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Here is our newsletter for the 1st Quarter of 2021

Market Update

In summary, equities and commodities were up and bonds were down in the 1st quarter. U.S. small cap stocks had the highest returns, along with commodities. Foreign and emerging market equities had more moderate returns. Gold lost almost 11%.

With the rise in interest rates, intermediate-term bonds in the U.S. sank 3.4%. Cash is still yielding nothing. More on this rise in rates will be discussed later in this newsletter.

Over the last year, all asset classes had big gains from the market lows of last March. Those assets which dropped more earlier in 2020 gained the most in the rebound.

Asset Class Returns- Ending 3/31/21

Asset Class	1st Qtr	One Year
US Large Cap Stock	6.2	56.3
US Small Cap Stock	12.7	94.7
Foreign -Developed Mkts Stock	3.5	44.8
Emerging Mkts Stock	3.6	58.3
US Intermediate-Term Bond	-3.4	4.2
Emerging Markets Bond	-5.0	23.7
High Yield Bond	0.6	20.7
Inflation-Protected Bond (TIPS)	-1.7	7.3
Cash	0.0	0.1
US Real Estate	8.7	36.5
Commodities	13.0	46.6
Gold	-10.7	4.7

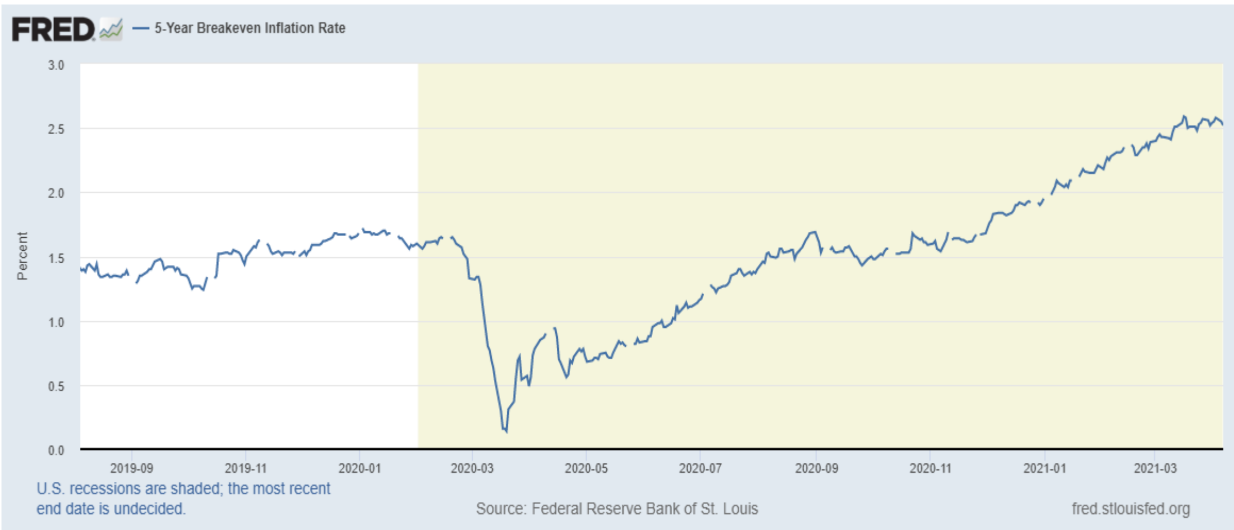
Even More Aggressive Stimulus from the Feds

Not to be outdone by the previous administration, the Biden administration's first priority was to pass the American Rescue Plan, which includes $1.9 Trillion in additional spending and tax cuts. This was signed into law last month and will impact all in different ways. However, most are temporary. Here are the highlights.

- A 3rd round of stimulus checks are going out, most already delivered. These will be $1,400 per person, including all dependents and minors, for those with incomes less than $75,000 per year for all individuals and $150,000 per year for couples filing jointly.
- Higher child tax credit of $3,000 per year per child, with a lowering of the age qualification to include all those under 18.
- Higher subsidies for Obamacare health insurance plans. This can even lower the health insurance cost of moderate income families by limiting the premium cost to no more than 8.5% of your income. Think about this option if you are an early retiree not qualified for Medicare or for your kids.
- Anyone who lost employer provided health insurance because of layoff or reduction in hours anytime from 3-1-20 thru 9-30-21 can get insurance at <u>no</u> cost for up to 6 months under the COBRA insurance program. The employer gets a tax credit to pay for the cost.

Impacts from Government Stimulus
With the extraordinary stimulus from Congress and the Federal Reserve and the economic rebound post the coronavirus shutdowns, many are turning their attention to what happens to inflation, interest rates and the markets going forward.

The chart below from the Federal Reserve shows a measure of expected inflation on average over the next 5 years (annualized) by comparing Treasury and TIP's yields (5 Year Breakeven Inflation Rate). After falling early last year the rate has risen to 2.5% and is the highest since early 2008.



The Federal Reserve has indicated that they expect inflation to pick up this year, but only temporarily, signaling that they will not work to raise interest rates anytime soon. They are also continuing to add to their balance sheet by purchasing Treasury bonds, hoping to keep interest rates from rising too fast. While the Feds may sound confident, many are considering the possibility the economy may overheat, especially with the prospect of continued government spending increases from the proposed infrastructure legislation.

So what does all of this mean?

- Higher inflation and interest rates. This will depress returns in the short-term for bonds but increase them in the longer run. Higher interest rates are good as the extremely low rates of the last few years, while helping borrowers, hurts investors, pension funds and the economy as a whole, assuming rates don't raise to high too fast.
- Higher taxes. Proposals are already on the table. Looks like corporate and high-income individuals will bear most of the brunt.
- For the markets, higher inflation is usually a good environment for equities and commodities. For bonds, prices will drop as rates rise, more so for long-dated bonds.

Our Portfolios
After many years of growth beating value we switched our U.S. large cap stock funds to a more value centered fund in tax-deferred accounts. We also sold out of our position in Gold in January and February and replaced is with our commodity fund EIPCX, which invests in a diversified basket of metals, energy and agricultural commodities. For bonds, we will continue to hold some short-term bonds, cash and Inflation-adjusted Treasury Bonds (TIPS) to minimize the impact of rising rates.

Managing Your Risks-Insurance and More
As a fee-only advisor, I do not sell any financial products, including insurance. We can, however, provide advice regarding your insurance needs. We can also refer you to reputable insurance brokers and agents who will be able to provide both insurance products and detailed recommendations regarding coverage. The following discusses some of the issues we help our clients with.

<u>1st Step-Define Your Risks</u>. As part of a comprehensive financial plan we can help clients identify their risks for loss of property, life, disability or income. We can then determine if they have the financial resources to cover these risks, or self-insure. A life insurance needs analysis is one example where we help the client determine the need for insurance and recommend the type and quantity of coverage. By analyzing the survivor's income and expenses we can illustrate how much insurance may be appropriate.

<u>Property and Liability Insurance</u>. We have been able to show clients how to reduce their insurance premiums and plug holes in their coverage. For example, a family with one house, two cars and a motor home saved about $1,800 per year on their premiums through our review of their coverage with an independent insurance agent. Another family with two houses, two cars and several SUVs saved about $1,300 per year on their premiums. We were even able to increase their liability coverage by adding an umbrella liability policy on top of their underlying coverage. The cost for this additional coverage has been increasing significantly over the last several years and it would be good to review.

High Value homeowner's insurance policies should be considered for high-end homes, homes with large acreage and second homes. These policies have higher levels of coverage, can cover usually excluded items such as land restoration and are good for insuring 2nd homes. These policies are more expensive but are worth considering for the right situation.

<u>Life Insurance</u>. Your need for life insurance changes over time as your kids and your assets grow up, so reviewing your coverage is important as your needs change. For cash value policies, these are extremely complicated and insurance sales people do a terrible job of explaining the details. Get help to evaluate new or existing coverage.

<u>Disability Insurance</u>. Your chance of being disabled is far greater than your chance of premature death. Statistics show that during your working years the odds are nearly 2 to 1 in favor of disability (90 days or longer). For a female, the odds increase to almost 3 to 1. In addition, a disability may be more of a financial hardship than untimely death since increased expenses

often accompany the loss of income. Disability insurance protects you against these risks by providing benefits when you are unable to earn a living because you are sick or injured.

As part of a financial plan we help identify how much coverage, if any, is required.
Long-Term Care Insurance. This is probably the most difficult type of insurance to understand and make a decision about. John Ryan with Ryan Insurance in Denver has great information on his website at http://ryajohrya0c.qa.insurancewebsitebuilder.com/long_term_care/ . John works exclusively with fee-only NAPFA members like myself and specializes in long-term care, life and disability coverage. After we have done an analysis of your needs John can help us determine the best features and obtain quotes from numerous insurers.

Thanks for reading and let me know if you need anything.

Sincerely,

Stan Johnson
Comprehensive Financial Planning, LLC
Registered Investment Advisor
NAPFA Registered Financial Advisor