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QtrNotes

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Quotes

Investing is about predicting the future, and the future is inherently unpredictable. Therefore, the only way you can do better is to assess all the facts and truly know what you know and what you don't know. That's your probability edge.
Li Lu

Wall Street has a few prudent principles; the trouble is that they are always forgotten when they are most needed.
Benjamin Graham

Investing isn't about beating others at their game. It's about controlling yourself at your own game.
Jason Zweig

The irony of obsessive loss aversion is that our worst fears become realized in our attempts to manage them.
Daniel Crosby

Surplus wealth is a sacred trust which its possessor is bound to administer in his lifetime for the good of the community.
Andrew Carnegie

Economic Recovery and Inflation Considerations

For most out there, the US economy is booming again, although there are some pockets still groggy from the hard fall. Rising above either sentiment, the numbers are in and looking strong: the primary measure of US economic activity, Gross Domestic Product (GDP), has fully recovered and surpassed its prior highs. This is great news, and the US is not alone in this; official reports around the world are expecting global GDP to grow 6%, about double what it was during the pre-COVID years.

Optimists revel in data showing household incomes at new highs, both with and without government stimulus. Corporate profits are on the rise, the stock market is setting records again, and rising home prices are all feeding into huge increases in household net worth. It's almost too good to be true.

In the shadows, concerns of excessive risk are building based on such data as above-average unemployment, high debt levels, monumental government deficit spending, and inflation anxiety. On that last point, the pandemic and related shutdowns set up ripples of disturbance in supply chains around the globe. Demand for goods continued increasing while supply lagged. For example, supply disruptions in the computer chip industry have caused backlogs in products from cars and computers to household appliances. Similarly, lumber prices have skyrocketed, driving up housing costs: when most of the world shut down, construction never stopped.

The Federal Reserve and many economists believe the current inflation uptick we are experiencing will prove transitory – that is, not permanent. All are hopeful that the temporary supply and demand imbalances will resolve in due time.

Corporations are doing their best to adjust to the changing dynamics of inflation. As prices of components go up, so too have the prices of the products sold. But as more of the population

Index	*6/30/2021*	*YTD*
Dow Industrials	**34,502.51**	**12.7%**
S&P 500	**4,297.50**	**14.4%**
S&P Small-Cap	**1,374.84**	**22.9%**
MSCI EAFE	**2,304.92**	**7.3%**
Bloomberg US Bond	**2,351.66**	**-1.6%**
US Treas 10-yr yld	**1.4%**	

emerges from coronavirus lockdowns, pent-up demand is feeding consumer spending, and corporate revenues are increasing. Now analysts are predicting that corporate profits will be up more than 30% this year, and another 12% next year. Growing corporate profits at a time of rising inflation serves as a reminder of how stock ownership can help protect investor wealth against inflation.

If only it was that easy; but it's not. Too much inflation can be damaging, which is why policy makers are standing ready to act. The Fed is expected to maintain near-zero interest rates for now, and has been telling investors it would prefer to correct an overheating economy than to remove stimulus too early.

On fiscal policy, Congress is also walking a fine line with yet another stimulus package, this time a potential $1 trillion infrastructure bill. There's no question our infrastructure needs improving, but pumping even more money out there could cause inflationary effects as well.

We don't know what will ultimately pass, but we do know that the government will be running deficits for years to come. For now, both monetary and fiscal policy remain stimulative of the economy and asset prices, which is capitalism's primary objective.

TINA: There Is No Alternative

From a traditional viewpoint, it's easy to argue that assets everywhere look very expensive.

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The Schwab Mobile App

For once, we have a positive security recommendation, instead of the usual spate of warnings! With ever more financial activity moving online, clients not yet familiar with the Schwab Mobile app may want to download it and try it out.

The app supports secure check deposit and wire transfer approval; you can check balances and activity, and even access account statements and tax forms. Schwab offers two-factor or biometric authentication, and a gold-standard security guarantee.

We also encourage our clients to sign up for Schwab Alliance, a dedicated service for advisory clients. To enroll, call the Alliance team at (800) 515-2157, or sign up online at www.schwab.com. You will need to provide verifying personal information, including the eight-digit account number for one of your Schwab accounts.

Schwab Alliance access allows you to change your address after a move, update beneficiary information, request new checks, and download tax documents and statements. You can also sign up for Schwab's bill-paying service, which is free to account holders with checking.

Schwab Alliance access is specific to each individual client; you will have access to your own accounts and any joint or custodial accounts. Access to a spouse's accounts (and vice versa) will require them to authorize you.

There Is No Alternative

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Anecdotally, you can point to inflated sale prices happening around your neighborhood: homes, cars, boats, your neighbor's kitchen renovation. People are looking to improve the quality of life around them, splurging on these items. Pent-up demand, along with supply chain hiccups, causes price surges as consumers steam forward with their purchases.

So, what to do with your financial assets? Are these price surges also trickling up into stock and bond valuations? The short answer may be "yes." Companies have bounced back up from their COVID bottoms and are setting new high-water marks, thanks to recovering revenue and profits. In addition to high stock prices, bond prices are at record highs, due to sustained near-zero interest rates.

The combination of a recovering economy, record low interest rates, and trillions in government support has money swirling everywhere, looking for a decent return. If you invest in high-flying stocks, there may be a big correction. If you leverage up to buy expensive real estate, just remember what happened in 2008-09. Look for safety in bonds, and be warned for low returns or losses if rates rise dramatically. "There's always a reason not to invest" – but not investing doesn't save you from risk, either. If you leave your money in cash, you will lose out to inflation.

T.I.N.A., as in **T**here **I**s **N**o **A**lternative, remains in effect. Taking on investment risk is a necessity, to ensure your portfolio has the chance to grow. It needs to grow to surpass inflation. It needs to grow to meet your retirement goals. It needs to grow to keep you on track!

On the bright side, the Fed is still leading the charge, as they have been for the last fifteen if not twenty years. The primary lesson learned about the Fed is "Don't fight the Fed!" The Fed has continually injected resources into the economic system, which has generally led to increased business activity and asset prices. The Fed and the Treasury have the depth to keep the music going, indefinitely.

For much of the most recent cycle, when the music played, growth stocks did the most dancing. Many of the companies that have performed best in recent years do have solid and sustainable business models, but some are much more speculative. We suspect the recent fad for high-flying "Meme Stocks" is beginning to subside. Even if it goes on a little longer, it cannot last forever; fundamentals ultimately *do* matter.

Taking the lead next could be value stocks, which traditionally have been the backbone of quality investing for decades. Today is no different. Energy, industrials, materials, staples, health care, and financial services are core businesses with strong profits that are not easily replaced or replicated.

Steady growth with steady dividends is what makes steady money. You will want to have some defensive positions ready: bonds and cash are the necessary stabilizers. Patience in holding those will pay off when the next recession hits.

In the meantime, let's enjoy the good times. GDP is strong, jobs are being replenished, demand remains high, and I can't wait to jump into my neighbor's brand-new hot tub this weekend (while they're out of town!)

Senior Financial Abuse

Even before the pandemic, elder abuse was a growing concern within the care and service industries, including financial services. The Senior Safe Act was passed in 2018 to improve reporting and response to financial exploitation of vulnerable adults, with a particular focus on the elderly. Under its provisions, a wide array of resources is available.

Most states, including Florida, have a dedicated hotline and an online reporting platform. Florida's Adult Protective Services website, located at myflfamilies.com/service-programs/adult-protective-services, includes definitions, descriptions of warning signs, and information on how to proceed is you suspect abuse.

Social isolation leads to a much higher risk of all forms of abuse, and self-reporting can be challenging in the face of residual stigma. Firestone's duties to its clients include our commitment to serve as a sympathetic resource in the event of financial abuse. If you are concerned on your own behalf or with regards to an older relative, please do not hesitate to contact us.