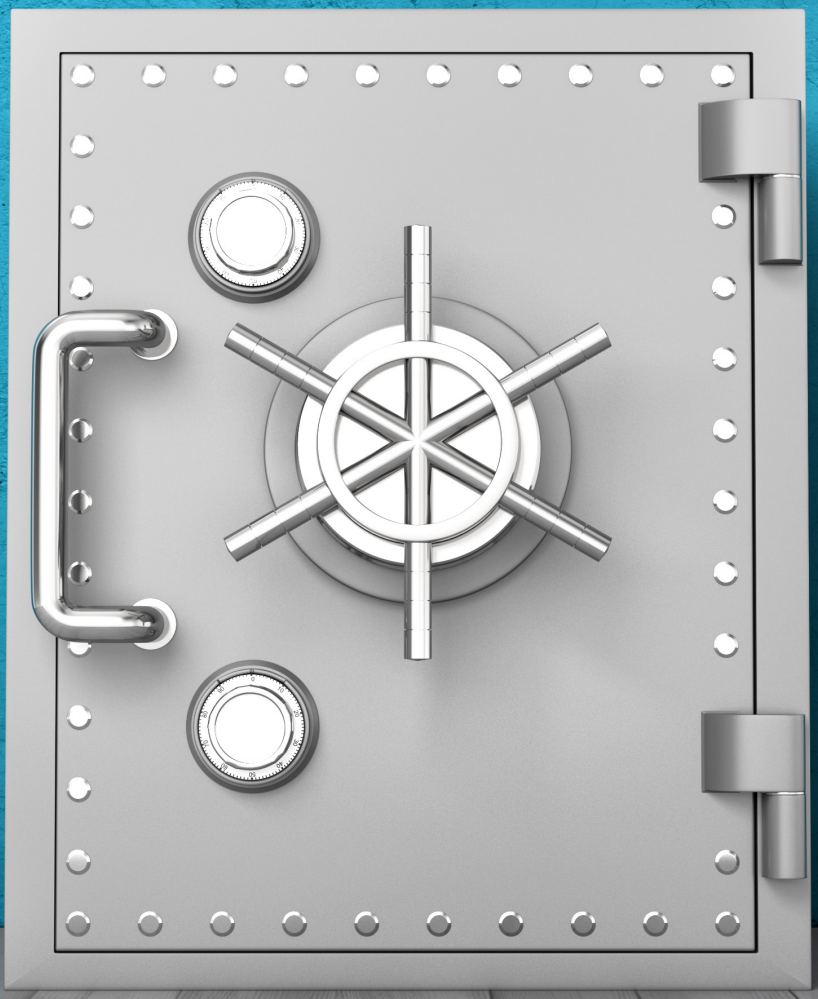
March – April 2021

Money Moxie®

TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE

The Backdoor ROTH



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From Tech-Loving Lockdown to a Stimulus-Charged Reopening?

The stock market does a good job discovering prices, but it gets carried away to extremes by narratives that capture everyone's attention. When these stories change, the market changes.

In the early days of computing, memory was expensive, and programming in binary code was tedious. To save both money and time, programmers abbreviated years to two digits. For example, the year "1999" would have been recorded as just "99."

This limitation was widely known going back at least to 1985, but by 1997, it was crunch time. Without a fix, there may or may not have been a valid date in computers for the first day of January 2000. And who would want to be in an elevator or flying in a plane when the clock struck midnight?

This "Year 2000 Problem" became known as Y2K. Companies all over the world were upgrading computer hardware and software in anticipation of Y2K. This further increased the high demand for technology, and the stock market investors were well-aware. It added fuel to the tech-stock fire and caused many to adopt a belief that the best way to make money was in technology stocks.

Covid-19 precautions created a similar tech-heavy narrative to investing in the year 2020. While many of the largest companies profited a great deal from the Covid-lockdown of 2020, investors began to favor any technology companies, even those without profits, by the end of the year.

I decided to go back over the last 20 years to test the idea that the best way to make money is in technology stocks. After all, who could argue that technology companies have not been the most successful since the year 2000? What I found surprised me. From February 2000 to February 2021, the tech-heavy NASDAQ index returned an average of 5.05% per year. How about the more diversified S&P 500? Over the same time, it averaged 5.02%—roughly the same with a lot less volatility.

How could the S&P 500 outperform when "FAANG" (Facebook, Apple, Amazon, Netflix, Google) companies have been so prominent? While these did fine in the early 2000s, the best performing areas were sectors outside of technology.

It is impossible to say exactly what the future will bring, but a change in leadership at some point is inevitable. As we enter the spring of 2021, we may have already seen a change begin. With vaccine distribution, investors have transitioned from a tech-loving lockdown to a stimulus-charged reopening. Only time will tell if this is truly the beginning of new market leadership or if that change won't come until later.

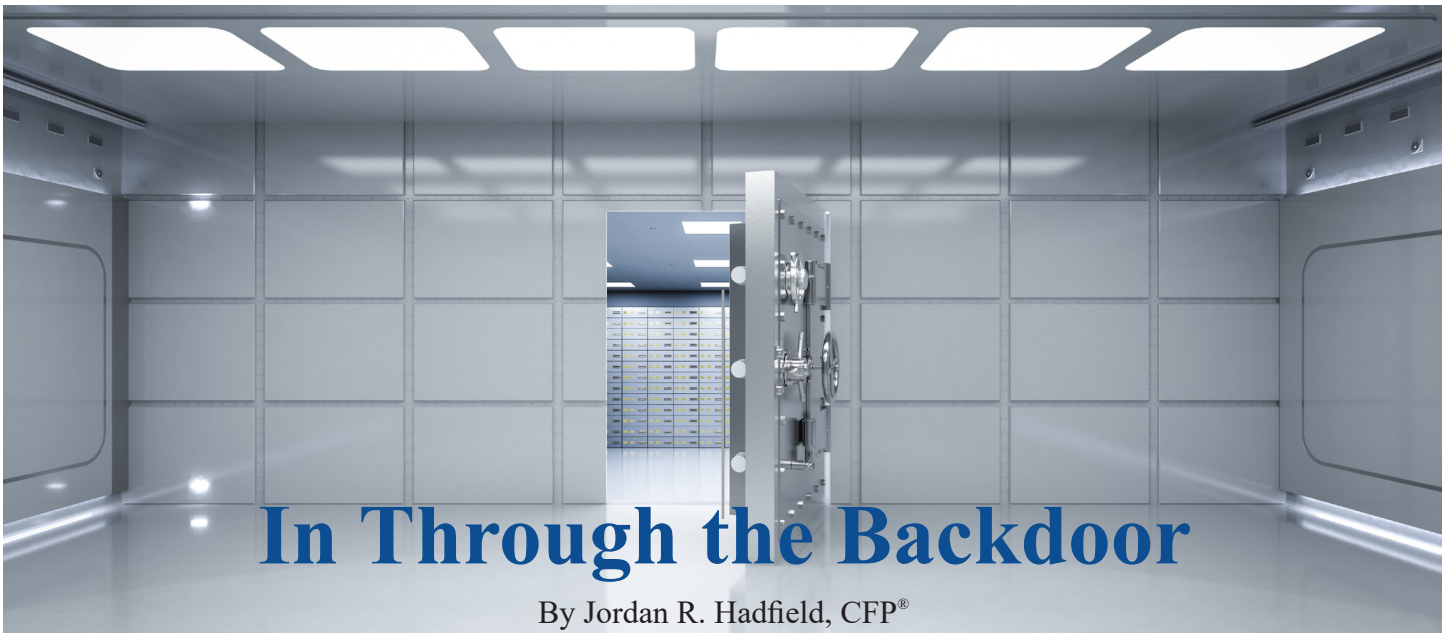
James R. Derrick, CFA®
Chief Investment Strategist

Money Matters – April Webinar

Spring is in the air, and everyone is anxious to get outside and enjoy the warmer weather. Tune in for some gardening tips from Becky Pulver, Master Gardener.

Tuesday, April 13, 2021, at 9:00 a.m. (MDT)

Watch your email for your invitation and details to join the webinar or go to the Just for Women page on our website at SmedleyFinancial.com. If you are not receiving our Money Matters emails, please send a request to info@smedleyfinancial.com.



In Through the Backdoor

By Jordan R. Hadfield, CFP®

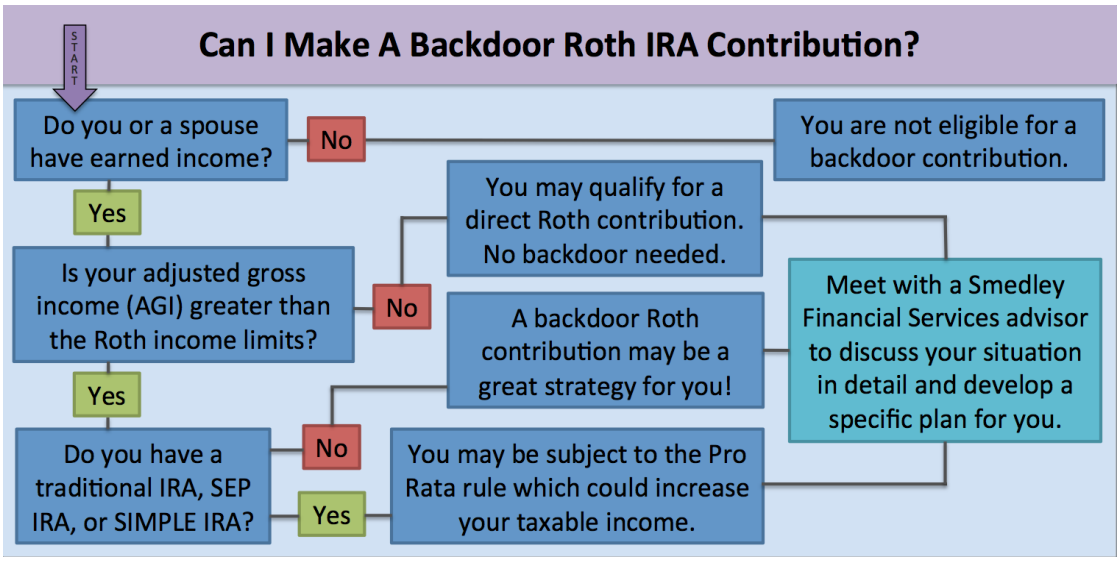
The Roth IRA is my favorite retirement savings account. It offers compelling benefits, including tax-free growth, no required minimum distributions (RMDs), and better terms for heirs. Unfortunately, if your income exceeds the Roth IRA limits, you are not eligible to contribute.

There is a strategy for high-income earners that avoids the Roth income limits entirely. This strategy is known as a backdoor Roth contribution.

A high-income earner can always make a non-deductible contribution to their traditional IRA, up to the contribution limits. They are also allowed to convert traditional IRA assets to Roth IRA assets. The backdoor Roth takes advantage of these rules. The strategy requires making a non-deductible contribution into a traditional IRA and then immediately converting those assets to Roth. It is a valuable move under the right conditions.

But the backdoor Roth contribution is not entirely unguarded. If you have tax-deferred assets in a traditional IRA, SEP IRA, or a SIMPLE IRA, the backdoor contribution may result in undesired taxation. This is because the Pro Rata Rule will calculate taxes due from a backdoor contribution based on all IRA assets proportionally. If you have tax-deferred IRA assets, I recommend caution with a backdoor Roth contribution.

The types of accounts used to save for retirement can greatly impact a financial plan. Are you using the best accounts for your situation? Is there a strategy you are unaware of that may be advantageous? Have you had a change in income or employment? We recommend you review your retirement plan with your advisor regularly to ensure you are taking advantage of the best options available to you. Call us today!



Has All This Stimulus Created A Rational Bubble?

By James R. Derrick Jr., CFA®

One of the most absurd and fascinating financial stories of the pandemic was Hertz. Yes, the Hertz that pre-Covid was the second-largest rental car company. Last April, it had 700,000 vehicles sitting idle and $19 billion in debt! On May 22, 2020, Hertz filed for bankruptcy protection. Then, just a few days later, the stock began a miraculous rise.

Between May 26th and June 8th, Hertz stock rose nearly 1,000%. A savvy investor might think that after all creditors are paid, there may be something left over for stockholders. In reality, Hertz had become one of the first social media stocks of the pandemic.

Individual investors encouraged each other to buy Hertz because it was "going to the moon" and "You Only Live Once," also known as just YOLO.

Hertz recently announced it might be purchased for just under $5 billion—a number far below the $19 billion in debt. Eventually, investors realized this would happen because the stock could not stay above its June 2020 high. In reality, it is now worth approximately zero.

We have seen the manic rise and fall of many stocks, most of them in January and February of this year and most of them unprofitable. The reasons are complicated, but we will summarize them below:

(1) Gamification of investing with free phone apps
(2) People stuck at home with more free time
(3) Free money from Uncle Sam
(4) Leverage through the use of options
(5) Market makers hedging their risks
(6) Short sellers forced to cover

Let's focus on the one that impacts all of us as investors: "free money." The U.S. government has now approved three rounds of stimulus, totaling around $6 trillion. (An additional $4 trillion from the Federal Reserve went into financial markets over the last year.)

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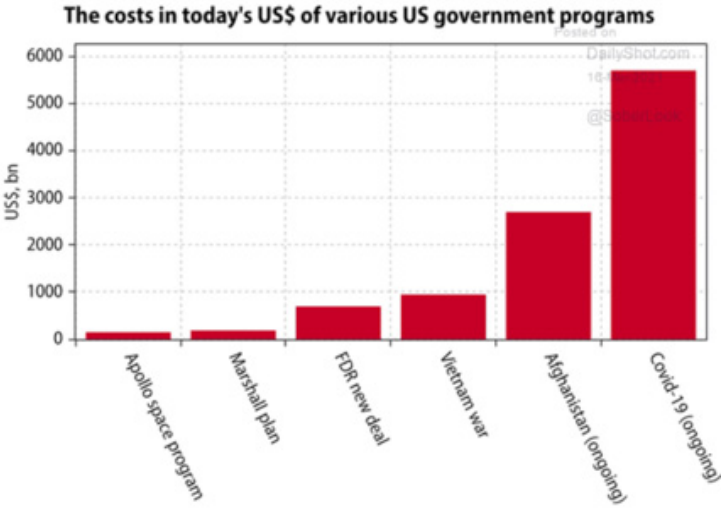


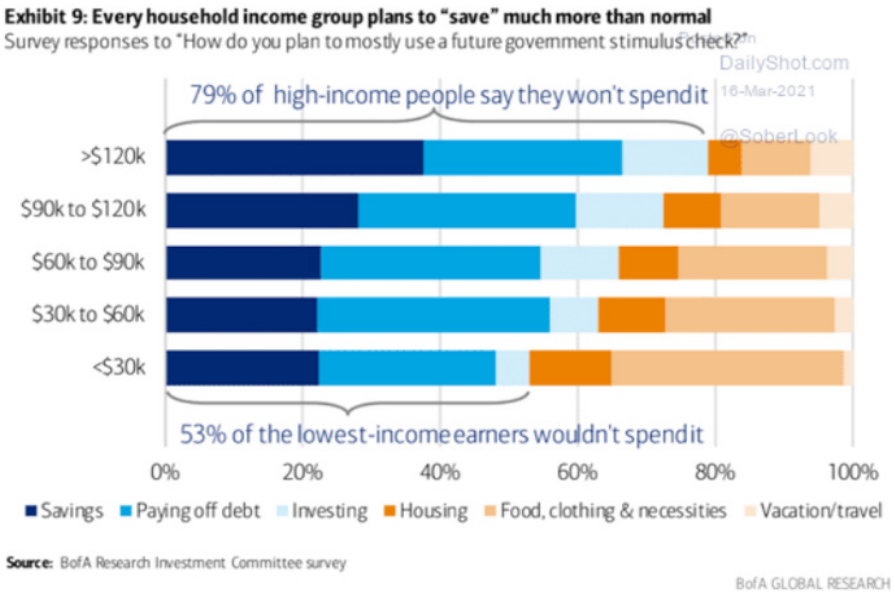
Gavekal Research/Macrobond

Even after adjusting past expenses for inflation, the pandemic stimulus is surprising in size and speed.

You Only Live Once (YOLO) Vocabulary

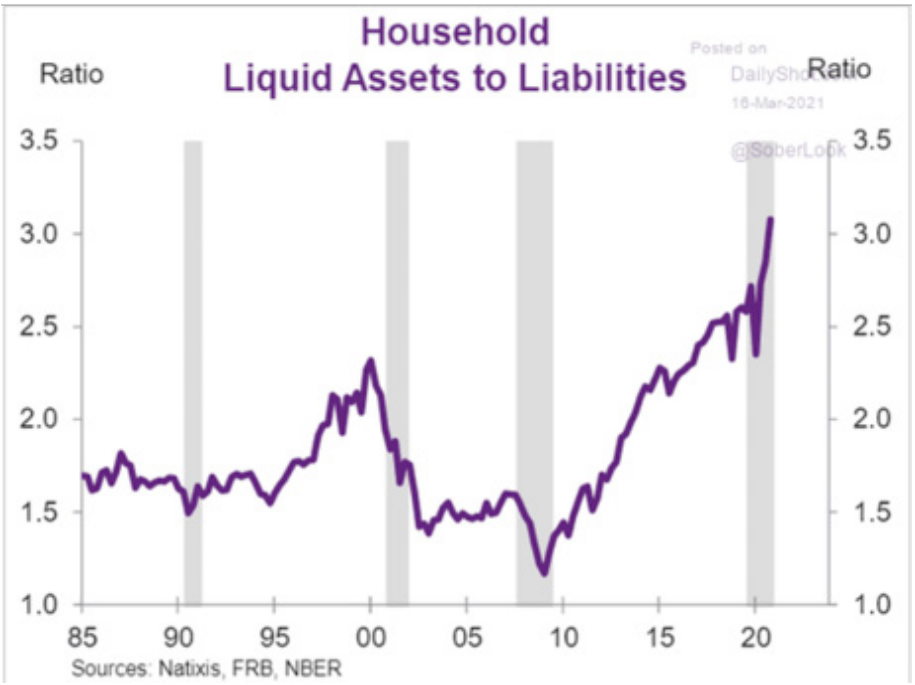
Stonks: Stocks (belief that they will always rise)
Tendies: Chicken Tenders: Profits
Diamond Hands: Refusal to Sell
Paper Hands: Sell At First Sign Of Risk
To The Moon: Where a Stock May Go
JPOW: Fed Chair Jerome Powell

As described in the adjacent graphic, the majority of Americans are not planning to spend the stimulus immediately. It has led Americans to save more money in the past year than any other time recorded in U.S. history!



Combine all these savings with reduced household debt, and we get a very flexible consumer. Remember, consumer spending is 69% of the U.S. economy.

Much of these savings will eventually get spent or find their way into investments, which is why some have called the rise in the stock market a "Rational Bubble."



The health situation has drastically improved since January. While the United States continues to face even more contagious variants of Covid-19, vaccine distribution has substantially expanded. As of March 15th, over 90 million doses had been administered. Plus, approximately 2 million more Americans receive a dose each day.

Nationally, the best-case scenario may be happening. High economic growth (likely to top 6% this year) and low inflation (rising to possibly 3%) make it easier to handle the heavy level of debt. Many states, from New York to California, are easing restrictions. Other, less densely populated states are already way ahead in reopening.

In Utah, the governor thought we would have a massive deficit when shutdowns began last spring. Instead, the state ended up with a $1.5 billion surplus, and in February 2021, Utah had an unemployment rate of just 3.1%.

A year ago, many debated what the financial recovery would look like. Would we have a sharp rebound or a V-shaped bounce, or would it be a slower U-shaped or volatile W-shaped recovery?

The reality has been a letter not previously used to describe economics, but one that I think we will see again in the future. Our current progress has been called a K-shaped recovery because while it has been good for some, it has been difficult for others. As we emerge in Spring 2021, we hope to see more joyful and prosperous times for all. SFS

*Research by SFS. Data from the Federal Reserve Bank of St. Louis. Investing involves risk, including the potential loss of principal. The S&P 500 index is widely considered to represent the overall U.S. 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. This information is subject to change at any time, based upon changing conditions. This is not a recommendation to purchase any type of investment.

Getting Organized

By Sharla J. Jessop, CFP®

Keeping up with paperwork, documents, and bills each year can be challenging. It is too easy to put the papers in a pile to be addressed at a future date. Or, my personal favorite, file them away and store them until you run out of space.

You can handle paperwork more efficiently. The tricks are to go paperless when possible and save only necessary documents. Technology makes it easy to organize statements and bills, so take advantage of electronic access whenever possible. Some documents like pay stubs, investment statements, and insurance policies may be kept for a year. Other documents will be around longer. Suggestions for what to keep and what to toss are summarized below.

7 Years

- Tax filing forms and supporting information
- W-2s and 1099s
- Bank and other tax statements
- Donation receipts
- Tuition payments

Forever

- Birth/death certificates
- Marriage licenses & divorce decrees
- Social Security cards
- Military discharge papers
- Critical medical information
- Estate planning documents – trusts, wills, power-of-attorney, medical directives

Life of Document

- Investment cost basis information
- Warranty and purchase receipt until the expiry date
- Property deeds and personal property titles
- Real estate improvement receipts (part of cost basis)
- Pension plan documents
- Record of paid mortgage

For tips on organizing your entire home, watch our recorded Money Matters webinar. It can be found on our website SmedleyFinancial.com under Just for Women - Organization.

What To Do When Rates Are So Low

By Mikal B. Aune, CFP®

All across America, CDs are coming due at banks and credit unions, and savers are appalled at how low their new rates will be. It is just a fraction of what the CD was making before. Low-interest rates are benefiting borrowers and punishing savers. If you have excess money in savings or CDs because you wanted protection, what do you do now?

We always counsel people to keep their emergency fund and short-term money in places that are easily accessible, like savings, money markets, or short-term CDs (12 months or less). That counsel hasn't changed.

The need to have easy access to the money supersedes the need for a return. People should still have an emergency fund of 3-6 months of living expenses. In addition, any expenditures that will happen in the next year should be in short-term savings.

If your short-term savings buckets are full and you still have excess in the bank, there are some good options.

(1) Use a money market or short-term CD and hope that rates are better in 12 months. If you do this, protection is the main goal. Accept that you will make little on your money. Interest rates may come up a little over the course of a year, but don't expect much improvement. Still, waiting 12 months to get a better rate is probably better than locking your money up in a 5-year CD.

(2) One step up from CDs are fixed annuities. Don't let the annuity name scare you. They are like CDs on steroids. They are great tools to help protect assets with a slightly higher interest rate than CDs. However, they have much larger penalties than CDs if you pull your money out early. Because of this, we typically recommend no more than 20% of your investments here.

(3) Another option that should avoid losses while providing some potential growth is an Equity Indexed Annuity. The largest upside for this is that your original investment is guaranteed, and you have the potential to make more interest than a CD or fixed annuity, depending on what the markets do.

The downside is you have to lock your money up for 5-10 years. There are significant penalties for early withdrawal, so we would recommend no more than 20% of your investments in these types of products.

(4) If you are willing to take some risk for potentially better returns, then you can invest conservatively. This option may lose principal but has more potential. This can be done by using conservative investments like bonds or a combination of bonds and stocks to get some growth with limited downside. We typically recommend a ratio close to 80% bonds and 20% stock.

(5) If you don't need the money for more than 5 years, you may accept more risk by investing. While this has potential for losses, it also has potential for more growth.

In considering any of these options, remember this is only one piece of the puzzle. Always make sure your investments fit into your overall financial plan. If you have any questions about how to implement these options or are wondering which one(s) are right for you, please contact our Wealth Management consultants.

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

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