April 15, 2021

Dear Clients and Friends,

WELCOME PAMELA STEPHENSON!

Pamela joined us in late January as Client Services Administrator and has been a terrific addition to our team. Pamela's role involves assisting clients with things like cash movement, transfers, account documents, and all things back office that support our advisory team. Pamela comes to us with not just office management but also a real estate background. She has been a Real Estate Broker since 2003. She and her husband have four daughters and a ten-month-old granddaughter. Pamela is an avid animal lover, youth volleyball coach, and our office coffee expert. Some of you have already met Pamela, and she looks forward to meeting the rest of you next time you come to the office.

SMALL CAP AND VALUE PREMUMS SHOW UP… FINALLY

The last 6 months have been shown the importance of diversification within stock categories. Within the US stock categories, the Russell 1000 Value Index (large US value stocks) outperformed the S&P 500 (large US, mostly growth-oriented stocks) 28% to 18%. The small stock categories performed even better, with the Russell 2000 Value Index up 60% compared to the Russell 2000 up "only" 47%. While we do not know if this will continue in the short term, it is worth noting that from 1928 to 2020 value stocks have a 2.8% better return than growth stocks and small stocks have a 1.94% better return than large stocks. That is why including exposure to small and value stocks along with large and growth stocks to have greater diversification makes sense and is the approach we follow.

GOVERNMENT STIMULUS AND THE EFFECT ON THE MARKET

For a good summary of the latest government stimulus bill, I suggest you read our website blog authored by Brie Black. https://wealthpointadv.com/third-stimulus-bill/ Overall the market has responded positively to this government action in the short term. This makes sense because it is putting money directly in people's pockets and most of that money will be spent. This consumer spending boosts the economy and in turn publicly traded companies' stocks. But are there long-term effects? The three main concerns are inflation, government debt levels, and tax increases. Unlike 2008 where much of the government stimulus went to shore up the balance sheet of banks, this time it goes directly to consumers and into the money supply. The effect is certainly inflationary. The realistic scenario is mild and moderate inflation which is no problem. Our Federal Reserve is well educated and equipped to combat inflation, as we learned our lesson from the 1970's.

Government debt is going up considerably, and while all the gurus say we are not at a point where it is unmanageable, it could weigh on our economic performance over the long term. From my point of view, this round of stimulus was like pouring gas on a campfire that was already burning…it creates a big flame, but the fire was already going and would have grown on its own. Better to target the economic areas of need (travel, hospitality, entertainment venues, etc.) than a broad-based stimulus because right now we have more supply issues with getting goods and services than we do with a lack of demand.

Higher government debt inevitably leads to the tax question. Please see our blog authored by Josh Bentz with details on President Biden's tax proposals (https://wealthpointadv.com/tax-outlook-for-the-biden-administration-2021-and-beyond/). An increase in the corporate tax rate is on the table, and with all other factors being equal would mean a reduction in corporate after-tax earnings and in turn a decrease in their stock value, but keep in mind the market already knows this, and current prices reflect this possibility. Therefore, we should be aware of these scenarios, yet we should not let possibilities be the primary driver of our investment decisions.

REBALANCING BENEFITS

Long time readers of this newsletter have heard me preach about the benefits of rebalancing before, which is realigning your investments back on target when they get out of line. For example, if your target mix is 70% stocks and 30% bonds and stocks fall 35% like they did last March, you would need to sell a portion of the bonds to buy stocks to get back in line. This process worked out splendidly with some stock categories more than doubling from their March 2020 lows. It also works in reverse when the stock portion grows rapidly. Most clients who rebalanced last year and bought stocks are now overweight there and we need to do the opposite: pare back the stock areas and buy bonds. In my 20-plus years as an advisor I cannot recall rebalancing both ways within this short time. But here we are.

Sometimes rebalancing by selling stocks is harder for clients to accept than buying stocks low. This is understandable, because it is exciting to be opportunistic and have the opportunity for big returns. Doing the reverse means selling stocks and possibly paying some tax on your gains, which is not as exciting. That coupled with the current factors of a zero-interest rate environment and government stimulus juicing the stock markets points to holding more stocks and makes bonds less attractive.

Remember a few key ideas. First, the object of investing is to buy low and sell high. Second, paying tax on gains (probably at a 15% long term gain rate depending on your tax bracket) is better than not having gains. Third, you can either rebalance your portfolio or the market will do it for you by moving in ways you might not anticipate. Finally, and most important, if you are on track to meet your goals with your current target investment plan, how does taking the extra risk help you? Always let your financial plan be the primary driver of the investment plan, not a crystal ball.

Spring is my favorite time of year, and I hope you are enjoying the nice days we have received. Please contact us if you have any questions about your financial plan as we are always willing to talk or meet for a review meeting. And if you have family or friends who would like a second opinion on their plan, we would be happy to hold a complimentary meeting to provide one. While many of my newsletter points may be "preaching to the choir" to those of you reading it, unfortunately many investors do not follow these concepts and 2020 was painful for them. Now may be the time to not repeat past mistakes and we have a qualified team that can help.

Sincerely,

Brent M. Walker, CFP®