SilverStar Insights

for your wealth

SILVERSTAR WEALTH MANAGEMENT
Plan • Invest • Guide

By Tim Hudson, CFP®, CLU, ChFC, CRPS® January 2021

In This Issue

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2020 was a year we will never forget. The outbreak of COVID and fears about its rapid spread sent stocks and Treasury bond yields plummeting in March. The broad-based S&P 500 stock index lost over 33% within a month's time. This downdraft was fueled by the massive amount of uncertainty that surrounded the lockdowns and unprecedented interruption of economic activity at home and abroad.

The swiftness of the decline was unexpected and unprecedented, but the recovery, which was borne out of extreme pessimism, caught many analysts by surprise. As the major indexes rallied from the March 23rd low, many analysts continued to warn of further declines which never materialized. These people are smart people. They know their craft. But to frame it in the simplest terms, event smart people cannot predict the future of the markets with certainty as we often state. The year 2020 was a perfect example of the importance of not trying to time the markets.

2021 presents some new opportunities with good economic data as well as some challenges. *It is important to be aware of what is on the horizon but also important to be prepared for what may lie over the horizon. Forward thinking is good planning!*

Back by popular demand is nationally known economist, Fritz Meyer. Fritz will present a webinar titled, ***Point of View—The Economy, Markets, and Investment Strategy****. Registrations limited! See more details on page 5 and RSVP today!!!*

Market View

2020 Performance of Capital Markets	
S&P 500 - The S&P 500 (Standard & Poor's Index) is a stock market index containing the stocks of 500 American corporations with large market capitalization that are considered to be widely held.	**18.40 %**
MSCI EAFE – The MSCI EAFE serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia.	**7.82%**
Barclays U.S. Aggregate Bond – The Barclays U.S. Aggregate Bond Index is an index of U.S. dollar-denominated, investment-grade U.S. corporate, government and mortgage-backed securities.	**7.51%**
10-Year Treasury Yield Rate (as of 06/30/20)	**0.93%**

Sources: Morningstar (Performance from 1/1/20 to 12/31/2020)
Treasury.gov (As of 12/31/2020)

2020 was a rollercoaster year that ended on a high note and continues to show signs of economic growth ahead. Although some sectors such as leisure and hospitality continue to struggle, many sectors are showing signs of growth going into 2021.

The 14.8% unemployment level experienced during 2020 was a level not experienced since the Great Depression Era, and it rebounded quicker than ever to 6.7%.[1] It was a quick snap back but not yet complete without all sectors recovering. As the COVID vaccine is distributed across the country, we hope to see the ailing services such as airlines, hotels, and restaurants begin hiring back employees.

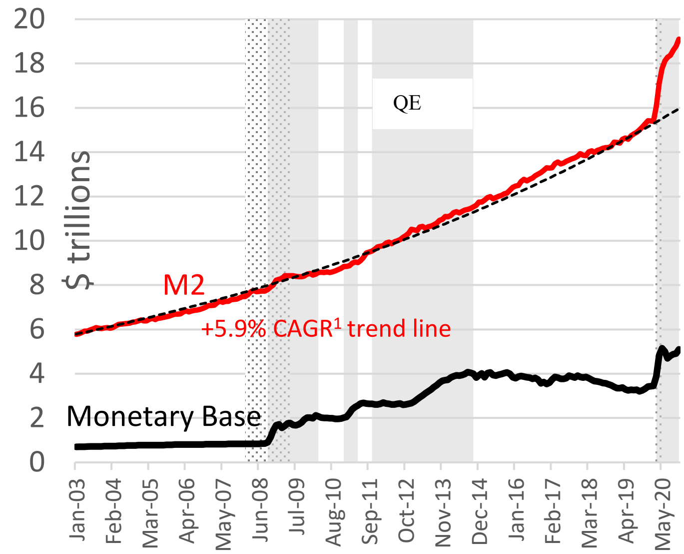
There are positive signs within the economy. The low interest rates we are experiencing are fueling existing home sales and new home starts. Federal Reserve Chairman Jerome Powell recently stated, "Be careful not to exit to early,"[2] which appears to suggest that the Feds will not be raising interest rates until they see clear and sustained signs of a market recovery.

Other positive news lies with the manufacturing sector. "The Institute for Supply Management's manufacturing index ticked lower in January, to 58.7 from 60.5 in December, but remained in growth mode. A reading above 50 indicates activity is expanding across the manufacturing sector, while below 50 signals contraction."[3]

The economy has demonstrated a great rebound from the March 2020 lows. A very interesting comment recently made by Fritz Meyer suggest the recent COVID stimulus packages from Congress in 2020 may have done more for the economy than the many years of Quantitative Easing (QE) and in a shorter amount of time as illustrated by the chart below.[4] As shown, the M2 Money Supply which consist of cash on hand, checking accounts, savings accounts and money markets shows a very strong uptick in May 2020. Could this be the ammo needed for such a fast recovery? If so, how much of this money remains to be spent in the economy as we get through this crisis?

As we see the light at the end of this COVID crisis, people and business may begin the delayed spending as optimism finds its way back into the economy. Any additional COVID stimulus or government infrastructure spending would likely be an additional jolt to our economy today. We can just hope that Washington will make wise decisions regarding the consequences of large national spending deficits and irrational national debt in the years and decades to come.

Figure 1. Federal Reserve Policy: Quantitative Easing, the Monetary Policy, and the Money Supply



Source: Federal Reserve, Statistical release H.3and H.6. M2 data through November 2020; monetary base data through November 2020. [1]CAGR= Compound Annual Growth Rate. (Graph provided by Fritz Meyer, Webinar Powerpoint, January 15, 2021)

What may lie over the horizon?

The trillions of U.S. dollars being spent on our COVID crisis is helping many people and business get through this crisis, but we must ask ourselves how this debt will be repaid. The total U.S. debt is in excess of $27 Trillion and growing and will likely be passed on to the generations following us.

Some supporters of non-constrained debt spending subscribe to the Modern Monetary Theory (MMT). "The defining feature of MMT — and what distinguishes it from more established, mainstream economic theories — is its insistence that, so long as a government's debt is denominated in its own currency, there is no upper limit on the state's monetary borrowing. In other words, public debt is irrelevant; a country's central bank can always avoid default by printing more money."[5]

1 Christopher Riggs, "Welcome to the Resurgent Economy: Aligning with Macro Themes & Asset Class Opportunities in 2021" Webcast, *Alphalytics Research*, (January 14, 2021).
2 Brian Cheung, "Fed Chair Powell: 'Be careful not to exit too early' on easy monetary policy," Yahoo.com, (January 14, 2021).
3 Harriet Torry, *"U.S. Manufacturing Continues Early in 2021*," WSJ.com (February 1, 2021).
4 Fritz Meyer, "Economic Update," Webinar, (January 14, 2021).
5 Jonathan Hartley, "The Weakness of Modern Monetary Theory," NationalAffairs.com, (Fall 2020).

The U.S. dollar denominated debt is still considered the safe debt of the world that investors flock to in times of uncertainty. The big question is how long will our debt be attractive to buyers?

The consequences of our long-term debt are yet to be determined, but many believe someone must pay the piper at some point. If not addressed in our lifetime, it will be unfortunate for our children to bear the burden.

Making a Case for Stocks

Stocks should be incorporated into most financial plans due to their long-term upward bias, but stocks do not rise in a straight line. An investor's risk tolerance, time horizon, and objectives for the investments should determine how much stocks and bonds should be in their portfolios.

More aggressive investors may have more stocks than bonds, and conversative investors may have more bonds than stocks, but both investors may need some of each.

Below are the average annual returns for various investments from 1926 to 2019:[6]

1926 to 2019 Historical Returns
11.9% Small Cap. Stocks
10.2% Large Cap. Stocks
5.5% Government Bonds
3.3% Treasury Bills
2.9% Inflation rate

It is important to note that past performance is no indication for future performance.

Also, there are a wide variety of stocks and bonds one should consider when constructing an investment portfolio.

Time horizon plays an important part in the investment portfolio allocation decision. If an investor may need the investments within a short timeframe, a more conservative portfolio of cash, money market, and short-term bonds may be more suitable.

The challenge for some conservative investors lies with the historical low interest rates we have today. The interest earned today on cash and bonds are much lower today that in the past causing conservative investors to seek out higher rates in riskier high-yield corporate bonds and dividend paying stocks.

Bonds play an important part in most portfolios to help offset the volatility of stocks and provide income. Bonds can also demonstrate volatility, especially with dropping or rising interest rates.

It is important to understand that bond values have an inverse relationship to movement of interest rates. Reflecting back to the high interest rate period in the 1980's and which drifted lower to where we are today, bonds in general appreciated in value as interest rates dropped. When interest rates eventually begin to rise, this will put downward pressure on bond values, especially longer-term bonds. The lower coupon percentage rate paid on the older bonds will become less valuable than the new higher coupon rates on the newly issues bonds and thereby reducing the value of the older bonds.

Stocks and Bonds both have a place in portfolios. It is important to have an overall investment allocation and strategy that aligns with your overall risk tolerance, time horizon, and wealth plan.

8 Key Financial Resolutions

It is important to check in with financial basics from time-to-time to remind ourselves of these key action items:

1. **Make a budget**. People are very surprised when they track where their money is being spent. These dollars provide for our necessities and wants. They can also be seeds of wealth when invested properly. Find ways to reduce some expenditures and plant more seeds of wealth in 2021.

2. **Establish an emergency fund.** Nearly 30% of Americans don't have savings for an emergency.[7] 2020 reminded us all of the importance of having sufficient access to emergency funds.

6 Ibbotson® SSBI® Stocks, Bonds, Bills, and Inflation 1926-2019, www.nylinvestments.com/polos/NYLIM_Chart_Ibbotson_SBBI_2019.pdf
7 Amanda Dixon, *"A growing percentage of Americans have no emergency savings whatsoever,"* Bankrate.com, (July 1, 2019).

Start saving a small percentage of your pay into savings. An ideal amount to have may be 3-6 months depending on your personal situation and access to other funds.

3. **Start or increase saving for retirement.** Maybe you think you cannot afford it. Review this from another angle.

   When an unexpected bill comes in, we always seem to find a way to pay for it. If your car breaks down, you know you will need to get it repaired. Look at retirement as your car that needs to be fixed.

   One easy way is to sign up for automatic deposits into your 401k or IRA. Do you want to save 10% of your income? If that goal seems out of reach, then take the 1% challenge. Start where you can with baby steps—two or three percent of income could be your starting point. Then, over time commit to increasing your contributions at least 1% over the next quarter or other period-of-time. It may easier to get to where you need to be with this strategy.

   Windfalls or pay raises may also allow for increased contributions.

4. **Pay down and pay off high-interest consumer debt.** You now have a budget, but debt continues to weigh on you like an anchor around your neck. We know the feeling.

   If someone offered you a guaranteed 18% return on an investment, you would find the money to invest. If you are paying 18% on a credit card, you could save (earn) 18% by paying off the credit card.

   Put away your credit cards until they are paid off. Pay more than the minimum balance and focus on high-cost debt first. When one card is paid off, put that payment towards your next highest interest rate loan and attack that one.

   When you've paid off a loan, reward yourself. Simple rewards are excellent incentives that keep you on track to the top of your summit.

5. **Keep debt reasonable**. Keep monthly outflows for your home below 28% of your pretax income and your total monthly debt payments (including credit card, mortgage, auto, and student loans) below 35% of your pretax income. These principles may help keep you on sound financial footing.

6. **Contribute to a cause near and dear to your heart.** Consider incorporating regular financial gifts to your favorite charity or charities. Can you set up an automatic draft? If so, even a few dollars each month means you will be making a difference. You may also choose to volunteer your time.

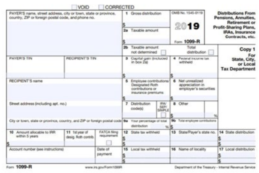
7. **Get your affairs in order**. Finish setting up a will or trust, update your beneficiaries, update life insurance, and consider a living will. A living will reflects your preferences to close family or friends regarding end-of-life medical treatment. Also, consider a durable power of attorney, which allows someone to make health-care decisions for you if you are incapable of doing it yourself.

8. **Have an overall plan.** Whether you are in the wealth accumulation stage or wealth distribution stage, you need a well thought out plan to help you achieve your goals tax-efficiently, while working to mitigate risk.

The eight resolutions are simply guidelines and suggestions. Does it seem overwhelming? Then focus on one or two. Or, grab hold of the ones that apply to you and tackle one per month.

As we always remind you, we are here to assist you, encourage you and point you in the right direction. If you have questions, please call or email us.

Tax Preparation & Planning



Reminder: If you transferred a brokerage or managed account from another custodian to Kestra/NFS, LLC in 2020, a 1099 from each institution will be sent.

2020 1099 Mailing Deadlines:

1099 Misc. - **January 31st**

1099 DIV, INT, OID, B - **February 15th***

* The IRS can grant firms a 30-day extension to March 15th

2020 IRA (Traditional and Roth) contributions can be made up until your tax filing deadline.

Tax Outlook for 2021? With President Biden in the White House, we may see some tax law changes either this year or next. The Supreme Court ruled in the past that Congress reserves the right to make tax law changes retroactive to the first day of the current year. Currently, Washington is addressing the more serious COVID issues, so addressing taxes may be put off until next year. If these changes do come next year, then 2021 may be the year to accelerate capital gains and losses.

With the uncertainty of tax rates for 2021, those considering Roth Conversions may want to wait until later in the year to confirm tax rates as well as estimating their taxable income and marginal income tax brackets before doing Roth Conversions.

Below are some of the potential tax law changes we could see under President Biden:

- Remove the 0%, 15%, and 20% preferred rates for long-term capital gains and dividends for taxpayers with income of over $1 million.
- Increase the maximum individual tax rates from 37% to 39.6%
- Cap itemized deductions at 28% for high income taxpayers.
- Expand Social Security taxes on those with wages of over $400,000 with a donut hole. The first $142,800 of will be taxed, as before, with none between this amount and $400,000. The Social Security tax is activated again at $400,000.
- Repeal the TCJA (Tax Cuts and Jobs Act of 2017) under President Trump. This may include the elimination of $10,000 cap on the itemized deductions for local and state taxes as well as many other changes.
- Increase taxes on corporations from 21% to 28% (or 35% if the TCJA is repealed).[8]

It remains to be seen what Congress will pass, but we will keep everyone posted as soon as we know.

Wealth Planning Webinars

Point of View -- the Economy, Markets, and Investment Strategy

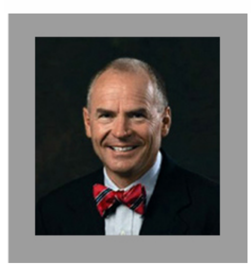
Nationally known economist Fritz Meyer will present his thoughts on the current data in the economy.

Thursday, March 11, 2021, 6:00-7:00pm

A replay will be sent to those who RSVP!

LIMITED REGISTRATIONS. RSVP TODAY at www.SilverStarWealth.com under Upcoming Events.

"Forecasts are a dime-a-dozen. Talk to 20 Wall Street gurus and you'll get 20 different spins." Join Fritz Meyer's presentation to see clear, concise pictures focused on key data.



Fritz Meyer is an independent economist and market analyst and former Invesco primary economic and markets analyst. He has been a frequent guest on CNBC, Bloomberg TV and Fox Business Network and has often been quoted in business publications. Mr. Meyer most recently spent 15 years with Invesco and his investment career spans the last 35 years. He has managed large-cap equity mutual

8 Kim Kamin, David Colton, Les Carter, "*A Guide to Potential Tax Law Changes Under Biden*," WealthMangement.com, (January 12, 2021).

funds and multi-cap equity and fixed-income client portfolios.
Fritz earned his A.B. degree from Dartmouth College with a distinction in economics and his Master of Business Administration degree from the Amos Tuck School at Dartmouth College.

Humor Matters

“The only difference between **death and taxes** is that **death** doesn't get worse every time Congress meets.”
--Will Rogers

Irving was boasting to a fellow fisherman about a 20-pound salmon he had caught. “Twenty pounds, huh?” remarket the other guy, with skepticism. “Were there any witnesses?”
“Of Course,” said Irving. “Otherwise, it would have weighed 30 pounds.”
--Readers Digest

Please send us your favorite joke and if we use it, we will send you a gift certificate to your favorite restaurant.

Words of Wisdom

“Debt is an arrogant assumption of the future.”
--Mary Hunt

Please call us if you have any questions, would like to review your portfolio, update your financial plan, or if we can help you in any other way.

If you would like to receive your Kestra Brokerage account statements via email and avoid the new quarterly mailing fee, please email Kasey@SilverStarWealth.com or call, and she can help make that happen very easily for you.

We are honored and humbled for the opportunity to serve as your financial advisor, and we want to wish you a happy, safe, and prosperous New Year!

The SilverStar Team

Register for Webinar with REPLAY

Point of View -- the Economy, Markets, and Investment Strategy.

Presented by economist, Fritz Meyer