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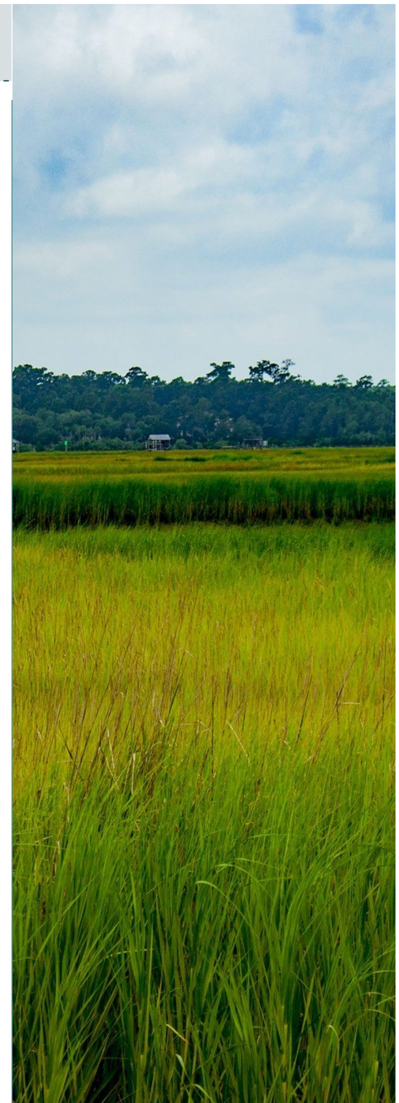
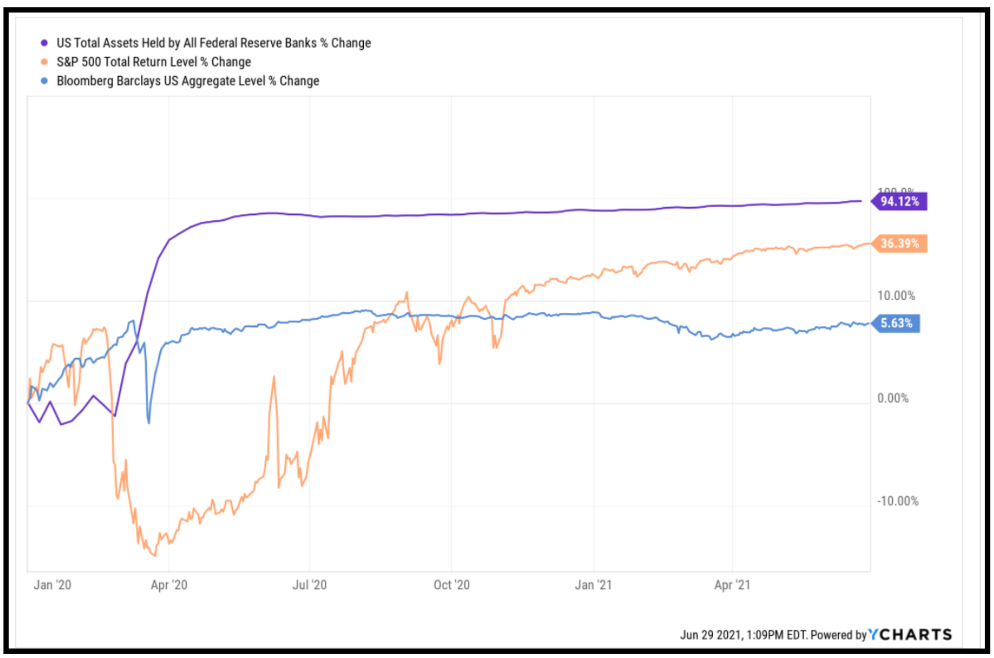


Pandemic Side Effect: Inflation

By Robert Sokolowski

One of the biggest lessons from the great financial crisis of 2008 for governments and central banks was that it is difficult to overestimate the scope of fiscal and monetary stimulus necessary to avert a sharp, prolonged recession during a severe event. Both the Federal Reserve and the Federal government's responses to the COVID-19 pandemic recession were reflective of this learned lesson- the scope was much larger, and the speed was much faster this time around. The Fed funds rate was quickly lowered to 0 – 0.25% in March 2020 and has remained there. The Fed undertook massive open market operations (quantitative easing or "QE"), purchasing about $4 Trillion in assets so far with no signs of stopping. Additionally, Congress has appropriated $4.5 Trillion in response to the pandemic.

The costs and benefits of these actions will be debated for years to come and our comments should not be interpreted as a blind endorsement of the steps taken by the federal government or the Federal Reserve. That being said, it's very clear these measures have had the desired directional effect. Fed policy provided a backstop for asset prices- stock and bond prices rebounded sharply in response to the Fed's quantitative easing:



Note– Log scale used

Concurrent with the work from home changes and lifestyle reassessment that the pandemic brought on, the Federal Reserve's low interest rate policy enabled a massive shift in housing patterns that led to a bull market in housing prices. Since 2013, home prices had risen yearly in a well-established channel and a predictable pattern- cresting in the summer buying season. Home prices broke out of this trend in June 2020 and have stayed well above the channel since then. Since February 2020, the median existing single family home price has risen 29% nationwide! Certain markets have seen even sharper upticks.

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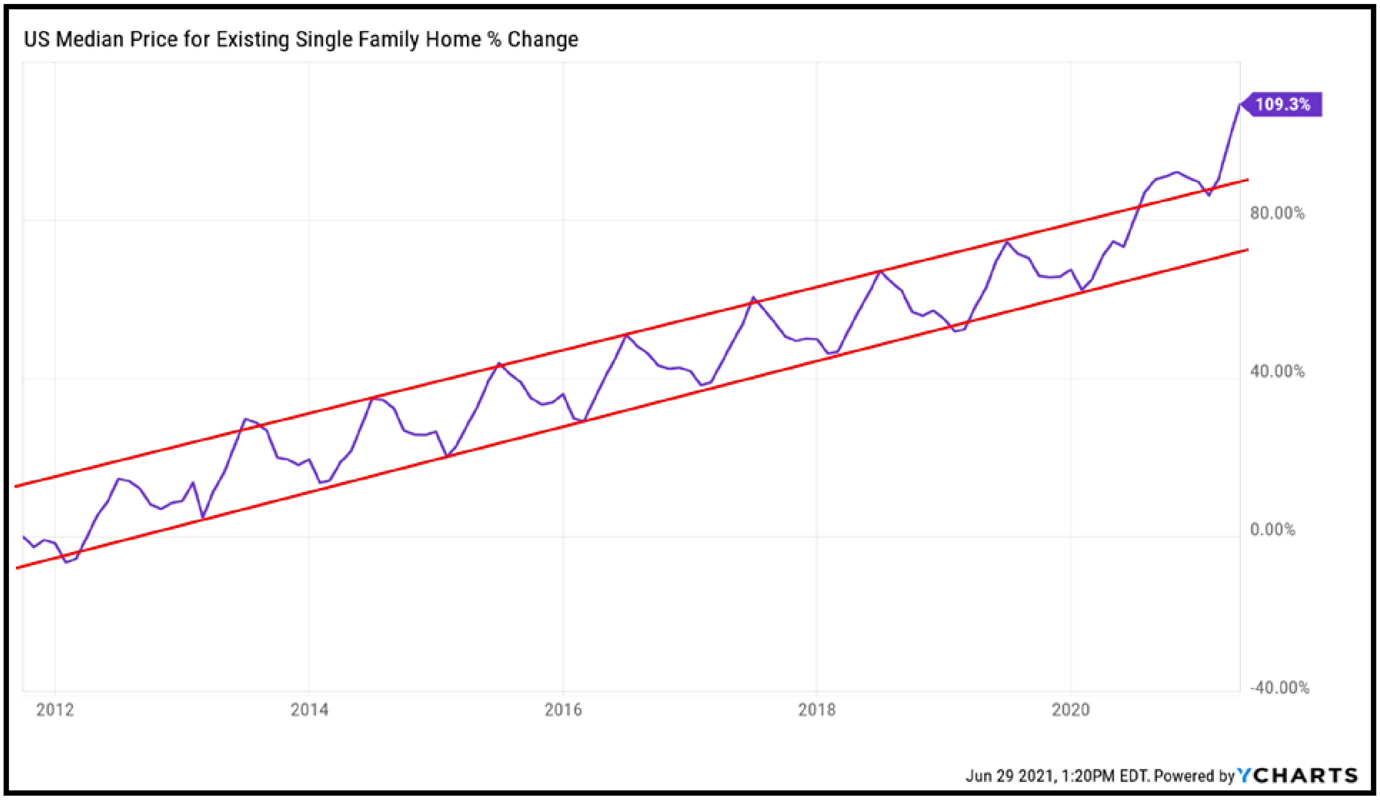
SPECIAL POINTS OF INTEREST

- Contact us if you would like to update your financial plan or schedule a portfolio review.
- We would love to help your family or friends! Please let us know if anyone in your circle could use financial planning or investment management.

Pandemic Side Effect: Inflation (continued from page 1)



Federal government spending, stimulus payments, and enhanced unemployment benefits aided those on the lower end of the income spectrum and those who became unemployed. On the high end of the income spectrum, rising asset prices (stocks, bonds, real estate) and an increased savings rate at the outset of the pandemic due to COVID lockdowns created a strong wealth effect; simply put, people will spend more as their assets increase in value.

All these factors have combined to create almost insatiable demand for goods and services. At the beginning of the pandemic this was most evident in physical goods- things like computers, bikes, and workout equipment were almost impossible to come by. Now that economies are reopening, demand has shifted back towards services, travel and leisure, and restaurants. These types of businesses are all reporting major issues procuring inventory, supplies, and employees.

The biggest question amongst many investors and the financial media over the past few months has been whether this unprecedented policy response and the demand it created will spark sustained inflation that exceeds expectations. May's inflation numbers came in quite high on an historical basis. However, much of this was due to the timing of numbers (the "base effect"); May 2020 represented essentially the bottom of the recession and prices. Furthermore, most of the increase in prices can be attributed to used cars and spending associated with the reopening- there were huge increases in spending at places like movie theaters, dining, casinos, and gyms.

On the flip side of the demand story is the supply story. Several factors this winter and spring combined to create some massive bottlenecks in the global supply chain. A drought in Taiwan disrupted semiconductor production this spring. Semiconductor production requires massive amounts of water and Taiwan produces about two-thirds of the world's chips. Several international ports have had big COVID outbreaks which has delayed shipping. The Suez Canal was blocked for six days after a container ship ran aground, restricting traffic on one of the busiest routes in the world. The colonial pipeline was hacked in a ransomware attack shutting down petroleum delivery to much of the east coast. Finally, the winter storm that struck Texas was hugely impactful to general trade in the region. While most of those issues have been resolved, supply chains are still experiencing backlogs due to shutdowns in the oil and chemicals businesses in Texas during the storm.

In reaction to all of this, the Fed has decided to take a "wait and see" approach. Specifically, they are looking for inflation to exceed their 2% target for a sustained period before raising interest rates. They have also repeatedly said that the inflation we are experiencing is likely to be transitory. It is fair to say that many investors wish the Fed was not so nonchalant regarding inflation. However, as evidenced in the bond market, many other investors are not predicting a runaway inflation scenario. The bond market has effectively priced-in about 2.5% inflation over the next several years- roughly in line with the long-run average.

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Pandemic Side Effect: Inflation (continued from page 1&2)

In our view the economy has been beset on all sides by one-off events that have disrupted both supply and demand and have forced prices higher. At this point we believe the most likely outcome is that the economy will work through these issues over time. Supporting our thesis, lumber and copper futures prices have both backed off significantly since they peaked in the beginning of May. To be sure, bottlenecks and supply disruptions still exist, especially in the shipping markets. It is also likely that we will see setbacks in the future, especially as localities experience COVID flare-ups. However, we think the most probable outcome is that economies can work through these disruptions without severe inflationary effects.

Starting at the beginning of 2021, we became less bullish on growth stocks, and we made several moves in the portfolios to get more neutral regarding value versus growth. We believe we have positioned portfolios to perform in a wide variety of scenarios. We have added several cyclical stocks that should benefit as the economy reopens. These companies also tend to trade at lower earnings multiples meaning they should hold up better if interest rates rise. We trimmed positions in growth names early in the year, but we still have significant exposure to technology. Technology should perform well if economic growth slows faster than expected. We also decreased our exposure to interest rate sensitive utility stocks and we remain slightly underweight on bonds. Finally, we have made sure that portfolios have adequate exposure to Treasury Inflation Protected Securities (TIPS), real estate and energy which will benefit if our thesis is incorrect and inflation overshoots expectations.

Benchmark Updates

We regularly review our benchmarks to ensure they have exposure to a diversified and relevant basket of securities and are not under or over allocated to any particular segment of the market. Our software provider has licenses allowing us to use performance data from a large, though not unlimited, list of securities and indices in our benchmarks meaning we also need to verify that we are utilizing the most appropriate of the available options. We recently gained access from our software provider to some additional indices and securities. As such, we have updated our benchmarks in two asset classes (Large Cap US Equities and Emerging Markets Debt) resulting in more relevant exposure to these segments of the market. The numbers shown on the Q2 reports reflect these updates. As always, do not hesitate to ask if you have any questions on these changes.

Market Index	Q2 Total Return	Year to Date Total Return	1 Year Total Return
S&P 500	7.3%	15.2%	40.1%
DJIA	4.5%	13.8%	36.7%
NASDAQ Comp	7.8%	12.9%	43.9%
MSCI EAFE	4.8%	9.2%	32.7%
Russell 2000	2.8%	17.5%	63.6%

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Annual Checkup Time: Beneficiary Review *By Pat Sokolowski*

Who gets your financial assets when you die? When you open a retirement account (such as a 401(k) or IRA), purchase life insurance or annuities, or sign up for a Health Savings Account, you are asked to name a beneficiary to receive the proceeds should you pass away. Many people fill out the forms and move on, over time forgetting who is named on which account. However, your family circumstances may change over the years. Life events like marriage, divorce, death and birth of children and grandchildren can greatly alter who you want to receive these assets. Additionally, some family members who are named as beneficiaries may develop substance abuse issues, have special needs, become estranged from the family, or have spendthrift tendencies and credit problems. In such cases beneficiary updates and alternate methods of inheritance (such as trusts) should be considered.

But I have a will…Your beneficiary designations take precedence over your will and pass to your beneficiaries by operation of law. So even if you keep your will and other estate-planning documents up to date, your best efforts can be undone if your retirement accounts go to a beneficiary named long ago (think your ex-husband!). As part of a periodic review of your finances, it is vitally important to review all your beneficiary designations to see if they need to be updated and to make sure that your final wishes are coordinated.

What about my taxable account? Although individual non-qualified accounts do not use a standard beneficiary form, assets can pass directly to beneficiaries by adding a transfer on death (TOD) designation. Banks and brokerages (like Schwab) offer this type of account registration at no charge. The transfer of assets is quick and easy, and probate is avoided. Unlike an outright gift, you retain full control over the account and the named beneficiary can be changed at any time before death. Joint tenants with survivorship (known as JTWROS) are commonly used for married couples to facilitate the transfer of assets– in the event of the death of one partner, the other receives all the assets without probating the account.

Can I name multiple beneficiaries? Yes! When splitting assets among several beneficiaries (such as your children), you have a choice of either a per capita or per stirpes distribution. With a <u>per capita</u> distribution, the share of any beneficiary that precedes you in death is shared equally among the remaining beneficiaries. Assume you have 3 children who each are listed as 1/3 beneficiaries. If one of your children dies in a per capita distribution, the asset will be split 50/50 between the remaining two. By contrast, in a <u>per stirpes</u> distribution, if a beneficiary precedes you in death, the benefits will pass on to that person's children in equal parts. Assume you have two children who are each 50% beneficiaries. If one of them dies in a per stirpes distribution, the decedent's share would pass to their children and the other remaining beneficiary would receive 50%.

If I do nothing what will happen? Normally, when a person who passes away does not specify their beneficiaries or if their beneficiaries have predeceased them, the account will become part of the estate and follow the distribution outlined in the will. If there is no will, then the assets will be distributed according to intestate succession laws. In general, this means the assets will pass to the surviving spouse and any children. However, this may not be the person or persons you wish to receive it. Unmarried partners, friends and charities would get nothing under an intestate scenario. Furthermore, failure to name beneficiaries and have the proper estate documents will delay the processing of the estate and add considerably to probate costs.

Bottom Line: Keeping your beneficiary designations current is an important part of your family's future well-being. We recommend keeping a list of your accounts that have beneficiary designations and attaching a copy to your will. Check your beneficiary designations annually to make sure they are what you intend them to be. Most importantly, when you get married, divorced, have children, or make significant life changes, you want to check and update your estate documents. We strongly recommend naming both primary and contingent beneficiaries. Contingent beneficiaries will inherit the assets if the primary beneficiaries predecease you- a strong consideration for the typical husband and wife who name each other. Your CERTIFIED FINANCIAL PLANNER™ should be able to help you understand and implement the best strategy to meet your objectives.