INVESTMENT UPDATE

ROMANO BROTHERS & CO. WEALTH MANAGEMENT

Protecting Your Prosperity. Securing Your Future. Since 1962.

Member FINRA/SIPC

June 2020

LONG ANTICIPATED SEC RULE REGULATION BEST INTEREST TAKES EFFECT JUNE 30, 2020:

How This Sweeping Rule Affects You, Your Account, and Our Delivery of Investment Advice and Financial Planning Services

Since the firm's inception in 1962, our mission is and has always been to deliver personalized and custom-tailored investment advice to our clients, using recommended securities that we would use-- and most often do use-- for ourselves via our company profit sharing plan and our own individual portfolios. As we've said many times before, nothing hones our investment acumen like having our own money on the line alongside our clients', sharing with them both the joy and at times disappointment dealt by the many ups and downs of the market and economic cycle. This makes for a highly personal, deep, and most importantly, trusting relationship that is often unparalleled elsewhere. In short, we treat your money in the same way as if it were our money, and are co-invested with you.

As all of you know by now, we are in a highly regulated industry and monitored by both the Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (FINRA). Every so often, these regulatory bodies issue sweeping rule changes, the most recent by the SEC called "Regulation Best Interest" or also known as "REG BI" for short. The concept of the rule is very simple and as the name implies, calls for brokers to act in the best interest of their clients when making investment recommendations and delivering advice, and to more clearly delineate the differences between "brokers" and "investment advisors" and better defining the term "financial advisor."

Now I know what you are thinking...*wasn't my broker always obligated to act in my best interest?* Well, without getting too technical, the answer is sort of. Previously, brokers were held to a "suitability" standard which recognized that brokers were often salespeople first peddling stocks for a commission or selling financial products like annuities, mutual funds, or private placements for some financial incentive from the issuer, creating a conflict of interest between the broker and client. This often results in bad sales practices like "churning", for example, whereby brokers would trade positions within a client portfolio merely to generate excessive or unnecessary commissions, putting their interests ahead of the clients. While this was prohibited, it happened far too often.

Recognizing this potential for conflict, our firm was ahead of the curve and about 35 years ago envisioned a model that better aligned the goals of the client with the investment firm. Dick Romano outlined the concept in a taxi cab with another firm owner at an industry gathering around that time. He rolled out our Romano Managed Account platform, whereby we would act less like brokers simply transacting trading and more as investment advisors, providing comprehensive investment, tax and estate planning, and financial planning all for a fee based upon a percentage of assets under management. This way, everyone's interests were protected as the firm's revenue would increase only as the client's assets grew. Additionally, we would be regulated by the SEC as investment advisors, held to a more stringent "fiduciary" standard requiring by legal definition that we act solely in the client's best interest, something for reasons defined above brokers were not required to do. Today, we operate under this business model for approximately 90% of the firm's clients.

It is important to note that REG BI only applies to the other 10% of clients that fall under the older brokerage, non-managed model. These are generally legacy relationships or smaller accounts that have typically not required the full range of services under the managed investment advisory platform. Nonetheless, **all** clients will be receiving

continued on page 3

COVID-19 AND INVESTMENT STRATEGY

The COVID-19 virus has upended our lives in many ways, not least of which is our investment markets. We have seen the Dow Jones Average range from 28,869 on December 31, 2019 to a low of 18,213 on March 23 and back to 23,685 as of the close of business May 15. In addition, the intraday volatility has been extraordinary with 1000-or-more point swings within the same day. So, from year end, the stock market has been down as much as 36.9% and gained back 53.0% of that loss in only 40 trading days. Most interestingly, the Dow Jones Average is down 19.9% from its highest point when the economy looked very positive and the outlook was for clear sailing ahead. Then came the pandemic.

Within days, the whole economic outlook changed. We had governmental decree to shut down businesses, shelter in place, maintain social distancing, wash our hands, wear masks, etc. To no one's surprise, people lost their jobs, businesses permanently reduced staff or closed altogether, and over the ensuing 7 weeks, 36 million people filed for unemployment benefits. All at once, the rosy economic picture became considerably less rosy. There is loud debate out there in the media about what the shape of the economic recovery is going to look like from V-shaped, U-shaped, W-shaped, L-shaped or even like the Nike swoosh logo. Our view at Romano Wealth Management is that human behaviors (at least for people over age 25) have changed and will only change back to whence we came slowly. We ask, how soon are people going to be willing to go to crowded venues like restaurants, movie theaters, sporting events, airports or even their workplace? Of course, some folks who are less risk averse than others will move back more quickly, but a significant number will not do so quickly. Consequently, we are operating under the assumption that the economic recovery will be rather gradual and certainly not V-shaped.

So where does that leave us for investment strategy? As stated above, after the initial shock of the pandemic when the market fell at an unprecedented rate and recovered significantly and dramatically to its present level, the economy remains mired in a questionable recovery. We have never believed in our ability (or anyone else's) to predict highs and lows in markets, but we currently have strong conviction that equity prices as measured by historically significant valuation metrics are high in light of our outlook for the economy. While we have not been heavy sellers of stocks, we have trimmed some positions, realized some capital losses in securities whose outlook seemed lackluster, and built up our liquidity in the event that better valuations are ahead. For the moment, we remain in a holding pattern- not aggressively selling nor buying equities.

Traditionally, when we have made strategic changes in asset allocations, we have moved into fixed income securities such as corporate and municipal bonds. However, with the enormous amounts of funds that the government has put into the economy since the start of the pandemic, interest rates of have virtually collapsed. The benchmark 10-year U.S. Treasury note currently yields about 0.60% and other rates are commensurately low. High quality corporates in the 2 to 5 year range are yielding about 1.25% as are investment grade municipals. We have been making some commitments in this area, but not enthusiastically and only in well-rated credits.

In summary, we believe the economy will recover slowly, equities are not cheap, interest rates are unattractive for longer term commitments to fixed income investments, and we are in a waiting posture. We are holding fairly large cash allocations in order to mitigate downside risk and also in anticipation of better buying opportunities down the road.

Richard Romano,
CHAIRMAN

a packet of information about REG BI during the last half of June. While the concept is simple, the explanation and execution to comply with the rule is not. All Romano clients will be receiving a four-page Client Relationship Summary (Form CRS) and a much longer Regulation Best Interest Disclosure. The Form CRS is a document that attempts to answer the following questions in plain English:

- What investment services and advice can you provide?
- What fees will I pay?
- How does the firm make money and what conflicts of interest do you have?
- What are your legal obligations to me when providing recommendations as my broker dealer or when acting as my investment advisor?

These are all common sense items that we have been discussing with our clients for decades at the onset of the client engagement in the name of good business and quickly establishing a trusting client relationship. We applaud the SEC in mandating that all firms make such disclosures and de-mystify their business models and practices.

However, Reg BI has limitations in that it creates certain obstacles and regulatory burdens for non-managed clients. For example, every recommendation must now be documented to show that it complies with the more stringent “best interest” standard. Even “hold” recommendations must be documented, making account monitoring so nebulous and burdensome that we simply can’t find an efficient way to comply with the regulation while performing this service for non-managed clients.

Again, RWM’s managed, fee-based clients should expect no material changes to their business relationship. However, we do expect changes for smaller, less active, and transaction oriented non-managed accounts. We expect an industry wide acceleration away from the traditional brokerage model to the investment advisory fee-based model due to these regulatory burdens. For those 10% of RWM clients that are directly affected as outlined in the Form CRS and disclosure, you should expect contact from your Portfolio Manager discussing the proposed changes and how they affect your account and business relationship. We want to take a common sense business approach to maintaining your long-standing relationship with the firm while at the same time satisfying the regulatory burdens placed upon us in this new paradigm. Stay tuned.

As always, we remain committed to you and thank you for your continued trust and confidence in us.

Joe Romano,
PRESIDENT

OTHER ROMANO NEWS

BIG YEAR FOR ANNIVERSARIES!

Vice President and our Principal Fixed Income Trader, **Doug Geisser, celebrated 30 years** at Romano Wealth Management—that’s officially more than half his life!! We couldn’t be more grateful that Doug has elected to spend all these years serving his clients and joining this team. We couldn’t do it without you, Doug—here’s to 30 more!

Firm President, **Joe Romano, celebrates 25 big years** (exactly half his life!) at Romano Wealth Management this August. He followed in his father Dick’s footsteps, he’s running the ship and steering us into his next 25 years. Proud to call you our Captain, Joe!

You know her, you love her. . ,**Ms. Veda Sidney, celebrates 10 years** as the face and voice of Romano Wealth Management. Our office would absolutely be lost without her and we feel so very lucky she picked us to work with for the last decade! Despite this pandemic keeping us apart, we can’t wait to get her (and you!) back in our office as soon as possible! Thank you for years of service, Veda.

PASSED WITH FLYING COLORS!

Investment Advisor, **Peter Hemwall,** successfully completed Level 1 of a 3-part exam process in pursuit of his CFA Charter (Chartered Financial Analyst). The CFA is considered the highest distinction in the investment management profession. Way to go Peter! One down, two to go!

Operations Manager, **Valerie Romano,** passed the FINRA Series 24 Exam to become a General Securities Principal. Next up on her test schedule are the FINRA Series 52 and 53 Exams, which will make her a Municipal Securities Principal as well. With these qualifications, she’ll be able to serve the whole Romano Team and client base at a higher level. Keep up the good work!

ROMANO
BROTHERS & CO.
WEALTH MANAGEMENT
Protecting Your Prosperity. Securing Your Future. Since 1962.
Member FINRA/SIPC

1560 SHERMAN AVENUE
SUITE 1300
EVANSTON, IL 60201

OFFICE 847 866 7700
FAX 847 866 7054

ROMANOWEALTH.COM

PROTECTING YOUR PROSPERITY. SECURING YOUR FUTURE. SINCE 1962.

COVID-19 HASN'T SLOWED US DOWN!

Despite country wide closings and stay-at-home orders, your Romano Wealth team has worked tirelessly to make sure we don't miss a beat during this pandemic craziness! Following Governor Pritzker's orders in mid-March, Joe Romano asked the team to work remotely for the safety of all, but we've had a (masked) skeleton crew in the office working as our central nucleus to keep things going. With everyone's help, we successfully adjusted our day-to-day business practices to make sure every client need is taken care of. Email and phone are still the best ways to reach your advisor, but rest easy knowing the Romano Team has your back, no matter what is thrown our way. Stay safe out there!!

As always, be sure to follow Romano Wealth on Facebook, at **www.facebook.com/romanowealthmanagement** for updated market news, articles recommended by Romano reps, and updates from Joe! Don't be shy, give us a like!