent care credit of \$600 (\$1,200 for two or more children).
Itemized Deductions	TCJA changes for itemized deductions would be extended beyond 2025, when they are set to expire.	Caps the tax benefit of itemized deductions to 28%, effectively limiting itemized deductions for those in higher brackets.
Estate Taxes	Push to extend the current estate tax exemption of \$11.5 million per person and 40% tax rate. Keep the step-up in cost basis for inherited assets.	Raise taxes by lowering the exemption to \$5 million after 2025 and eliminate the current step-up in basis on inherited assets. Silent as to the tax rate.
Corporate Tax	Preserve the current rates under TCJA and no intention of implementing a corporate AMT.	Raise the corporate tax rate to 28% from 21%. There is support for repealing TCJA which would also move the corporate tax rate back up to 35%. Create an AMT tax on corporations with profits of \$100 million or higher.
Qualified Opportunity Zones (QOZ)	Expanding opportunity zones by providing further capital gains relief to individuals and businesses that invest in Qualified Opportunity Zones.	Silent on QOZs
Education	Advocates for school choice	Free community college or other high-quality training program for all including Dreamers. He has eased off his previous policy of free four-year public colleges for those families with incomes below \$125,000. His plan also wants to forgive/reduce payments on undergraduate federal student loans based on individual income levels.
Medicare Eligibility	Keep the existing age for eligibility programs	Reduce to age 60 instead of 65 and available for dental, vision and hearing

Part III - Investment/Planning Implications

While politics do influence both the economy and financial markets, they are not the only factors and we find it helpful to keep things in perspective during what is sure to be a contentious couple of months. We believe time is best spent

focusing on elements in your financial life that you can control. After the results are known there may be some tactical or planning moves to make, but we strongly recommend that you refrain from dramatic actions or fixating on the daily news that will continue to ebb and flow, regardless of who is elected.

Our focus continues to be on those things that we can control, because we cannot predict outcomes of all the events we may be faced with. We can, however, say that as strange as it may seem, we have been here before, and should expect human behavior to continue its relative predictability in the future.

When we first started working together, we prioritized what was most important to you, and developed your financial plan based on your unique circumstances. If your goals have not changed, your plan should not fundamentally change in response to election outcomes. Your financial plan is for the long term and considers uncertain times like this. As news headlines inevitably change, we recommend continued focus on your saving, spending, insurance, debt management, and investment plans which we have helped design for you. Alternatively, if there have been more fundamental changes in your financial goals for any number of reasons, please share those with us so we can incorporate them into your financial plan. This will allow us to ensure your financial plan continues to be a relevant blueprint for you as life changes.

There is also some potential for estate tax rates to change which could necessitate action. Therefore, it is important to ensure that you know how to access your estate plans, if applicable, and determine when you last updated them. If you refreshed them more than five years ago, it may be prudent to familiarize yourself again with the beneficiaries you designated, and the structures that were put in place for the distribution of your assets upon your passing.

We think income taxes are likely headed higher over the next decade, and clients should start planning for that now. Considering tax sheltered investments and accounts, to the extent possible, shifting income to lower taxpaying family members, gifting, and other strategies may be appropriate. As a reminder, personal income tax rates are currently scheduled to revert to 2016 levels in 2025 absent further legislation.

At a high level, we see one of three likely outcomes for the election unfolding:

Scenario	Economic Implications	Priorities	Comment
Trump Status Quo	Continued low-tax/low-regulatory regime; increased spending; continued geopolitical/trade uncertainty	Growth, Infrastructure	Markets like lower taxes and regulation but do not like trade tensions.
Biden + Split Congress	Somewhat higher taxes/more regulation; increased spending; more predictable trade/tariff outlook	Infrastructure, climate	Fiscal support will continue, but Congress may keep spending, taxes, and regulation in check. Trade policy should stabilize.
Blue Wave	Higher taxes/most regulation; increased spending; more predictable trade/tariff outlook	Infrastructure, climate, healthcare	Higher spending and taxes, but trade policy should be more stable.

We appreciate that the election can stir up lots of emotion. If you feel frustrated, angry, or confused by the political headlines at times, take comfort knowing that you have a team of dedicated and experienced financial professionals by your side. We are actively monitoring the daily election developments in combination with other business, economic, and geopolitical events. We will continue to follow our proven processes of researching, discussing, and formulating financial perspectives that we believe in, so that we can best protect and serve your financial interests.

So, grab a bowl of popcorn, put your feet up and get ready for the first Presidential Debate! Please reach out any time with questions and thank you for the trust that you place in us.



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