Investment Strategy Outlook

April 7 2025

Brian Gift, CFA
Chief Investment
Officer
704-335-4518

Liberation Day

Liberation Day turned into Obliteration Day(s) as the S&P 500 just logged its fifth worst two-day stretch since 1950. Only October 1987, November 2008, and March 2020 had two-day stretches worse than the last two days *(Source: Bespoke Invest)*. For all intents and purposes, we are in a bear market again, even though the S&P 500 needs to decline an additional 2% +/- for it to be considered "official" in the record books. The staggering reality is that this marks the third bear market in the last five years for US equities. This is an extremely rare occurrence and emblematic of how the excessive fiscal and monetary stimulus we have experienced since COVID has created massive boom / bust cycles in asset prices. In an ideal world, the global economy will be in a far more durable position when we get to the other side of this trade war. But the clock is ticking, and without some rapid progress on the negotiation front, the global economy will unravel, ultimately leading to even more severe debt / deficit problems for the United States.

Tariff Policy

- According to Dan Clifton and Strategas Research Partners, this is a 10-fold increase of the tariff rate, to an effective rate of over 20%. By their estimation, annual tariff revenue will be roughly $620 Billion or roughly 2% of GDP. According to Goldman Sachs: "Trump announced a weighted average tariff rate of 18.3%, around 3% higher than the bank expected. However, roughly 1/3 of total imports are exempt, which makes the increase in the effective rate 12.6%, below Goldman's 15% increase." *Source: @zerohedge*

- Clifton also stated this will be the largest tax increase in modern history. As we have discussed before, every single time in the last 100 years when total federal receipts have been greater than 18% of nominal GDP, the US has experienced an economic recession. In this regard, tax cuts are now a "need" to have rather than a "nice" to have. Tom McClellan is the pioneer of this statistic, and he has mentioned that sometimes just coming close to the 18% threshold was enough for the economy to meaningfully slow. McClellan elaborated "Taxing too much takes liquidity out of the real economy, snuffing out activity. Keeping taxes down below 16% of GDP is great for economic growth, and the stock market, but it does not cover the ambitions of Congress."

- Clifton shared somewhat of a "shock and awe" statistic that puts additional perspective around the magnitude of these tariffs: At $620 Billion, the revenue from tariffs would be roughly $100 Billion more than the US collects in corporate tax revenues.

- Strategas Research Partners raised their recession odds to 45% for this year; it was 35% a week ago and 15% at the start of the year. JP Morgan raised their recession odds to 60% on Thursday morning. Thursday evening, they were officially forecasting a recession. Goldman Sachs raised their recession odds from 35% to 45% over the weekend. Economic and earnings forecasts will continue to be downgraded in the days and weeks ahead. Although there is no visibility around these forecasts,

Securities and Investment Advisory Services Offered Through M Holdings Securities, Inc., a Registered Broker/Dealer and Investment Adviser, Member FINRA/SIPC. MBL Advisors is independently owned and operated.

effectively making them useless at this time. The only thing we know for sure is that economic growth will slow dramatically, as long as these tariffs stay in place in their current form.

- Aside from the magnitude of the tariffs themselves, there are various underlying elements to these tariffs which are equally as concerning. In the lead up to April 2, the Trump Administration was referring to these tariffs as "reciprocal tariffs."

  However, it seems like the Trump Administration backed into their numbers in order to yield their desired headline figure of $600B of revenue increases from their "reciprocal tariffs." The tariffs we are imposing on other countries are a combination of retaliatory tariffs AND account for the trade deficit we run with the given country. For example, the simple average tariff rate that Vietnam imposes on US goods is 9.4% according to Reuters (5% on a trade weighted basis) (source: https://www.reuters.com/markets/commodities/vietnam-says-ready-import-more-us-farm-goods-trade-risks-rise-2025-02-14/)

  Regardless, our retaliatory tariffs against Vietnam are a staggering 46%, due to the large trade deficits we run with their country. What is most concerning to us is that Vietnam is a country that we likely want to run large trade deficits with, given the fact that a massive amount of supply chains moved there from China (during / since Trump 1.0), in addition to the reality that they manufacture things we should have little interest in doing ourselves. Dennis DeBusschere of 22V research stated, "we are targeting countries we buy shoes, tee shirts and toothpaste from." This seems to be the opposite of Economics 101 where the low cost / most efficient producer would provide the given product.

- In addition, the seemingly irrational nature of these tariffs makes the negotiating process even more difficult on the surface. What does the Trump Administration actually want in response from a country such as Vietnam? The randomness of how negotiations should begin coupled with the global pushback against US goods, tourism, etc. could have massive consequences we believe are not being captured in the already pessimistic figures that Economists are currently producing in their analyses.

Trump Administration Agenda

Prior to "Liberation Day", it seemed like many Americans generally agreed with the idea that we were going to begin to push back against unfair trade practices, especially some of the more egregious ones. The idea of true reciprocal tariffs, which were gladly negotiable, didn't seem like the craziest idea in the world. Market participants understood that tariffs were coming down the pike prior to the announcements on April 2nd, but the market reaction last Thursday and Friday was due to the nature and scale of what is being implemented.

One must grasp at straws to find the positives in this current situation. Asset prices are not going to be patient with Trump in this process, and the Administration will need to remain very aware if the economy begins to deteriorate at a rapid pace (jobless claims and equity markets will be the most important indicators). At the moment, it seems like Trump is playing a giant game of "chicken" with the global economy. Having said this, we have strived to outline the ideal outcome from this Administration's agenda:

- David Zervos, the chief economist at Jefferies was on cnbc on Thursday evening (video here: https://www.cnbc.com/video/2025/04/03/tariff-sell-off-not-the-be-all-end-all-says-jefferies-david-zervos.html). He continues to believe that the tax cuts, deregulation and shrinking of the bloated government sector will have massive positive benefits for our economy in the long term. He also noted that:

  - "We are going to bring our trading partners to the table – they have more to lose that we have to lose."

  - "Let's have a level playing field but not massive tariffs on certain things from certain countries. If you make a better product then great, we will take it. But 50% tariffs on all agricultural products going into India. 700% on rice to Japan. 300% on diary into Canada. Is that fair? Is that the right structure of trade with our trading partners? Let's not subsidize other countries' workforces and put unfair trade practices into play."

- In an ideal scenario, one can see where the Trump Administration is striving to go with their broad agenda. Make trade policy fairer. Bring additional jobs to the US economy. Lower interest rates – we need to refinance $9.2T (25%) of our outstanding deficit this year. A weaker US dollar to make our exports more competitive. Tax cuts to help sterilize the portion of the tariffs which remain permanent. Especially for the lower / middle class. Lower energy costs to help offset higher prices elsewhere. Reduce trade deficits and lower budget deficits. The United States was on an unsustainable fiscal trajectory and some "short term pain for long term gain" could be warranted to correct the government excesses which have built up since the GFC. Nonetheless, "short-term pain" which ends up killing the patient (severe recession) will solve nothing and would only exacerbate our debt problem if we end up having to print money in order to get us out of a future recession.

- Warren Pies of 3Fourteen Research noted: "Good goals, suboptimal policy tool (tariffs), awful execution, to a worrisome level." Regardless of political affiliation, this is likely consensus thinking for 80% of American's right now.

- In a January 2025 interview with cnbc Stanley Druckenmiller noted the following:

  - "In a perfect world, I would not be for a 10% tariff, but we are not in a perfect world, as you know we have a big fiscal problem, mandatory spending plus interest expenses a literally 100% of revenues, and both sides of the aisle have said they are not going to cut entitlements, which is the elephant in the room. Because of that we need pay for, so our main choices are an income tax and a consumption tax like tariff. So I say tariffs are the lesser of the two evils. I think a lot of the economists who are ringing the alarm bells about tariffs, would probably be fine with a consumption tax. Tariffs are simply a consumption tax that foreigners pay for some of. So as long as we stay in the 10% range, I think the risks are overblown relative to the rewards. Now the rewards are not high, its more like they are the lessor to two evils. *Source: https://www.cnbc.com/video/2025/01/20/stanley-druckenmiller-tariffs-are-simply-a-consumption-tax-that-foreigners-pay-for-some-of-it.html?jwsource=cl*

  - Druckenmiller rarely posts on X. But on Sunday night he felt it was necessary to reiterate the following: "I do not support tariffs exceeding 10% which I made abundantly clear in the interview you cite."

- Lawrence McDonald echoed Druckenmiller's comments on X: He said the bottom line comes down to this sentence. "When your interest (expense) as a % of tax receipts gets near 20%, you MUST find revenue. Consumption tax (tariffs) or income tax, pick your poison?"

- Raoul Pal is the co-found of Real Vision and formerly ran a global macro hedge fund after working at Goldman Sachs. He is a truly independent, brilliant and unique thinker. Last Friday, he posted the following on X:

> "People are yet to understand that we have a macro hedge fund manager running the Treasury, not an ex-Central Banker.
>
> He deeply understands liquidity impacts and how to drive financial conditions to drive liquidity and how that in turn drives the economy and markets.
>
> His entire strategy is to lower the three legs of Financial Conditions – dollar, rates, and oil to goose the business cycle (ISM).
>
> Our GMI Financial Conditions Index is screaming higher (conditions loosening) as is Global M2 and even more importantly GMI Global Total Liquidity.
>
> The effects should kick-in in the next week or two and the recovery in asset prices and economic data should be sharp in the coming weeks and should be persistent." *Source: @RaoulGMI*

Economic & Market Implications

- Don Rissmiller, Chief Economist at Strategas Research Partners stated the following on Sunday night.
  - We have 1-2 months to digest these tariffs until the economy gets into BIG trouble, without adjustments or offsets (tax cuts).
  - If consumers balk at higher prices, which they will, given the already very poor consumer sentiment, then the tariffs will begin to hit corporate profits. When profits get hit, corporations begin to cut costs, i.e. fire people.

- We can't stress enough how important the labor market will be to this entire situation. Trump has some highly intelligent people around him (Bessent especially) and hopefully he is VERY aware of this reality. If the labor market cracks, asset prices will continue to have downside risks from here. And the labor market has already been gradually weakening for the last several months, tariffs aside. In addition, it will be "game over" for the entire Trump Administration agenda. The stakes are high. Legitimate progress on tariffs (negotiations, a pause on the tariffs to allow time to negotiate, etc.) and tax cuts are needed immediately. Dan Clifton believes tax cuts could happen by Memorial Day now, given we now have an economic emergency.

- 22V Research noted that in many of their conversations they were hearing commentary along the lines of "this policy is so bad, it can't last." However, 22V is taking things at face value right now. If these tariffs stick, their assumption would be for 0%ish GDP growth and inflation around 4% - 5%. This would also imply little to no earnings growth for 2025 and a Fed on hold. They put the odds of recession at 50%.

  22V elaborated that if we reduce 2025 EPS growth to 0% and get roughly 6.5% EPS growth in 2026 ("a conservative assumption in their opinion) this puts fair value on the S&P 500 at 5400 – exactly where we closed on Thursday April 3rd. However, they elaborated that "a 75th percentile equity risk premium (i.e. lower earnings multiples) would lower fair value SIGNIFICANTLY. To something closer to the 4500 – 4800 range. We would need to assume consistent stagflation for that level of ERP. OR a much deeper recession that we would call for." Chris Verrone also believes that the 4500 area on the S&P 500 should be a "recessionary floor" for this decline.

- The bears will point out that US Large Cap equities continue to have a big "problem" from a mathematical perspective. Forward earnings estimates haven't been revised lower yet, but they were likely too high even before tariffs became a real issue. When using current forward earnings estimates, the S&P 500 has done some meaningful work in correcting excess valuations, contracting to roughly 18.5x NTM EPS, from 22.3x NTM EPS to begin the year *(source MBL Advisors & FactSet).* Nevertheless, 18.5x forward earnings estimates is not cheap on a historical basis. And all previous bear markets in history have bottomed at lower levels of valuations.

  Since forecasting earnings is always a messy process at large turning points in the economy, using peak earnings can be a more useful tool in thinking through where a bear market might bottom out in a more dire (but not quite worst case / 2008 like) scenario. As we have written about before, we do believe that "average" valuations trend higher over time, largely thanks to the great technology companies which have become a large part of the S&P 500 over the last several decades.

  In this regard, we have reviewed where the 2002, 2020 and 2022 (the GFC in 2008-09 was its own animal) bear markets bottomed relative to the prior cycle's peak earnings. On average, this bottom occurred at roughly 15.2x peak earnings *(source: MBL Advisors & FactSet).* If this scenario were to playout, the S&P 500 would not find a bottom until somewhere slightly below 4000 or roughly 20% downside from here. If this were to occur, this would be one of the worst bear markets of all time in the post WWII era, only surpassed by 1973 / 1974, 2000 – 2002 and 2008 – 2009. Having said this, we believe it is premature to begin using this analog as a base case scenario.

- As of right now, the market is way ahead (to the downside) of the damage which has actually occurred to the economy or corporate earnings. Clearly the post WWII "system" is in the process of being permanently changed, for better or worse, and there will be numerous corresponding ramifications.

  "Markets stop panicking when policy makers start panicking" has been extremely true throughout history, and especially since 2008. Since the GFC, virtually every single market bottom occurred with an intervention / policy pivot from the Federal Reserve (2009, 2010, 2011, 2015, 2016, 2018, 2020 & 2023) aside from October 2022. Given Powell's comments last week, it doesn't seem like the Fed is going to bail the Trump Administration out anytime soon. Unemployment moving meaningfully higher will be the exception to this statement. Nonetheless, the bond market is sending a clear message to the Fed, as 2-year yields are now well below the Federal Funds rate. The bond market believes the Fed is far to restrictive right now, and accidents are prone to happening when this is the case.

- As we have written about before, secular bull / bear markets are the 10 – 20 year periods when equity markets move to the upside beyond anybody's wildest dreams (bull) or do a whole lot of nothing for an extended time period (bear), regardless of the cyclical bull / bear markets that occur within them.

- After the generational market bottom in March of 2009, the S&P 500 recaptured its 200-week (almost 4 year) moving average to the upside in December 2010. The COVID bear market briefly breached the 200-week moving average to the downside, but it was recaptured very quickly, reassuring investors that the secular bull market was still intact. The 2011, 2016, 2018 and 2022 bear markets all traded down to the 200-week moving average and almost perfectly bottomed at this incredibly important trend line.

  In this regard, the 4700 area on the S&P 500 will be an especially important area to observe over the coming weeks and months. Coincidently, this is virtually the same area that the 2021 bull market topped out at as well. We can envision a scenario where markets have a couple of more violent days to the downside in order to get to these levels, if we don't begin to see some progress with tariffs

negotiations. However, there should be some very formidable support around these levels, unless markets believe the global economy is seriously damaged. A few important observations regarding 4700 +/- on the S&P 500 and the 200-week moving average:

- The S&P 500 will have made no progress for 3.5 years if we return to the 4700 +/- level. The late 1960's to the late 1970's and 2000 to 2012 where truly lost decades for the S&P 500. However, if we exclude those two instances, the only other times in the post WWII era when the S&P 500 made no progress for roughly a three-and-a-half-year period where September 1959 to January 1963 and August 1987 to February 1991 *(source: MBL Advisors & FactSet).* There are countless two-year periods of no progress, but more than three years is rare.

- Jordi Visser of 22V research noted that the 200-week moving average usually holds unless you have large job losses. A sustained breach of the 200-week moving average, should be interpreted as the equity markets forecasting a serious recession.

Timeframes of when the S&P 500 Remained Below its 200 Week Moving Average for more than a Couple of Months

Timeframe below the 200 Week MA		Recession		Secular Bear Market		Trough to Peak move in Unemployment Rate for that cycle
April 1962 - January 1963		No		No		5.5% to 5.9%
March 1970 - April 1971		Yes		Yes: Beginning		3.5% to 6%
November 1973 - March 1976		Yes		Yes: Middle		4.6% to 9%
March 1982 - October 1982		Yes		Yes: End		5.7% to 10.8%
April 2001 - March 2004		Yes		Yes: Beginning		3.8% to 6.2%
August 2008 - December 2010		Yes		Yes: End		4.4% to 9.9%

Source: MBL Advisors & FactSet

- It should be noted that equity markets will bottom well ahead of unemployment peaking or economic growth turning higher. According to JP Morgan, equity markets bottom five months ahead of economic growth inflicting higher, on average.

- Chris Verrone of Strategas Research Partners believes that markets have largely priced in a lot of the tariff rhetoric. But they have not priced in a recession. He noted the following on Sunday night:

  - Three conditions we look for during these types of declines: Sentiment extremes (check), Indiscriminate selling (most of the way there), capitulation in price action (started to see on Friday).

- Verrone noted that once you get less than 20% of S&P 500 constituents above their own 200-day moving average (we are close), these corrections usually play out with a bounce and then a "retest" of the ultimate bottom. He noted a "retest" occurs 85% of the time, somewhere between six weeks and four months later. He refers to this as the "bang" followed by the "whimper." It is important to see market internals improve on the retest. We should use this as a base case moving forward.

- Jeff DeGraff from Renaissance Macro shares a similar viewpoint. Prior to last Thursday and Friday, he noted his indicators were "85% of the way there." The few holdouts among his indicators fired on Friday (spike in 20 day new lows, put / call ratios, etc.).

  DeGraff noted that this is the 16th 15%+ correction in the last 100 years. Three-month forward returns are pretty good, but six-month forward returns are not as good as three-month or 12-months. This reiterates Verrone's "bang & whimper" playbook.

- The VIX closed above 45 for the first time in over three months on Friday 4/4/25. Since 1987, average 1 year forward returns are +20.46% with a 78%-win rate. Of the nine other occurrences since 1987, September 2001 was the only instance where there was meaningful downside (-15%) one year later. *Source: Jay Kaeppel*

- Last Thursday and Friday was the fifth largest two-day decline for the S&P 500 since 1950. Longer term forward returns were exceptional from these previous instances. Although the next few weeks or months can remain difficult.

S&P 500: Biggest 2-Day % Declines and Forward Total Returns (1950 - 2025)							
Biggest 2-Day % Declines					Forward S&P 500 Total Returns		
Rank	End Date	Start S&P	End S&P	2-Day	1-Year	3-Year	5-Year
1	10/19/1987	298	225	-24.6%	28%	55%	119%
2	10/20/1987	283	237	-16.2%	24%	47%	108%
3	3/12/2020	2882	2481	-13.9%	62%	63%	144%
4	11/20/2008	859	752	-12.4%	49%	73%	164%
5	**4/4/2025**	**5671**	**5074**	**-10.5%**			
6	11/6/2008	1006	905	-10.0%	21%	48%	119%
7	10/15/2008	1003	908	-9.5%	24%	44%	109%
8	10/7/2008	1099	996	-9.4%	9%	24%	88%
9	3/9/2020	3024	2747	-9.2%	44%	50%	127%
10	10/22/2008	985	897	-9.0%	25%	48%	119%
CREATIVE PLANNING					@CharlieBilello		

Source: Charlie Bilello

- Zero S&P 500 sectors are above their 200 Day Moving Average. This is a rare occurrence, and stocks usually bounce from such oversold conditions. *Source Willie Delwiche, CMT, CFA*

- 45% of S&P 500 stocks have an RSI less than 30. Since 1987, the S&P 500 was higher 1 year later 91% of the time with an average gain of 18.39% (September 2001 the only time it failed). *Source: @SubuTrade*

- "Hedge Funds hit with steepest margin calls since 2020 Covid crisis" - Financial Times

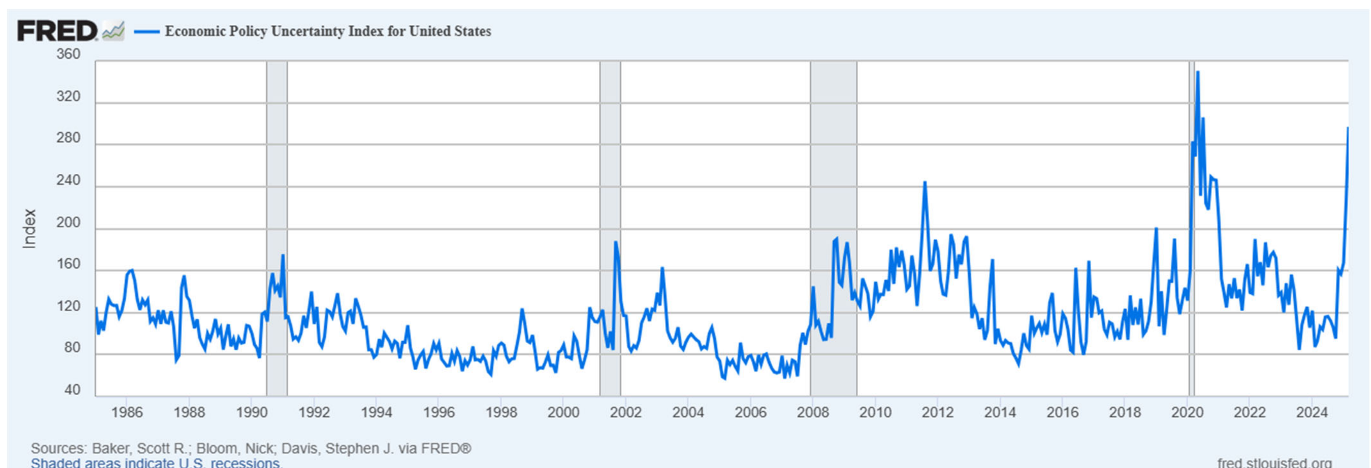
- Through the close on Friday 4/4/25, the S&P 500 had its sixth worst first 64 trading days of the year. Of the other 19 worst starts to the year, the remainder of the year was positive 73.7% of the time, although the entire calendar year was positive only 42% of the time. *Source: Charlie Bilello*

- This marks only the fifth time that the Russell 2000 declined more than 4% in consecutive days. The other four instances produced 1 year forward returns of +46.9%, +11.1%, +51.7% and +109.5%. *Source: Jason Goepfert*

- CNN Greed & Fear is at 4. CTA positioning is at an extreme low level according to Goldman Sachs. AAII Bears are at 61%, the third highest print ever and inline with March 2009. RSI's are below 30 on all US equity indices. Defensive sectors which investors had been hiding out in were hit hard on Friday. Everything was sold equally on Friday, which can indicate that a short-term bottom is growing near.

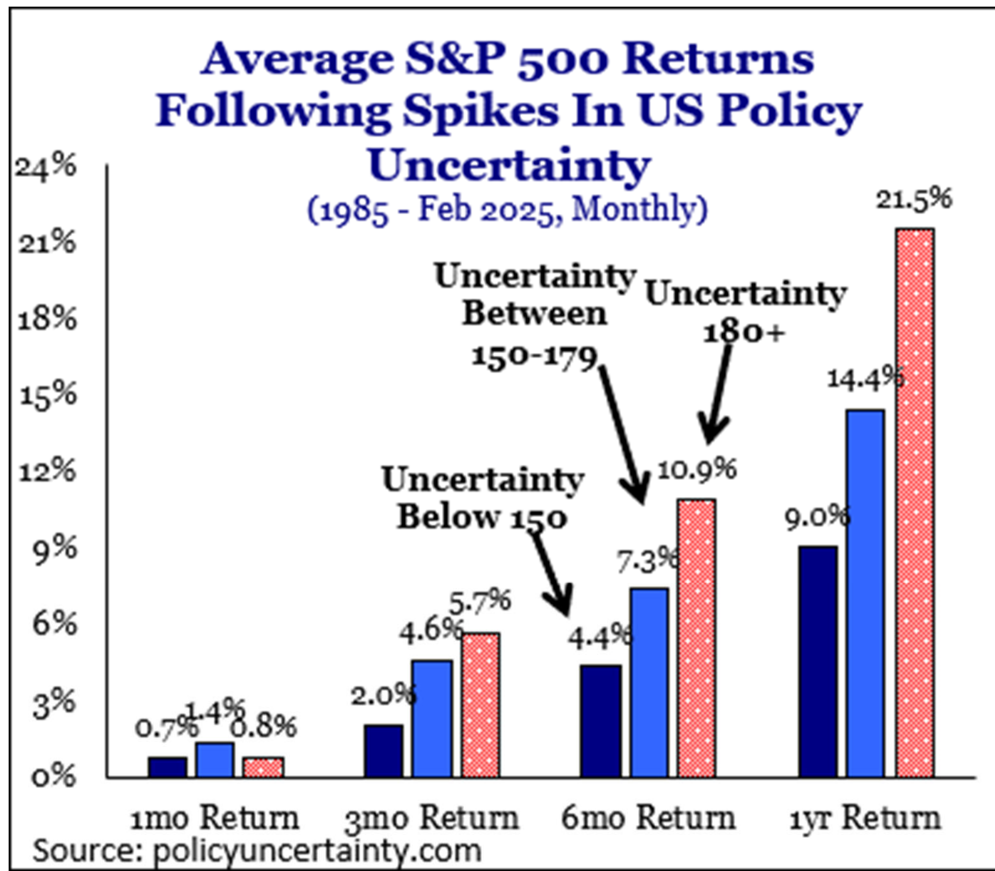
- Warren Pies noted that because households are massively overweight stocks, the current "wealth shock" is 23% of GDP, the 4th largest ever. Corrections are normal (53 10% corrections since 1950), but wealth shocks are rare (13 since 1950). The economy is now more vulnerable to a stock market decline. *Source: @WarrenPies*

- The US Economic Policy Uncertainty Index is currently at 296, a level only surpassed during COVID.



Source: https://fred.stlouisfed.org/series/USEPUINDXM#

- Dan Clifton and Strategas Research Partners have a great chart which shows the forward returns are best when Economic Policy Uncertainty is at its highest.



Source: Dan Clifton & Strategas Research Partners

Portfolio Strategy

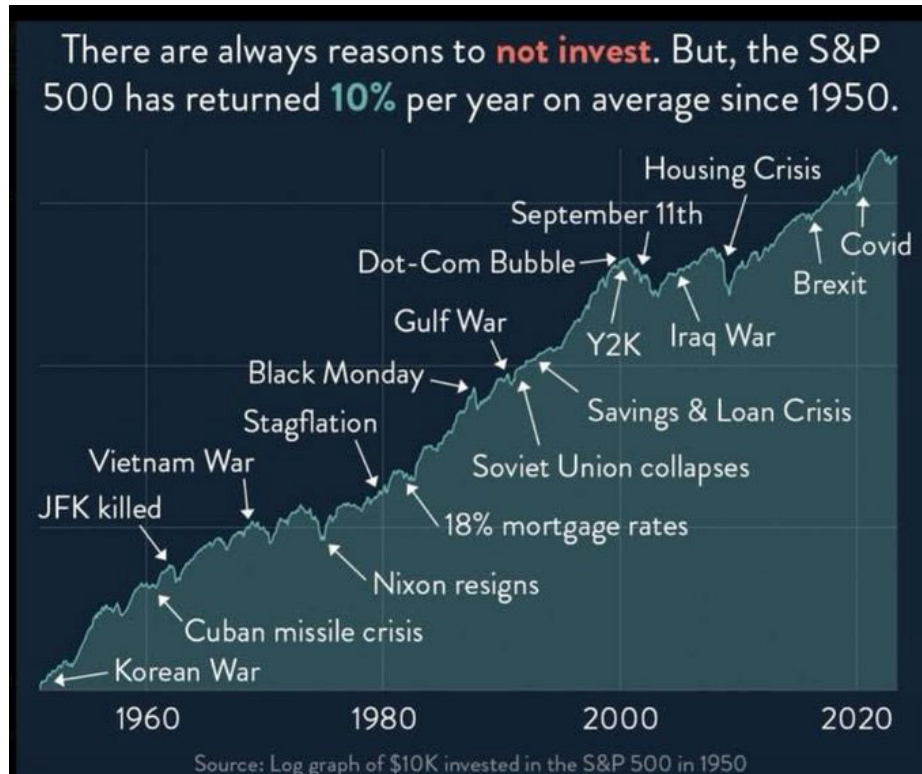
The market-based indicators we track are oversold, but not yet inline with other major market bottoms over the last several years. Having said this, Jeff DeGraff and Chris Verrone are the two best technical analysts in the business, for our money, and they both believe markets are adequately oversold, enough for at least a short term bounce. Half way through the trading day on Monday 4/7/25, the S&P 500 has traded in an 8% range from its lows to its highs. This is incredibly rare and indictive of how uncertain the current environment is. Having said this, we believe investors should be taking action in their portfolios as follows:

- Step 1: Rebalance portfolios back to strategic equity targets. We advocate for doing that at current levels and will begin this process on down days around current levels. A portfolio that began the year around 60% +/- equities is now 57% - 58% and rebalancing back to 60% equities is a prudent measure after this type of decline coupled with oversold conditions.

- Step 2: Begin to slowly reduce defensive equity positioning in favor of traditional beta exposure across global equity markets. For many clients, nearly 30% of our equity exposure has some type of defensive characteristics to it – consisting of covered calls, trend following and hedges.

- Step 3: We will be having conversations with clients regarding potentially increasing equity allocations beyond strategic targets, at lower levels where valuations become incrementally more supportive and IF we see market conditions that are completely washed out. As we mentioned before, the 200-week moving average is the area we would want to begin to think about such a strategy.

Durable advantages for investors come from having a long-term time frame and a disciplined investment process which they adhere to throughout all market conditions. Yes, a complete reordering of global trade is entirely unprecedented. But so was COVID, the highest inflation in 50 years, the GFC, etc. Human behavior is the constant throughout all time frames. Last week Jeff DeGraff reminded us that investors have always only had three options: buy, hold or sell. And when the selling becomes extreme, bottoms often begin to form.



Source: @DividendGrowthInvestor

Bob Farrell's 10th investing rule states the obvious, bull markets are more fun than bear markets. But the actions investors take (& don't take) during bear markets will have a significantly outsized impact on their returns for the next 5-10 years. We are honored by your trust during the challenging times. We will be in touch in the days ahead.

Sincerely,

Brian Gift, CFA
Chief Investment Officer
MBL Advisors

Bob Farrell's 10 Investing Rules

Bob Farrell is a legendary Merrill Lynch strategist who published his timeless list of 10 investing rules several decades ago, a version of which can be found here https://www.investopedia.com/articles/fundamental-analysis/09/market-investor-axioms.asp.

Their timelessness and truth always amaze us each time we observe them, both during good times and bad alike.

- *Rule #1. Markets tend to return to the mean over time.*
- *Rule #2. Excesses in one direction will lead to opposite excesses in the other direction.*
- *Rule #3. There are not new eras – excesses are never permanent.*
- *Rule #4. Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways.*
- *Rule #5. The public buys the most at the top and the least at the bottom.*
- *Rule #6. Fear and greed are stronger than long-term resolve.*
- *Rule #7. Markets are strongest when they are broad and weakest when they narrow to a handful of blue-chip names.*
- *Rule #8. Bear markets have three stages – sharp down, reflexive rebound and a drawn out fundamental downtrend.*
- *Rule #9. When all of the experts and forecasts agree – something else is going to happen.*
- *Rule #10. Bull markets are more fun than bear markets.*

Disclosures:

This material is intended for information purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor, or plan provider. Investments in securities involve risks, including the possible loss of principal. When redeemed, shares may be worth more or less than their original value.

The Standard & Poor's 500 Index (S&P 500 TR) is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. ID#:04072025-4386008

This information has been taken from sources we believe to be reliable but there is no guarantee as to its accuracy. This material is not intended to present an opinion on legal or tax matters. Please consult with your attorney or tax advisor as applicable.