May – June 2021

Money Moxie®

The American Families Plan

SMEDLEY FINANCIAL SERVICES, INC.®

Trusted Since 1982

Getting Back to the Office

After a year of change and adaptation, we can see the light at the end of the tunnel. As more of us are vaccinated, we can look forward to better days. For you, it may be gathering with family and friends to renew acquaintances and catch up on life's changes. For us, it includes getting back to the office with the option to meet with our clients in person. After only a short time, I can personally say it is so good to meet with you face-to-face.

During the pandemic, business for many companies continued virtually – from the newly appointed kitchen and living room offices of their employees. It worked so well that we see a shift in how many companies view office locations and the 9 to 5 workday. Working remotely has become routine, and an office can be anyplace there is access to the internet. Worldwide, employers and employees are managing a new work-life balance.

As the world around us changes and technology advances, we are also adapting. Smedley Financial is adopting a flex schedule for our employees and expanding our ability to work with our clients. You now have the option to meet in person at our office, online via Zoom, or by phone.

The influence of technology in our business is extremely beneficial and helps us work more efficiently. It also provides you with fingertip access to your financial information. New tools, including an iPhone or Android app, allow you to view your accounts at your convenience.

Like many things, technology comes with some downsides. It is easier than ever for scammers to reach unsuspecting victims with nefarious activities. Recently, they have been using technology to impersonate advisors through email and by phone. Please remember, we will never reach out to you by email requesting personal information. Calls you receive from our office will display our company phone number 801-355-8888, even when our team members are working remotely.

Regardless of how we connect, our commitment to you remains the same. You will continue to have an exceptional experience and receive the highest level of service.

Warm regards,

Sharla

Sharla J. Jessop, CFP®
President

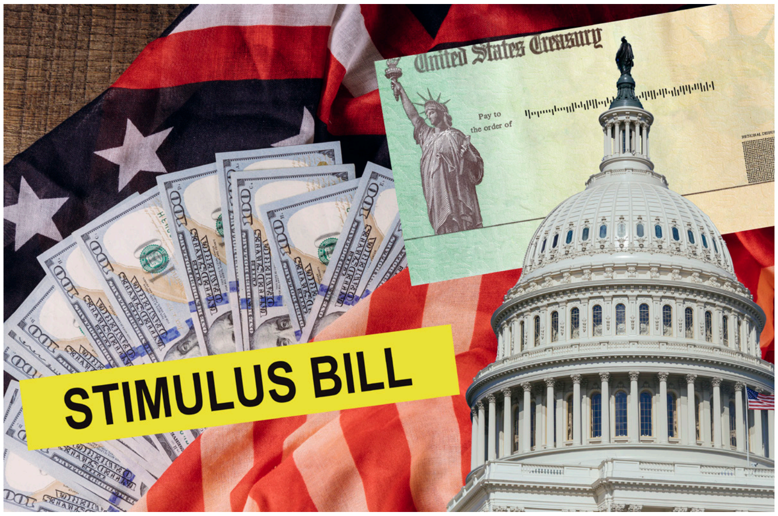
Roger's COVID-19 Vaccination Card Tips

Those who have your COVID-19 vaccinations, use these helpful tips:

Never laminate the original card. The heat transfer process has been known to destroy information. Instead, make two color copies of each COVID-19 Vaccination Record Card, both the front and back and laminate the copies. Be sure to round the corners on the laminated cards.

Keep the original COVID-19 Vaccination Record in a safe place. If you get a booster vaccination, you will still have the original card to update. Use the laminated, color-copied COVID-19 Vaccination Record for travel.

My total cost for four laminated copies, two copies for my wife and two copies for me, was $2.68 at AlphaGraphics in Bountiful, Utah.



The American Families Plan

The Good, the Bad, and a lot of Debt

By Mikal B. Aune, CFP®

The U.S. middle class is shrinking. There has been growing polarization as the rich become richer and the poor become poorer. The Biden administration is proposing the American Families Plan to be a "once in a generation investment to rebuild the middle class and invest in America's future."[1] Here are some of the key points and their potential impact if the plan is enacted.

Making Education Affordable
The Biden administration plans to make education more affordable and expand opportunity. It is proposing two free years of community college and lower costs for minorities to attend college or a university. The amount of Pell Grants may increase. There could also be universal access to free pre-kindergarten (preschool).

Providing Economic Security for Families
The goal is to make it easier for everyone to have "the opportunity to join the workforce and contribute to the economy." The plan does this by ensuring that no one earning under 150% of the state median income pays more than 7% of their income on high-quality care for children. The plan also provides paid family and medical leave to care for a new child or for a serious illness.

Expanding Tax Credits to Help Workers and Families
The plan uses tax credits to transfer wealth to those with lower income. It proposes tax credits of up to $8,000 to cover childcare expenses for a family with children under age 13 who make under $125,000. The income phase-out moves from $125,000 to $438,000. The plan also increases child tax credits for the next 5 years from $2,000 per child to $3,600 for children under age 6 and $3,000 if over age 6. It also makes permanent the earned income tax credit for low-income childless workers.

Impact
As with all legislation, there would be good, bad, and unintended consequences. We do need a workforce educated for our modern economy. Education is a key to opening opportunities.

Families with children stand to benefit, especially low-income families who would gain access to childcare.

There is some concern that the administration "strongly prefers getting kids out of the home and parents into the workforce." There is also a concern that "too much focus on federal mandates might be detrimental to the effects on children who otherwise might be raised with the involvement and investment of a parent."[2]

Taxes are another concern. Right now, the administration is only planning tax hikes for high-income earners, investors, and corporations. Additionally, the administration is planning an infrastructure spending bill. We are facing a massive national debt that is at $28 trillion and may reach $89 trillion by 2029.[3]

Social Security and Medicare also have to be fixed. There isn't a way to tax the "wealthy" enough to account for all of the government spending. As taxes go up, the economy may slow. This could be the unintended consequence that we fear.

Most people agree with the stated goals of this plan: providing education and opportunity. We want to help families have financial security. The challenge is paying for these programs. It will remain to be seen what the final impact is on the economy, the lower and middle classes, and the family as the fabric of society.

1 https://www.whitehouse.gov/american-families-plan/
2 https://www.ksl.com/article/50168776/mitt-romney-i-didnt-realize-i-was-at-a-disadvantage-because-my-mom-stayed-home
3 https://www.forbes.com/sites/mikepatton/2021/05/03/us-national-debt-expected-to-approach-89-trillion-by-2029/?sh=5bd9292a5f13

Higher Inflation is Here

By James R. Derrick Jr., CFA®

In 1979, global oil production dropped roughly 4%, primarily due to the revolution in Iran. This triggered panic among Americans who still remembered the shortages of 1973. The price of oil doubled in 12 months as lines started to build at gas stations, sending prices for all kinds of goods through the roof.

Since World War II ended, U.S. inflation has averaged 3.9%. In the decade prior to 1979, prices averaged a 6.6% increase per year. America had not seen back-to-back double-digit inflation since 1920, but in 1980, prices rose another 13.5%, then 10.3% in 1981. We have not seen anything like this since.

Inflation has been incredibly low over the last 40 years, thanks to technology, globalization, demographics, and the Federal Reserve. During this time, inflation has averaged just 2.7%.

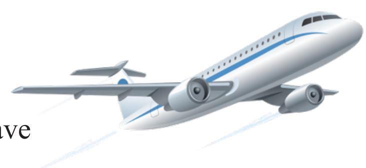
Demand and supply of goods are the basics of economic pricing. If either one rises or falls without the other, prices move. When panic demand for supplies hit in the spring of 2020, we did not see huge changes.

We did see a lot of changes in other areas. Oil demand fell around 10%, and the price of oil at one point went negative. On April 20, 2020, the prices of West Texas Intermediate oil fell to -$40 per barrel. Unbelievable! Companies could not give it away. Gas prices stayed positive (around $1.50 per gallon in Utah).

The U.S. government slammed on the economic brakes and then created around $12 trillion to keep things going. That is in an economy that produces less than $22 trillion in a year. It was massive, and it appears to have worked. Now, the government seems to have the economic tiger by the tail. It is hard to say what will happen if it lets go.

As stimulus efforts continue, prices will probably continue to rise. Official inflation came out on May 13, 2021, at 4.2%. That is a long way from 1979 levels, but it is the biggest number in decades. Many of these numbers are being compared to unusually low prices from a year ago. The Fed refers to this as a base effect.

Fed Chair Jerome Powell insists that these significant increases are temporary. If Powell is correct, then I expect we will begin to see price changes calm down by the end of summer. That does not mean prices will fall; it means they should stop rising so quickly. There is also a reasonable chance the Fed is wrong, so I will be keeping an eye on inflation. SFS

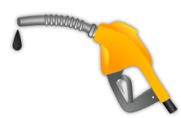


-70%

Decrease in demand led to a 5% drop in prices in Spring 2020. Since then, prices have risen 10%.

+17%

Rise from Spring 2020. Rent cost is up just 2%.



+50%

Price increase last year after falling 32% the year before.

How Supply and Demand Impacted Prices

	Spring 2020 Demand	Spring 2020 Prices	Spring 2021 Prices
Apparel	-41%	- 5.7%	+ 1.9%
New Cars	-53%	- 0.6%	+ 2.0%
Used Cars	-38%	- 0.7%	+21.0%
Eating In	+ 3%	+ 4.1%	+ 1.2%
Eating Out	-62%	+ 2.8%	+ 3.7%

Pricing is moving up and down all the time based on supply and demand. During 2020, we saw some radical changes. Prices of things we want often rise more than the prices of things we don't want. So, our personal rate of inflation is frequently higher than the Consumer Price Index. The more money the government gives away, the more pronounced this difference may become.

*Research by SFS. Data from the Federal Reserve Bank of Minneapolis and the U.S. Bureau of Labor Statistics. 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.

Cryptocurrency

A Quick Guide

By Sharla J. Jessop, CFP® and James R. Derrick Jr., CFA®

What are cryptocurrencies?

Completely virtual form of money invented by computer programmers for peer-to-peer digital transactions. Its value is determined by demand.

Digital currency is not ownership of a company like stocks or interest-paying debt like a bond. It is also not a commodity like oil.

How many cryptocurrencies are there?

6,700

As of January 2021, there were more than 6,700 (Vanguard). And on May 20, 2021, Jerome Powell said the Federal Reserve would have a U.S. Digital Currency announcement this summer.

Where is cryptocurrency stored?

Cryptocurrencies are stored in "digital wallets," which are stored somewhere on the internet and act as a virtual bank account.

What is the technology behind it?

Blockchain is the underlying technology that makes cryptocurrency possible, and it is the most interesting part of the innovation. It is a ledger of ownership.

Blockchain supports all kinds of transactions and tracking that go beyond digital currency. It helps track ownership and royalty payments for music and art through non-fungible tokens (NFTs). Blockchain could also help securely share medical data and track greater logistic detail for companies.

How is digital currency used?

A limited number of stores will accept a few types of cryptocurrency as payment.

It is more commonly used as a vehicle of speculation by individuals hoping to sell it to someone else for more U.S. dollars.

Those trying to hide transactions from the government find cryptocurrency incredibly alluring as well. For example, the Colonial Pipeline in May 2021 paid hackers nearly $5 million worth of Bitcoin to reopen the gas line operations.

How is digital currency different from regular money?

(1) While images display digital currencies like gold coins, in reality they are not tangible but digital. They exist only on the internet.

(2) Cryptocurrency is more difficult to spend on real goods and services. Cryptocurrency value fluctuates so much that it would be impractical to accept it as payment without calculating its value in U.S. dollars at the moment of a transaction.

(3) The creators are often anonymous. Ongoing management of the currencies has no transparent, central authority.

Investment Debate

Stocks or Real Estate

By Jordan R. Hadfield, CFP®

I am often asked if real estate is a better investment than stocks. The answer depends on several variables. Both real estate and stocks have their advantages. They both can offer great returns, passive income, and inflation protection. They also carry their own risks and challenges.

As with any investment opportunity, an understanding of the return potential, the risk involved, and the objective are fundamental to making a wise decision. While real estate and stocks are certainly not the only investment options available, they are the only asset classes that will be considered here.

Unsystematic Risk

One aspect that makes real estate investing difficult to assess generally is that every property is different. Therefore, each investment opportunity must be analyzed by its own unique characteristics. While some properties may provide fantastic returns, others are a bad investment.

Like real estate, stocks also have significant variability in returns. The risk of a poor-performing stock is easily reduced by diversification. Diversification in real estate is challenging, expensive, and for many investors, unattainable.

Leverage

One of the benefits of investing in real estate is the ability to use leverage. Debt always adds risk to the equation, but debt can be a powerful tool if used properly. Lenders typically require a down payment of at least 20% for an investment property. But that 20% allows the investor to participate in 100% of the property's appreciation.

Leverage can also be used to purchase stocks, but it is usually not recommended. Margin trading means borrowing money from a broker to purchase stocks. Trading in a margin account increases your purchasing power, but it also amplifies losses.

Liquidity

At one point or another, liquidity becomes important to every investor. Stocks are liquid. If a stock investor needs cash, she can place trades and usually receive the money within a couple of days.

Real estate is not liquid by comparison. In most circumstances, a real estate investor cannot pull cash out of a property without a refinance or complete liquidation. This can be problematic.

Taxes

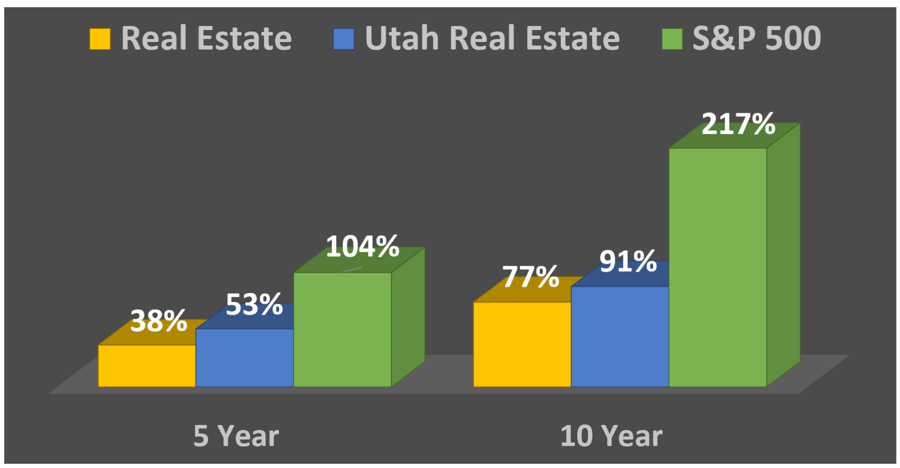
A real estate investor has the advantage of deducting expenses to reduce tax liability. He or she can also depreciate the asset over time. This can be beneficial year to year; however, one major problem is the taxes due upon the sale of the property. Depreciation recapture can assess taxes on the depreciation previously claimed,

Continued on next page

and the appreciation becomes taxable all in the same year as the sale. This can create a significant tax bill. A 1031-exchange defers the tax liability but only if the money is quickly reinvested into a like-kind asset. This does not help an investor looking to cash in on their investment.

Stock investors do not have the ability to deduct expenses or depreciate assets. There are several tax-advantaged accounts that give the investor tax-free or tax-deferred growth. These accounts provide significant control over how and when investments are taxed. When losses occur in taxable accounts, the stock investor can strategically sell to offset gains. They can also sell portions of the portfolio as needed and spread the tax liability over many years, thus reducing the marginal tax rate.

Total Returns for Real Estate and Stocks*



Costs, Fees, and Expenses

Costs, fees, and expenses can significantly eat into returns. The expenses with real estate are significant and impossible to project. Transaction costs are high. Maintenance and repair costs are ongoing. Property taxes, insurance, and possible HOA fees need to be considered. If hired, a property manager will take a good percentage of the profit. If a property goes unrented for a time, monthly costs can significantly increase.

Stocks, on the other hand, have a low barrier to entry, and fees are minimal. Opening a stock account is generally free, and trading costs are zero in many cases. Sales loads, management fees, and annual expenses are all comparably small and remain relatively consistent.

Demands

Real estate can be demanding, especially if the investor decides to cut costs by acting as the landlord. Appliance failures and other problems can occur day or night and often require immediate attention. Work, holidays, and family vacations can all be interrupted. Finding renters, enforcing house rules, and property maintenance takes time and energy. Dealing with renters and evictions can be stressful and time-consuming.

Stocks are very low maintenance. Generally, the less attention you give a proper portfolio allocation after purchase, the better.

Volatility

Both the real estate market and the stock market deal with volatility. Both markets suffer periods of depreciation and loss. But stock market volatility is measured daily and is constantly called to our attention. We cannot escape it. This can lead to emotional volatility, which can result in bad investment decisions.

Real estate volatility is more hidden. An investor may become aware of large swings but is mostly incognizant of market movements.

Historical Returns

According to the Federal Reserve Economic Data website, the S&P 500 index has consistently outperformed the general real estate market. Note, these numbers reflect gross appreciation and do not take into account income or dividends. They also do not consider costs, expenses, or fees (of which real estate has many).

Conclusion

Although I believe stock investing is better suited for most people, the right real estate investment can be advantageous and profitable. Before you make any significant financial decision, reach out to your Private Wealth Manager at Smedley Financial. We can help provide you with the information needed to make the best decision for you.

*Data from Federal Reserve Bank of St. Louis. Returns through March 31, 2021. 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 on changing conditions. This is not a recommendation to purchase any investment.

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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