September – October 2020

Money Moxie®

How Markets Impact and Even Predict Election Outcomes

Smedley Financial Services, Inc.®
TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE

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The Pendulum Swings

There is a giant pendulum that swings ever so slowly. When it gets to one extreme, the gravitational force pulls it back the other direction. Because of the Great Depression and World War II, the pendulum of national debt rose to an astounding 106% of GDP* in 1946.[1] The pendulum took until 1974, or 28 years, to swing the other direction and get down to 23% of GDP.

With the back-to-back economic crises of the Great Recession in 2008 and COVID-19 in 2020, the debt to GDP ratio has swung dramatically back in the wrong direction. We now sit at 100% debt to GDP with a projection to get to 106% of GDP by 2023.[2]

What will be the long-term impact? Undoubtedly, taxes will go up. I recently heard it said, "The politicians that are telling you they can cut taxes are just bad at math." If you look at history, tax rates shot up to 94% in 1944 for the highest tax bracket.[3] That's right, 94%! This was done with more marginal tax brackets. There were 24 brackets back then compared to just 7 today.

In 1965, the highest rate declined to 70%. It stayed around there until 1982 when the highest rate became 50%. Currently, our highest tax bracket is 37%.

I'm not a doomsday predictor. I don't believe a new tax bracket will send rates up to 94%. However, I do worry about taxes going up for almost everyone. You can't tax the "rich" enough to cover the current deficit and make the pendulum swing the other direction.

Thankfully, I believe there are prudent tools we can use to help protect you against future taxes. If you aren't retired, you can contribute to a Roth IRA or Roth 401(k), depending on your income. If your income is below $139,000 (single) or $206,000 (married), consider a Roth conversion from your IRA or 401(k). If you are over age 70½, you can make tax free donations to a charity from your IRA.

These are just a few options to help protect against future taxes. For our clients, we will continue to review your personal financial plan to make sure you are prepared for the future regardless of what may come. If you want to schedule a review appointment, please contact us.

Mikal B. Aune
Vice President of Wealth Management

*GDP or Gross Domestic Product is the total output of the economy for one year. SFS and its representatives do not provide tax advice; it is important to coordinate with your tax advisor regarding your specific situation.
(1) https://www.washingtonpost.com/opinions/2020/05/27/this-is-not-your-grandfathers-debt-problem/
(2) https://www.bloomberg.com/graphics/2020-debt-and-deficit-projections-hit-records/
(3) https://fred.stlouisfed.org/series/IITTRHB

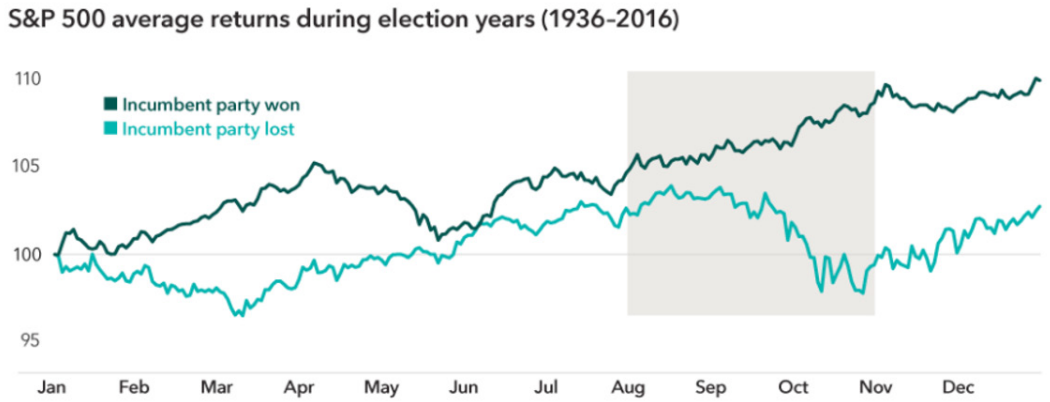
SFS Announcements

October Market Update Webinar - Market's Impact on Elections

If you missed the October SFS Client Market Update Webinar, you can listen to the replay by going to our website, SmedleyFinancial.com, and click on webinars. Chief Investment Strategist, James Derrick, CFA®, recapped 2020 thus far and discussed how the upcoming election may impact investors.

Markets Might Predict Elections,
But Elections Don't Predict Markets

By James R. Derrick Jr., CFA®



Source: Strategas. Returns are indexed to 100 on January 1 of each election year. Returns are in USD. The shaded region approximately shows the three-month period prior to Election Day.

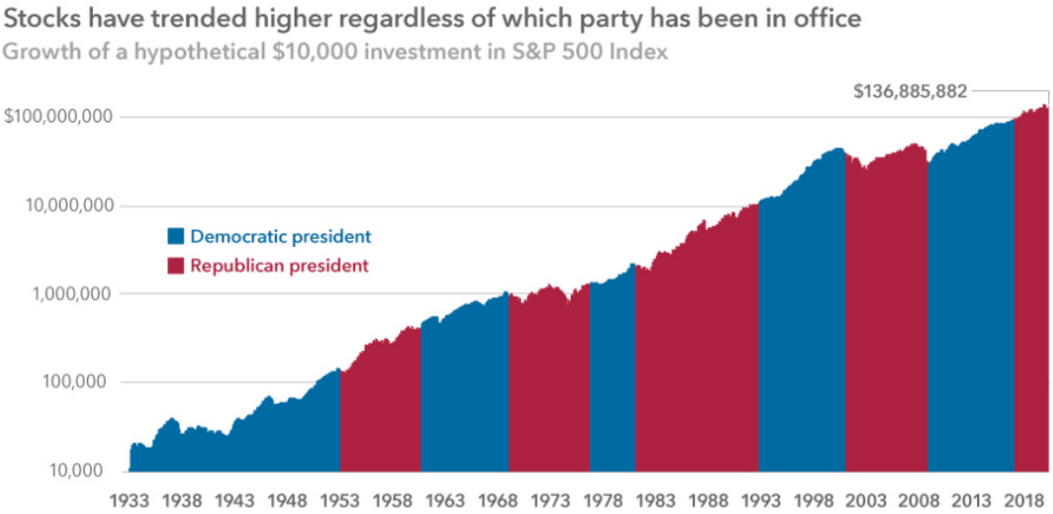
Election years are usually positive for stocks, and despite all that has happened in 2020, stocks could end this year positive again. It's been so good that many have been conditioned to join the hottest trades. They are throwing caution to the wind as they mistake an irrational market for genius. This will not last forever.

An increase in risk impacts votes. Of course, 2020 could continue to surprise.

The Market May Predict the Next President of the United States

(1) Has there been a decline of 20% anytime in the election year? If so, the incumbent party loses.

(2) Are stocks lower on Election Day than the end of the incumbent's party convention (Aug 27th)? If so, the incumbent party has never won.



Sources: Morningstar, Standard & Poor's. The start date is March 4, 1933, and the end date is June 30, 2020. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

Don't let what you think about politics change how you feel about investing. As Election Day gets closer, many investors will consider moving their money to the sidelines until the uncertainty is over. This is a mistake.

Markets typically rise prior to the end of uncertainty, and they also have risen regardless of the party in the White House. So, while elections have winners and losers, investors who stay the course should be winners.

*Investing involves risk, including the potential loss of principal. The S&P 500 index is used to represent the overall stock market. One cannot invest directly in an index. Diversification does not guarantee positive results. Past performance does not guarantee future results. The opinions and forecasts expressed are those of the author and may not actually come to pass.

The Danger of Retiring Into Uncertainty

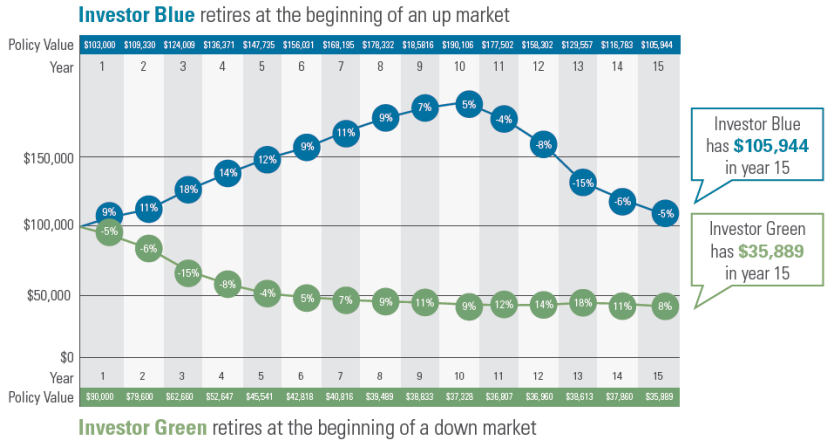
By Sharla J. Jessop, CFP®

Your decision to retire may be one of the hardest you will make. A lifetime of preparation comes down to a single day when you leave the familiar day-to-day routine – not to mention the regular paycheck – and embark on a new adventure.

That nest egg you have been accumulating will need to provide a large portion of your monthly income along with Social Security and your pension, assuming you have one.

Imagine that you planned to retire in 2020. Should you retire in a year when markets are experiencing extreme volatility, and there seems to be an abundance of uncertainty when looking at the economic picture? What will happen to your retirement income if your nest egg balance drops?

Your fear is based on sequence risk. You are concerned that the market will continue to drop right at the point when you are hoping it will increase. Sequence-of-returns risk, or sequence risk, is the risk that an investor will experience negative portfolio returns very late in their working years, or early in the retirement years. The fear of losing money can cause an investor to become risk-averse in the short-term, discounting future opportunities for growth.



This chart illustrates the impact market returns can have on an investment portfolio. One illustrates negative returns early in retirement and the other positive returns early in retirement. Consequently, the average return in both cases is 4%.

Sequence risk is a real threat but can be managed in a retirement portfolio. Our Lifetime Income Plan diminishes sequence risk without locking investors into illiquid products with high fees and minimal flexibility.

The key is managing risk throughout retirement. Determining how much money you will need at different intervals is the backbone of the Lifetime Income Plan. Knowing these key points helps us to ascertain how much risk should be taken with an investment.

Let's say you need $42,000 each year to supplement Social Security and other income. We would invest enough money to cover the income for five years in a very conservative investment. In this case, we are more interested in the security of the money than potential return.

This continues in segments through retirement, generally in 5-year increments. With each segment, we determine how much money will be needed and increase risk accordingly. The assets that will be used ten or more years out typically have a greater amount of risk.

The Lifetime Income Plan helps diminish the impact of volatility on your income and emotions. This helps you stay invested and gives you a greater opportunity to participate in market growth over time.

One thing is certain; risk is inherent to investing. If managed correctly, it can help you outpace inflation and maintain your lifestyle in retirement. For more information on how a Lifetime Income Plan can benefit you, contact an SFS Wealth Management consultant.

Graphic from RetireOne: hypothetical illustration does not represent the results of an actual investment. It does not reflect any investment fees, expenses, or taxes associated with investments. An average annual return of 4% is reflected for both investors. Annual withdrawals of $5,000 are taken at the end of each year.

Will Real Estate Stay Red-Hot?

By Mikal B. Aune, CFP®

Red-hot housing prices have impacted anyone looking to buy a home recently. Many people have wondered if they should buy now or wait. The answer depends a lot on the national real estate market, the local market, and your personal needs.

Real estate ebbs and flows, just like the stock market.[1] Some national trends are making homes hotter in 2020:

(1) The pandemic: "More than half of the nation's 100 largest metropolitan areas are seeing increased interest in the suburbs."[2] For example, in Manhattan, the contracts on apartments plunged 80% in May, but the interest in the surrounding suburbs skyrocketed. This flight is partly to people working from home that would rather work in a roomy house with a private yard.

(2) Shortage of homes: The U.S. supply of homes has never been lower in the last 50 years. This factor seems likely to persist.

(3) Interest rates: The Federal Reserve has worked to lower rates for the entire economy and wants to keep them low. Those who can are "rushing to take advantage of record-low mortgage rates and possibly even purchase larger homes."[3] If or when rates do rise significantly, it could be devastating to prices.

There are also other hidden risks in housing. Unemployment is still above 8%, and many struggle to make rent and mortgage payments. The federal eviction moratorium ends on December 31, 2020.[4] This does not help everyone, and if nothing more is done, "Up to 40 million Americans could be at risk of eviction by the end of the year."[5] Evictions could spill over into lower prices in the short term.

Residential real estate in Utah is doing well. The economy has not shut down and has only 5% unemployment. Many tech and construction companies are hiring. This drives up demand and housing prices. However, if the pandemic's economic impact spills over, there could still be a slowdown. If that happens, this sellers' market could turn into a buyers' market.

If you can wait to buy a home, you have some flexibility. You could build up your cash and use that for a larger down payment in a year or two. You could also use the time to watch for the house that you really want. As you look, it's best to think of a home as a place to live and not as an investment.

What you should do depends on your future plans and finances. We would love to help you; give us a call.

(1) Investing involves risk, including the potential loss of principal.
(2) https://www.cnbc.com/2020/06/18/coronavirus-update-people-flee-cities-to-live-in-suburbs.html
(3) https://magazine.realtor/daily-news/2020/09/08/a-tale-of-two-markets-dream-homes-and-looming-evictions
(4) https://www.federalregister.gov/documents/2020/09/04/2020-19654/temporary-halt-in-residential-evictions-to-prevent-the-further-spread-of-covid-19
(5) https://magazine.realtor/daily-news/2020/09/08/a-tale-of-two-markets-dream-homes-and-looming-evictions

Money Can Buy (Some) Happiness

By Leah Nelson, CFP®

Many have heard the age-old adage, "Money can't buy happiness." This statement has been a source of curiosity for a long time, and there have been countless studies to figure out if it is actually true. I'll admit, I had the same curiosity and decided to see what those studies say. So, can money buy happiness? Kind of.

Recent studies have shown that the link between income and happiness has become stronger than ever. Why? What is it about money that makes us happy?

1. Money can save you time

Studies have shown that spending money on things that save you time, like hiring a housekeeper to come once a week, having food delivered to you, or paying someone to shop for you, can increase your happiness. By paying for others to do those things you dislike, you have more time to do the things you do like.

2. Investing in others

Lots of people think spending money on themselves will make them happier than spending it on others. Researchers have shown this to be false. Helping others be successful gives us more lasting joy.

3. Money improves happiness more at lower levels

Once your fundamental needs are taken care of, money doesn't necessarily contribute to increased happiness. The additional joy of having more money starts to fall off around $70,000. It is very low above $160,000, and there is zero benefit above $200,000!

Once your basic needs of food, shelter, and safety are met, the positive effects of money – like buying your dream home – are often offset by the negatives like working long hours or continually stressing about work.

4. Doing makes us happier than having

Many people assume that buying things creates more happiness because the latest iPhone or a new car is tangible, and it lasts longer than a vacation or a cooking class. While buying things does make us happy, it is short-lived. Eventually, that new car will become your new normal, and the happiness you felt, in the beginning, will fade.

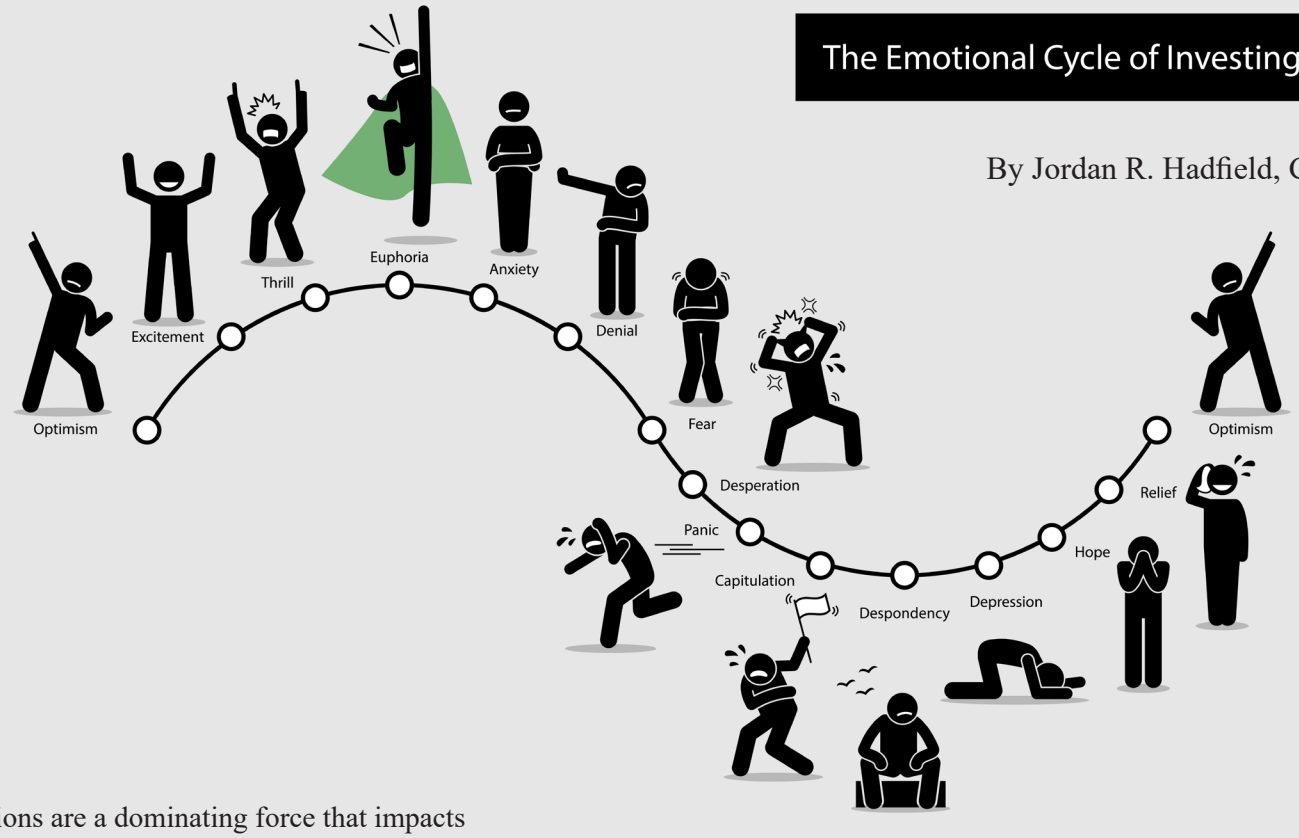
A large part of the reason experiences tend to create more lasting happiness is we often spend those experiences with other people. Even after you've driven your new car to the ground, you will still be telling stories about the trip you took to New York City, or even laughing about the time your car broke down, and you had to spend the night in a shady hotel.

So, in the end, yes, money can help with happiness…to a point. Knowing why should help us stay focused on the things that offer even greater joy.

Source: "Money Can Buy Happiness, But Only To A Point," Mark Fahey, *CNBC, 12/14/15.*

The Emotional Cycle of Investing

By Jordan R. Hadfield, CFP®



Emotions are a dominating force that impacts every aspect of our lives. The decisions we make, the interpretation of our experience, even our very personalities are all primarily influenced by our emotions. We are neurobiologically wired to create, feel, and think by emotion. In so many ways, our perceived realities are governed not by facts, but by feelings.

Psychologists believe that emotions drive 80% of the choices we make, while practicality and objectivity only represent 20% of our decision-making. This is because our brain has two sides, the thinking side, and the feeling side. The thinking brain is slow, rational, and objective. It deliberately, methodically, and logically reasons through information. The feeling brain is much faster. It is impulsive, emotional, and unconscious. It is also our default decision-making system.

How often do we describe the reason for a decision by saying, "It feels right?" Yet strangely, the mechanism we rely on most when making decisions is so fickle that it can be greatly altered even by what we ate (or did not eat).

This is why Dave Ramsey said that personal finance is not a math problem, but a behavior problem. Investors are emotional. Thus, they judge investment decisions mainly by emotion. This can have expensive consequences.

Most investors go through a recurring cycle that follows the market. This emotional cycle often leads an investor to make the wrong decision at the wrong time. You have heard the saying, "Buy low and sell high." Logically, this means buying when everyone is feeling despondent (selling) and selling when everyone is feeling euphoric (buying). This is so much easier said than done.

One of many examples: In 2018, when the S&P 500 lost 4.38%, the financial analytics firm found that the average investor lost more than double that, at 9.42%. Investors lost money because they acted on emotion when markets declined. A study that same year published in the *Journal of Financial Planning* found that investors who implemented strategies to remove emotion saw returns up to 23% higher over a 10-year period.

As accredited Behavior Financial Advisors and Certified Financial Planners, we can help remove emotion from the equation and make wise financial decisions. Whether it is investments, estate planning, or a large purchase, we can provide the expertise that can make a positive difference in your financial future.

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

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- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

Family Protection
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

Retirement
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

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- Long-Term Care Insurance
- Hybrid LTC

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