January – February 2021

Money Moxie®

TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE

2021

Year of the Vaccine

SMEDLEY FINANCIAL SERVICES, INC.®

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What does a Biden presidency mean for the economy and investing?

The recent election has some people elated and others in the depths of despair. While we don't focus on the political ramifications, we can consider some of the financial impacts that may come. There is no guarantee that any of these will happen, but here are some possibilities:

We get more stimulus: In the short-run, this is a great thing for our economy and the market. There are too many Americans and businesses that are still struggling and need help to get through this pandemic. The long-term challenge is how to pay down the government debt.

Taxes go up: Even before the election, we knew that taxes needed to go up because of the massive amount of government debt. We have been at historically low tax rates. While tax rates seem unlikely to go up soon, don't plan on them staying this low forever. Depending on your situation, you may want to realize taxation of some assets now to avoid paying taxes in the future. Consult with your financial and/or tax advisor.

Interest rates go up: They will probably still stay low for a while (i.e. 1-2 years). However, they will probably start going up after that. Increasing rates are good for savers and bad for borrowers. CD's may pay a decent rate in the future, but affording a home will get harder.

Investing in ESG goes up: ESG stands for Environmental, Social, and Governance, also known as sustainable investing. With the Democrats in power, companies that are ESG friendly should get a boost. Examples of companies that will benefit include green energy, health and safety, and companies that promote diversity.

The economy will grow: The economy will probably start to recover quickly at first as we accelerate out of the global pandemic. However, growth will probably be slowed down by taxes and inflation after that, but it will still go in the right direction.

The market may go up: In the long-run, this is certainly likely. Over the coming months, the market could go up because of the recent stimulus and the prospect of more stimulus. A great deal of this money is likely to go directly into investments, while some will boost the economy through spending.

There may be some softness after that. But, as the economy fully recovers from the global pandemic, the market should continue its march higher. The market has shown that it doesn't matter which political party is in power. It still does what it is going to do.

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

Money Matters – February Webinar

Money and health go hand in hand. Both are important for maintaining an enjoyable lifestyle.
Plan to join our Money Matters webinar focused on Heart Health, presented by Julie Roberts, ARPN.

Tuesday, February 9th at 9:00 a.m.

For more information, watch your email or visit our website.

2021 Year of the Vaccine

By James R. Derrick Jr., CFA®

Major Markets Update

Market	Index	2020	2019	2018	2017	2016
Large U.S. Stocks	S&P 500	16.3%	28.9%	- 6.2%	19.4%	9.5%
Small U.S. Stocks	S&P 600	9.6%	20.9%	- 9.7%	11.7%	24.7%
Global Stocks	Dow Jones Global	14.1%	23.7%	-11.7%	21.8%	5.8%

Irrational Exuberance

On January 7, 2021, Elon Musk tweeted a recommendation that people replace the social media app Slack with Signal. Instantly, the stock for Signal Advance, Inc. began to climb. It finished the day up over 500%. Unfortunately, Signal Advance does not have a social media app.

Investors should have started selling the moment the mistake was publicized. Instead, the stock kept rising. In less than a week, Signal Advance rose 11,700%!

Let's look deeper into what a number like this really means. An investor who owned $10,000 of this stock would have had nearly $1.2 million three days later. Of course, groups often move in irrational ways, but at some point, the truth begins to matter. On the fourth day, it had an epic fall, giving up most of the gains.

Behavior like this has happened before. In fact, it was common back in 1999. On April 1, 1999, *The Wall Street Journal* reported the story of AppNet Systems, which filed to have its stock publicly traded. That day, investors began buying up Appian Technology. Despite being described as an "inactive company," the stock rose 142,757% in two days. Needless to say, it didn't end well for most of these investors.

In 1999, online trading was new, and so were the internet chat rooms where investors could share stock tips. It seemed that nothing could stop the momentum.

Warning Signs from 2000

Technology stocks began to fall in February 2000, and the rest of the market began to fall in March. What triggered the decline? Were there any signs?

(1) Was it Yahoo's addition to the S&P 500 on December 7, 1999, which signified the acceptance of technology domination in the investment world?

(2) Perhaps it was the symbolic show of a new world order when internet upcomer AOL purchased media giant Time Warner on January 10, 2000?

(3) Finally, could it have been that the S&P 500 price divided by future earnings was at an all-time high of 26 in February 2000?

(If you don't remember or have never heard of AOL, well, that proves the point I am trying to make. Good investing is very different from speculation.)

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How Americans Spent Their Stimulus

32%

Savings / Investments

37%

Spending

23%

Pay Down Debt

The remaining percent was categorized as other. This is for stimulus received late 2020.
Source: Daily Shot 12-23-2020.

In 2020, the government increased the supply of money by 70% – an amount way beyond what would have seemed probable. How? The Federal Reserve propped up asset prices and the federal government gave stimulus checks to unemployed and employed Americans.

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Investor Mindset
Greater and greater stimulus from the federal government and the Federal Reserve have created an environment where some investors are only focused on return. They ask themselves, “How much money do I want to make?” Then, they invest accordingly.

Of course, there is no limit to how much money most people want, which is exactly why this won’t last forever. The stock market is not an ATM.

This bull market will end. However, it is difficult to accurately predict the timing of a falling market when in the middle of a powerful bull market. It could be in February or, with all the government support, it may keep going throughout 2021.

Government stimulus and all the new money that comes with it will have to go somewhere. This could be a great support for investors as 30% of the stimulus is not needed by its recipients and gets saved. Roughly the same amount is spent, and another part pays off debt. All of these help the stock market either directly or indirectly.

If even more stimulus comes in 2021, then we can expect more spending and more investing.

What could go wrong in 2021?
Unintended consequences are an incredible risk for the unprecedented government stimulus we have experienced. However, we have not seen any major negatives yet. Until we do, it is quite possible that the stimulus will continue to flow in 2021.

I will be keeping an eye on inflation. In the Great Depression, America had the New Deal. People were paid to work. In the pandemic of 2020, people were just paid.

As the money is spent, demand could outstrip supply, and prices could rise. If inflation somehow reaches 3% in 2021, then I believe the Federal Reserve will take the punch bowl away from the party. For now, Fed Chairman Powell says he is “not even thinking about thinking about” doing that. So, no reason to panic.

What could go right in 2021?
I expect a great rotation to begin at some point in 2021. This change could end what I would call the profitability of speculation. However, it does not necessarily mean a crash in the market. I’ll explain.

When the economy was barely growing over the last 10 years, it didn’t make sense to run from growth. This

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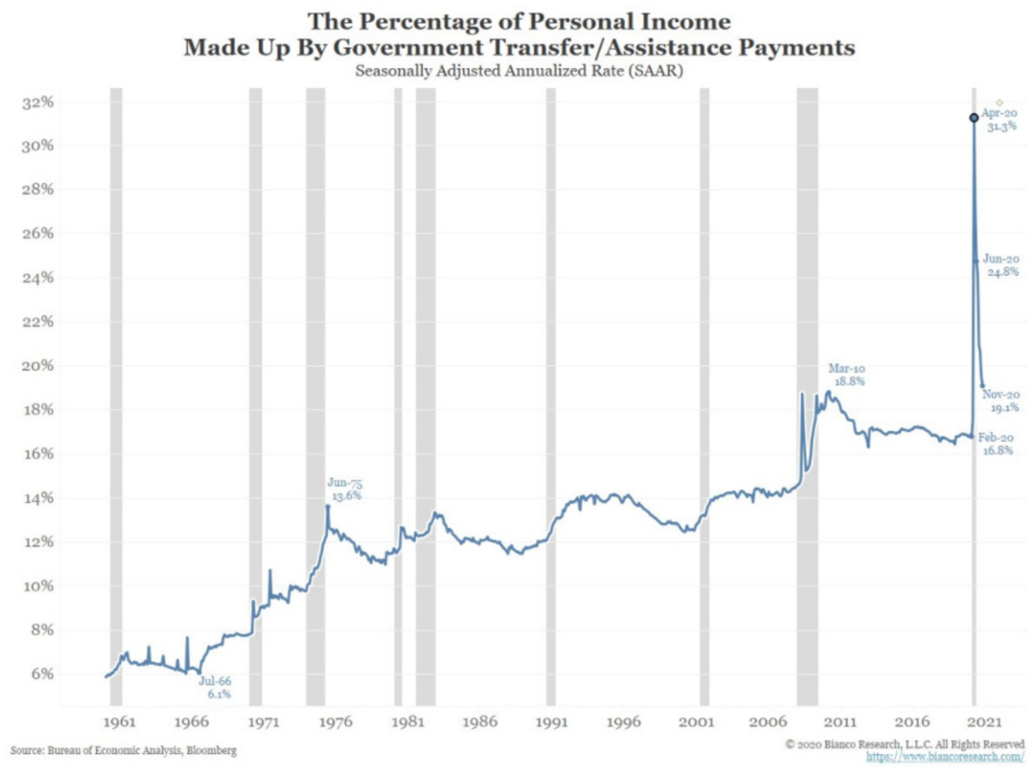

The percent of all income provided by the government has been growing for decades. At one point, in the summer of 2020, almost a third of all income came from the government.

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made it possible for technology, which was a poor investment from the year 2000 through 2008, to become a leader. Technology was the undisputed leader of 2020 as it was also well positioned for the stay-at-home economy during the pandemic.

Technology represents over 25% of the U.S. stock market, but this is not a fixed level. Just before falling out of favor in 2000, it was 30%. By 2008, it was only 15%.

Keep in mind that in 2020, technology only represented 6% of the U.S. economy and just 2% of employment.

Technology

25%
of the U.S. stock market

6%
of the U.S. economy

2%
of the U.S. workforce

That means there is a massive amount of opportunity out there just waiting to regain strength. I believe that at some point in 2021, we will get that change of focus and market leadership.

International stocks, small company stocks, industrial stocks, and energy stocks have already begun to strengthen after years of lagging behind.

Only time will tell, but if the new trend continues as it has over the last few months, then we may be seeing new market leadership that will point the way forward for years to come. 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.

Investment Accounts for Children

By Jordan R. Hadfield, CFP®

Opening an investment account for a child is a great way to give them a financial head start. It also provides an excellent opportunity to teach a child the importance of saving and investing. Before you decide to contribute to an account for a loved one, make sure your own retirement goals are on track. I assure you, children prefer financially secure parents to gifts of money or financial inheritance.

Once you've decided you can afford to save for a child and still accomplish your own goals, the question becomes what type of account you should open. There are several options, each having benefits and drawbacks. I have provided a brief summary of some of the more popular account types below. Please reach out to us for more information before choosing which account is best for you.

Savings Account
This may be the best choice for short-term savings, but it is not usually recommended to fund expenses more than 24 months in the future. Savings accounts do not provide significant growth, offer tax benefits, or reduce the risk of inflation.

529 Plan
This is a great investment account if your goal is to fund qualified higher education and the beneficiary is still young. It is important to understand what constitutes qualified education, as not all education is qualified. Although this account can fund expenses at lower education levels, the benefits of a 529 plan increase the longer assets are in the account. All growth is tax-free, but taxes and penalties will apply to non-qualified expenses. The account owner can change the beneficiary of a 529 account.

UGMA/UTMA Account
These investment accounts are for minors. They offer flexibility, as money can be spent on anything that benefits the minor. Because the money placed in a UGMA/UTMA account is owned by the child, the earnings are generally taxed at the child's tax rate. Those rates are usually lower than the benefactor's rates and are often zero. When the child reaches the age of majority, the account must transfer to an individual investment account. At that time, the beneficiary gains full control and can use the funds however they choose.

Individual Investment Account
This account cannot be opened for a minor. It can be opened in the name of an adult with the intent to gift assets to a child at some point in the future. This account will never change ownership, and the account owner will always maintain control. All growth will be taxed at the account owner's tax rate, and transfers of more than $15,000 per year to a single beneficiary may require filing a gift tax form, although gift tax may not be due.

Roth IRA for Minors
A Roth IRA may be opened for a child under the age of 18 if they have earned income. This account is a great way to jumpstart retirement for a minor. All growth is tax-free if used after the age of 59.5; otherwise, taxes and penalties may apply.

Financial Demise by Subscription

By Sharla J. Jessop, CFP®

The past year has kept most Americans safe in their homes, searching for something to occupy their minds and their time. Generally, staying home is a way to save money. Unfortunately, many found hunkering in at home to be a financial drain.

How can staying home possibly equate to a financial disaster? Subscription services. I know what you are thinking – they do not cost that much.

Today's world allows us to have almost anything delivered, streamed, or accessible for a small monthly fee. If you are tired of coming up with a menu and shopping at the grocery store, you can have a box delivered to your doorstep complete with ingredients and a recipe to create a delicious family dinner.

Finding something to watch on TV is easier, too; just sign up for a streaming service from one or several of the companies offering hundreds of movies and television series. They are great for binge-watching an entire season. From Disney+ to Netflix to Discovery+ to ESPN+, you should be able to find something worth watching, right?

If you can dream it, you can probably find a subscription for it. A beauty box, food and toys for pets, clothing boxes for men and women, toys and activities for the kids, book of the month, car wash, online fitness gurus with programmed workouts, diet monitoring apps, theater, shaving supplies, wine, shoes, and the list goes on and on.

There is nothing wrong with subscribing to any of these services. Believe me, I have several myself. Many can help increase our quality of life and save us time. While reviewing your budget and planning for the year ahead, be aware of these financial drains. The cost for each is generally low and easy to justify. Altogether, they can really add up. Do your subscription costs fit into your long-term spending plan, or could they be preventing you from reaching your financial goals?

Your spending plan should be focused on meeting your monthly needs and achieving your financial objectives. These objectives should be aligned with your personal values and goals.

If you have not already done so, take some time and ponder the year ahead. Where do you want to end up financially speaking? You have a limited amount to spend each month; make it count.

If you need some ideas or suggestions on creating a spending plan, watch our Money Matters recorded webinar on budgeting. You can find it at SmedleyFinancial.com under *Just for Women.*

Opportunity to Save Money

NFS will begin charging for printed trade confirmations and prospectuses in February. We are working to make sure our clients will not be charged. This will require some action on your part. If you have one or more NFS accounts, you will be receiving an email confirming that you would like to receive these forms electronically.

Within 5 days of receiving the email, you must confirm that you agree to receive electronic documents. Monthly statements and tax documents will still arrive by mail unless you previously requested to receive them electronically. Please help us keep costs down by responding to the email when it appears in your inbox. Please call us with any questions. Thank you!

Important Tax Information for 2021

Some 1099 tax documents may not be available until March 2021. If you receive a "Preliminary" tax form, changes may still be coming. We recommend waiting for all final documents before filing your 2020 taxes to avoid recalculating and resubmitting your tax forms. Please call our office with any questions at 801-355-8888.

Your SFS Team

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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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