July – August 2020

Money Moxie®

Can Government Stimulus Hold Back the Economic Tide?

SMEDLEY FINANCIAL SERVICES, INC.®

TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE

Trusted Since 1982

Living In Unprecedented Times

The last four months have been record-setting in more ways than we could have imagined. The impact has been wide-reaching – and I am not referring to the COVID-19 virus numbers.

Technology has provided opportunities that have businesses, including ours, to service clients and continue to run their operations while working from home. It allowed students to continue their studies remotely and check in with their teachers when needed. We have access to almost anything: news, shopping, connecting with family and friends, and investment markets, all of which are amazing. In fact, it is hard to imagine what we would have done without technology.

Newer technology has opened the doors for people to save and invest at entry levels without barriers, such as minimum investments. Apps have become popular among the DIY crowd, which are too often young and inexperienced investors.

Securities regulators have spent countless hours creating Regulation Best Interest, as explained in Mikal's article in this issue. Regrettably, they have done little to educate and protect DIY investors who are not prepared for the leveraged risks and hidden fees of this new world. One of these investors even paid the ultimate price.

An app on a phone gives anyone fingertip access to investing. One of these apps offers game-like screen appearances, prompts users to place trades when looking up a stock ticker, and displays falling confetti to make them feel good when placing a trade. These apps even allow investors to leverage their investment through options – something professionals are required to have tested and trained for before offering them to their clients. What these apps do not offer is common sense or an advisor to help investors understand the associated risks of specific investments. They lack education and risk assessment before making speculative, high-risk investments.

We have heard disastrous reports of investors borrowing on credit cards and accessing home equity loans to invest, only to lose the lion's share of their investment. As financial advisors, we find this very disheartening.

All investors should be educated about their investment options, risks, and costs. Smedley Financial makes a concerted effort to provide you with information and education regarding investing through our Money Moxie and Money Matters newsletters, regular webinars, seminars, and, most importantly, one-on-one meetings with clients. If you have questions or need more information regarding finances or investing, please reach out to our wealth management advisors.

Stay safe and well,

Sharla J. Jessop
President

SFS Announcements

Just For Women webinars are being held regularly. Watch your email for details and instructions to attend each one. We look forward to having you join us.

Required Minimum Distributions (RMDs) are not required in 2020. However, Qualified Charitable Distributions (QCDs) are still a possibility. Reach out to your wealth advisor at SFS for more information.

What is Regulation Best Interest

and why am I getting all of these new forms in the mail?

By Mikal B. Aune, CFP®

By now, if you have accounts with SFS, you have received a new form called Customer Relationship Summary (CRS) from Securities America and an ADV Part 3 from Smedley Financial Services. So, why are you getting these forms, and what do they actually mean to you?

There is a new regulation that is designed to put your best interest first. It is called Regulation Best Interest, or Reg BI for short, and it went into effect on June 30th, 2020.

Reg BI requires an investment professional to act in your best interest and hold themselves to high standards of disclosing all important information, caring for their client, reporting any conflicts of interest, and maintaining strict compliance.

Form CRS is intended to explain the customer relationship with our Broker-Dealer, Securities America. This form clarifies the difference between investment services and advisory services and explains the difference between brokerage and advisory fees. It also details how the Broker-Dealer makes money and any disciplinary history for Securities America.

Form ADV Part 3 is specific to Smedley Financial. This form is intended to clarify the types of services we can provide, the fees you may pay, our fiduciary obligation to act in your best interest, any conflicts of interest, how we make money, and the fact that we do not have any disciplinary issues.

These forms are a good step forward towards putting a client's best interest first. However, in my experience, most clients already expect this of their financial advisor.

The good news is that since the beginning, Smedley Financial has been a fiduciary and has always strived to put our clients' best interests first. And we will continue to do so. For our clients, Reg BI should not have any meaningful impact. It should raise the bar for other "advisors" to make sure they hold themselves to the same fiduciary standard.

Reg BI also clarifies the sometimes-muddy waters of who can call themselves "advisors." Professionals who just sell insurance or a product, or who only process trades as a stockbroker, cannot call themselves "advisors." An "advisor" is someone who has the appropriate securities license to purchase stocks and bonds and is also licensed to give clients advice.

At Smedley Financial, we hold ourselves to an even higher standard by not only being investment advisors but also financial planners and life-centered planners. Our financial planning helps you figure out what resources you have, will have, and will need in order to meet your goals. Our life-centered planning helps you figure out how to live the life you want with the time you have left on this planet.

We appreciate you as clients, especially during these unusual times. If you have any questions regarding the forms provided or would like to review your plan, don't hesitate to call us.

Can We Stop the Tide?

By James R. Derrick Jr., CFA®

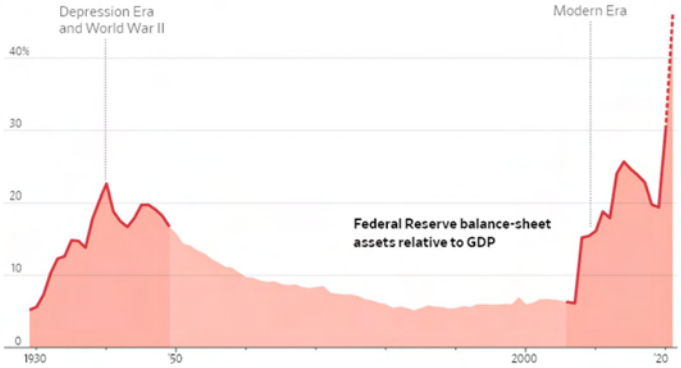
Warren Buffett: "*You only find out who is swimming naked when the tide goes out.*"

Federal Reserve Chairman Jerome Powell: "*I can stop the tide.*"

I love Warren Buffett's metaphor about the tide going out. It's hilarious and true. Jerome Powell's response demonstrates the magnitude of the task at hand in 2020. Now, a confession: Jerome Powell never said he could stop the tide—at least not in words. However, he is trying to stop the economic tide from allowing struggling businesses to borrow more and more money until the current global healthcare crisis is over.

A little background: When the federal government exceeds its budget, it must borrow. There is only one government agency where this does not apply, the Fed. My favorite metaphor for the Fed is the hammer. To a hammer, everything looks like a nail. Whether we are in a real estate crisis or a global pandemic, the Fed has one response: create money. And because it does not have to borrow, there is no limit to the amount it can make. The Fed wields a hammer of infinite size.

Just as you may have projects at home that require other tools, it makes sense that a hammer cannot solve all of America's problems. A pandemic seems like it may be one of these. It has not stopped the Fed from trying. In less than 3 months in 2020, the Fed created more money than it did during the previous 12 years combined. (That includes the 2008 Great Recession and the trillions of dollars to get out of it.)



Over the last 12 years, the Fed printed over $7 trillion! That is roughly 33 percent of the U.S. economy and approximately $21,000 per American. Where does all this money go?

A consequence of the unprecedented government intervention is a massive amount of wealth creation. The Fed's money goes mostly into debt markets, which pushes prices higher and makes the owners of assets wealthier. The wealthiest 10 percent of Americans own approximately 80 percent of market assets, so there is an unintended consequence of increasing the wealth gap. This is not the Fed's fault exactly. Remember, it may have unlimited amounts of money, but it is really limited in how it can spend it.

You may be wondering, doesn't printing money create inflation? Why haven't we seen it in the last decade? Inflation is rising prices. It has averaged only 2 percent despite the $7 trillion created by the Fed during the previous 12 years and the $27 trillion borrowed by the federal government, most of this over the last 20 years. Instead, let's describe it as follows: "Inflation is when prices go up for the stuff you want." By that definition, I think inflation has been higher than 2 percent.

So, will we see inflation get even worse? All it takes is for demand to grow faster than supply, but this hasn't happened yet. Consider investors like Jeff Bezos, Bill Gates, and Warren Buffett. When the Fed pushes up the value of their investments, do they buy another home or a big-screen TV? The wealth creation that

Continued on next page

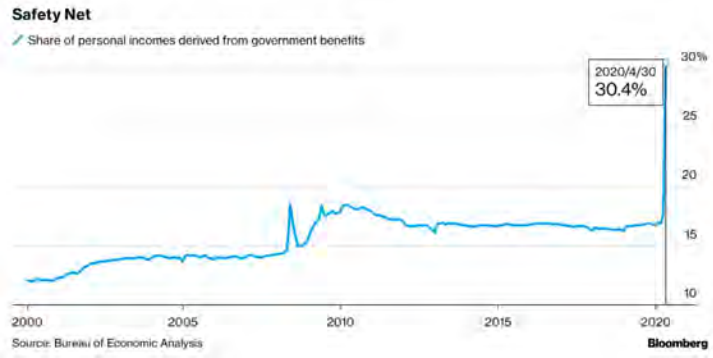
the Fed engages in is unlikely to turn into major inflation unless it creates a significant increase in demand. Once consumers get accustomed to rising prices, then further increases may follow.

If the Fed had written checks out to every American for $21,000, there would have been a massive increase in spending. Demand would have been way beyond supply, and the prices of homes, cars, and other items would have skyrocketed. The Fed cannot do this, and it wouldn't want to. Stable prices and full employment are its two mandates.

However, I believe that a more mild increase in inflation may come in the next decade. While the Fed's money went into financial assets, there was an effort by the federal government to help Americans more directly.

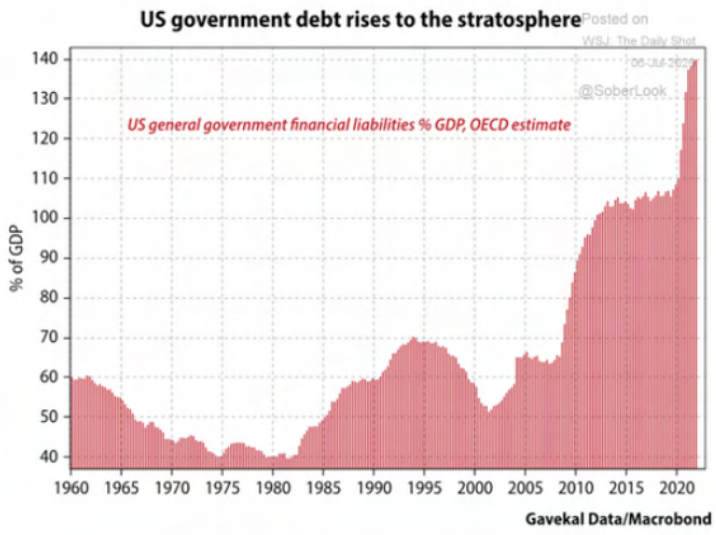
The CARES Act provided $1,200 in cash to most Americans, including approximately 70 million children and over a million deceased. In addition to this, around 20 million unemployed Americans received a $600 per week boost to unemployment benefits.

All this adds up to a lot of extra stimuli, and it has had a more direct impact on spending, saving, and even investing. Approximately 30 percent of all income is now coming from the government.



The federal government is $27 trillion in debt, which is well beyond the size of our entire economy. And there may be even more stimulus coming.

As this stimulus works its way into the economy over the coming years, we may see inflation begin to rise for the first time in a long time.



Another potential impact of the Fed's actions is also unintended. We call it moral hazard. If we avoid the pain and devastation of recession, then when will we learn the hard lessons?

Finally, will all this help productivity and innovation or hinder it? Will we have to pay off any of this debt, or will we use inflation to make it less meaningful? Only time will tell.

Even with all the uncertainty, the Fed firmly believes it does not have much choice. Jerome Powell likes to describe the Fed stimulus as a bridge to keep Americans out of financial harm until this crisis has passed. This is what I would call the Great Financial Experiment of 2020. This is not only happening in the United States but all over the developed world.

The success so far has been stunning and without major unintended consequences, but it's also still early–very early. So, as investors, we look for opportunities to participate, but we never forget the risks. Only time will show if the United States of America and the rest of the developed world successfully stopped the tide from going out.

What To Do When You Become Unemployed

By Leah Nelson, CFP®

During these extraordinary times, many people have found themselves out of a job. This often leaves people feeling helpless, especially if it is the first time this has happened. Here are some things you can do to help make the transition and tasks ahead feel a little less daunting.

1. Apply for unemployment benefits.
Applying for unemployment benefits can help you financially while you search for another job. While unemployment benefits are usually less than you made previously, it can help provide essentials for your family. You can apply for unemployment benefits online or go to your local Department of Workforce Services office to apply in person. Up until July 31st, people on unemployment were receiving an extra $600 per week as outlined in the CARES Act that was passed in March. There are talks of a new bill being passed to extend the additional unemployment, but nothing has been passed as of the writing of this article.

2. Revise (or create) your budget.
Now that you aren't bringing in income, you need to make sure you stick to your budget. Do your best to cut down on unnecessary expenses, which often come in the form of recurring charges like Netflix, Hulu, Spotify, etc. If you weren't previously using a budget, make one. Think of what is possible to cut from what you usually spend. Things like eating at home more often can make a more significant difference than you think.

3. Rework your resume.
There are many free online resources and articles to help you make your resume the best it can be. I would also suggest having someone else look over your resume to make sure it all makes sense.

4. Begin your job search.
Nobody enjoys the job hunt, but when you've been laid off, it becomes necessary. There are a lot of options for searching for jobs online like Indeed, Monster, and LinkedIn. Check those places, but don't discount things like word of mouth and even newspaper listings. If you're local, you can also check out jobs.KSL.com.

5. Stay productive.
Many people often find themselves unproductive during times they aren't working. Try to stick to a schedule that allows you to spend time on your hobbies, exercise, and job searching. Keep in mind that you should also plan to end your job search at say, at 5 o'clock. Jobs will still be there in the morning. Make sure to take care of your mental health in these trying times too.

6. Decide what to do with your 401k.
You have a few options here: you can roll your 401k to an IRA that you manage yourself, or you can have a financial advisor manage it. You can also roll it into your new 401k when you get a new job. Each option has pros and cons. If you have questions about this, we are happy to help. Please give us a call.

What Makes the World Go ‘Round?

By Jordan R. Hadfield, CFP®

I ran my first half marathon in August of last year. I have never been much of a runner, but when the metabolism starts to slow down, you have got to do something. I chose to run.

Before last year, my distance record was 5 miles. That record had been in place since 2003, and I thought it would always stand. Now, here I am with, six half marathons under my belt and another four scheduled for later this year. I find crossing a finish line after pushing myself harder than I thought physically possible to be very rewarding. It makes me happy. But what does running have to do with finances?

It often appears as though the system in which we live is driven by money. It is so easy to get caught up in account balances, market returns, and investment news. We have all heard the saying, “Money makes the world go ‘round.” In today’s world, it is hard to disagree with that.

There is no question that money is essential. Money provides stability and opportunity. I have chosen to make a career out of helping people make wise financial decisions because I believe it is important. It is good to have money and the things it can buy, but what I value most in life, money can’t buy.

We talk with you a lot about money. We review your finances and performance on a regular basis. We talk about markets, the economy, and your investments. We build a financial plan and update it often. But the reason for all of this is not money. What is most important to us is that you live the life you truly want to live. We want you to achieve your goals, and we believe it is our job to help ensure money is never an excuse not to.

Recently I completed a short race with my 5-year-old daughter. After crossing the finish line with her and seeing her excitement and joy, I realized at that moment I could not be happier. Doing what I love, with those I love, is what makes me happiest. This was another reminder that life is too short, not to be happy.

What is it that you want to accomplish? What do you want to experience? What makes you happy? If you do not have answers to these questions, I challenge you to find them. Maybe it is to run a marathon or to visit another country; maybe it is to buy a new home or to pay the current home off. Whatever it is, we want to know about it. And if there is a financial component, we want to help you achieve it. Whatever your goals and dreams are, make sure they are the focus. Make sure they are what makes your world go ‘round.

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.

Wealth Accumulation
- Managed Accounts
- 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

Disability (Injury)
- Short-Term Disability Insurance
- Long-Term Disability Insurance

Elder Care
- Long-Term Care Insurance
- Hybrid LTC

Employers and Self Employed
- Health Insurance
- 401(k) Plans

Roger M. Smedley, CFP®
CEO
Founded 1981

Sharla J. Jessop, CFP®
President &
Private Wealth Consultant
Joined 1994

James R. Derrick Jr., BFA™, CFA®
Vice President &
Chief Investment Strategist
Joined 2000

Mikal B. Aune, CFP®
Vice President of
Wealth Management
Joined 2006

Shane P. Thomas
IT Specialist &
Advisor Relations
Joined 2003

Jordan R. Hadfield, CFP®
Private Wealth Consultant
Joined 2018

Leah Nelson, CFP®
Private Wealth Consultant
Joined 2018

Lynette S. Watts
Client Service Specialist
Joined 2000

Nashaela Lyons
Client Service Specialist
Joined 2013

Smedley Financial Services, Inc.®, a registered investment advisory firm since 1982
102 South 200 East, Suite 100 P.O. Box 4133 Salt Lake City, Utah 84110-4133
801-355-8888 800-748-4788
info@SmedleyFinancial.com
SmedleyFinancial.com