The
FINANCIAL UPDATE
DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

First Quarter 2021 NAPFA - Registered Financial Advisor (478) 474-7480

The Cost Of Not Having A Financial Plan Is Surging

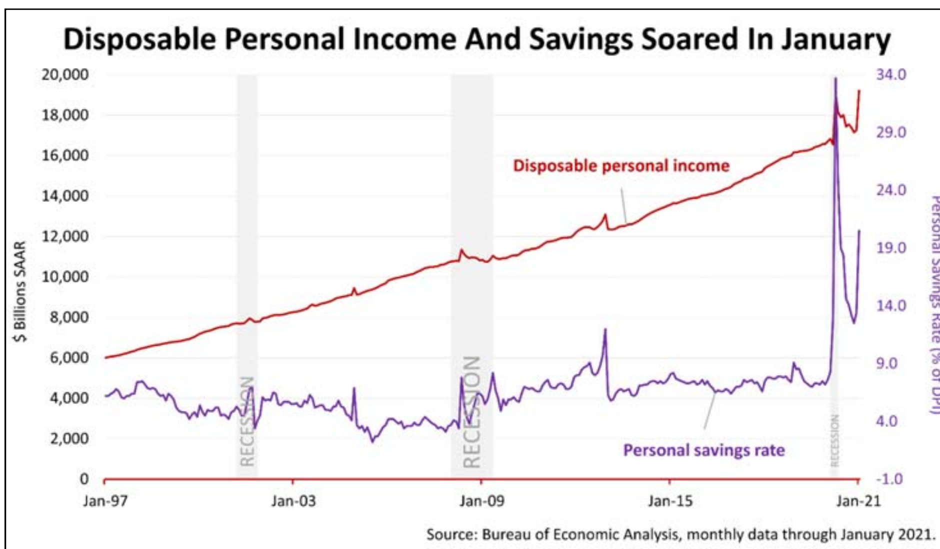
With the cloud of the Covid pandemic still hanging heavy across the nation, Americans are sitting on an unprecedented mountain of cash while income, estate and gift tax rates are changing. Financial planning in the current environment of accelerated change is suddenly much more important.

If ever there were a silver lining, it's that staying at home has enabled Americans to amass a cash reserve as never before. However, the speed of change has accelerated rapidly, driving up the cost of failing to update a personal financial plan. What's going on?

The pandemic has spawned federal payments to Americans at a level never seen before. Here's the latest snapshot of the unprecedented change in disposable income and savings under way, according to the latest data from the U. S. Bureau of Economic Analysis.

While the following chart only goes back to 1997, the dual surges in these two important factors driving growth of the economy are without precedent in modern U.S. history. The surges resulted from Covid relief cash payments made by the government in April and May 2020 and again in January 2021. Cash from the 2020 payments accumulated in savings accounts and was being spent down when January's Covid aid payments hit. The $1.9 trillion aid and stimulus package is going to cause another surge in disposable income and savings.

The fundamentals driving this economy are confounding and totally unexpected. In 2020 and early 2021, as the nation endured its worst public health crisis ever, stock prices repeatedly broke new all-time record-highs! The proximate cause of the stock price gains amid a pandemic was an explosion in savings held by



(Continued on page 4)

Counseling You On Financial Risks At Pivotal Moments

2020 was a terrible year, but stocks soared and 2020 was actually a great year for the Standard & Poor's 500 stock index!

2020 illustrated how investing is as unpredictable as the future, and it was a pivotal time when the advice of a professional could make all the difference in building a retirement portfolio or legacy.

At the outset of the Covid pandemic, so many investors bailed out after stock prices began to drop. Some investors dropped out after the S&P 500 lost -10%, and some sold off after their stock holdings dropped by 20% or 25% from their peak value. Ultimately, the bear market bottom of the Covid crisis came on March 23rd, 2020, when the S&P 500 lost -33.9% of its value.

At pivotal financial moments like this, having a professional advisor to call — a coach for individuals who are ready to give up when things look bleak — can be extremely valuable. Only by studying the history of economics and investments can you know enough to feel confident to advise a client what to do in uncertain times. Living through financial crises also adds an important perspective, as does professional training and continuing education.

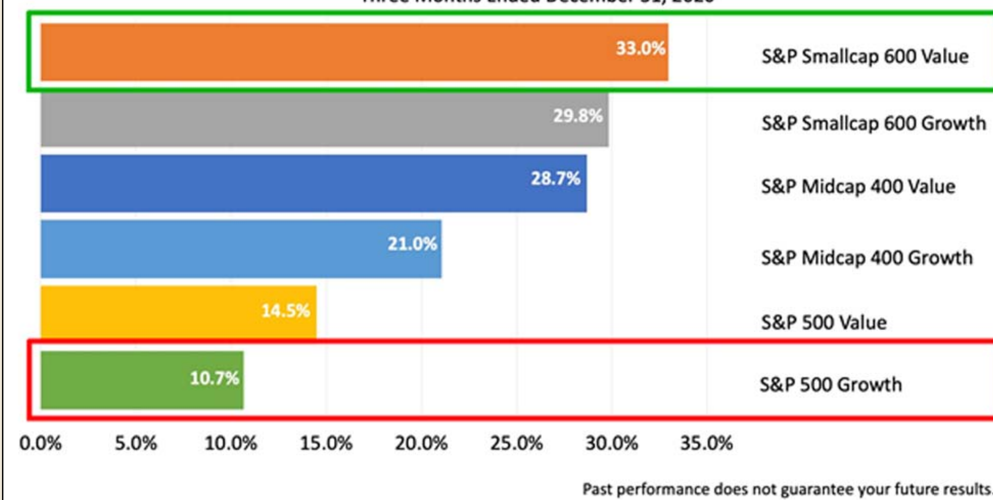
Sometimes, being an advisor is not about telling people what to do but helping people to decide what *not* to do.

Sincerely,
Day & Ennis, LLC

View Investment News Through A Historical Lens

Getting the news isn't so easy these days! You need to filter everything you see and hear. Political, environmental, and financial news – even sports! – must be viewed through a sophisticated lens.

A key to filtering news about the economy and investments is to view everything through the long lens of history. For example, can you spot the major shift in the U.S. stock market in these figures? If you noticed the S&P 500 Growth stocks lagging badly, good for you! For small-cap value stocks to outperform the large-cap S&P 500 growth companies marked a major shift in leadership! But you would only know that by looking at these numbers through a long-term lens.



Just a quarter earlier, large-cap growth stocks in the S&P 500 massively outperformed small- and mid-cap value stocks, and that has been the long-term trend. And, again, to know that, you'd have to examine the last five years of performance.

Financial news is rarely reported from the historical perspective of an investor building a sustainable retirement income stream. Count on us for that kind of focus and for financial news filtered through a lens reflecting history and investment experience. ●

An Investor Insurrection, The GameStop Incident Could Result In Jailtime For Its Leaders

Like lemmings going over a cliff, small investors a have been buying shares of GameStop and a few other stocks that hedge funds had bet against, causing a short squeeze that is captivating media attention.

Don't fall for it!

The financial fight is widely depicted in the media as a battle of small investors against giant Wall Street hedge funds, and everyone loves an underdog – but it's not that simple.

Although an army of small investors successfully united to sock Wall Street hedge funds with staggering losses estimated at more than $20 billion, they are alleged to have succeeded only by using illegal tactics and, of course, naive investors ultimately suffered huge losses.

The drama began after a group of individual investors came together on an online forum on Reddit, a social networking site controlled by the owners of Conde Nast, an ailing publishing giant. A group of users on its "WallStreetBets" forum bid up the stock price of GameStop to irrational valuations, along with some other out-of-favor companies.

Almost immediately, the U.S. Securities and Exchange Commission announced an investigation. Civil, criminal, and financial penalties could follow and some individuals that started the hype could go to jail.

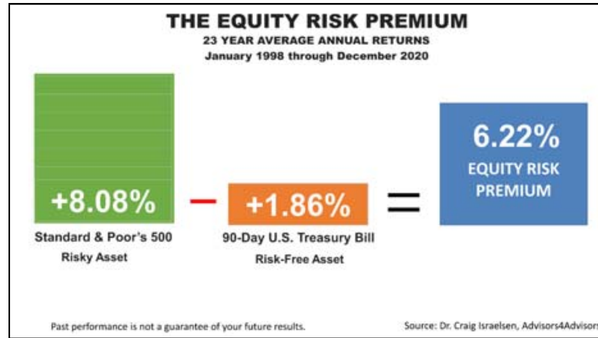
Moreover, once small investors were no longer willing to speculate on the absurdly priced stocks, the game stopped. Some investors were stuck with big losses.

In the real world of financial news that matters to sensible investors, the 60 economists surveyed in mid-February by *The Wall Street Journal* were forecasting a V-shaped recovery over the seven quarters ahead. While the GameStop story captured attention, don't fall for it. ●

Equity Risk Premium Grew Wider And More Important

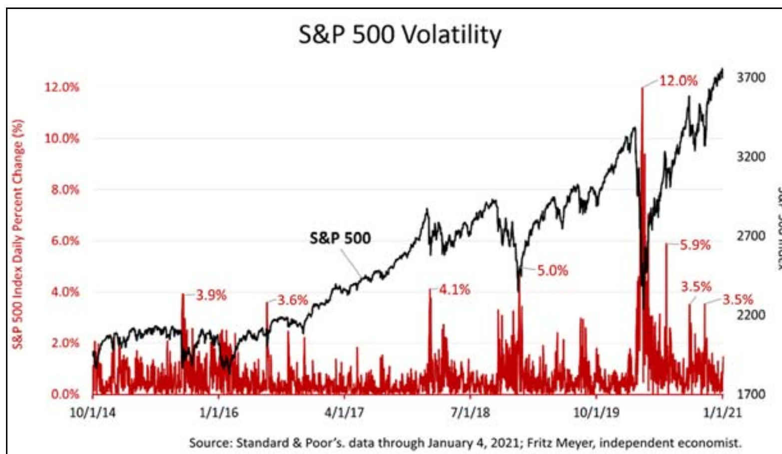
Modern portfolio theory (MPT) holds that investors get paid extra return for taking risk. The concept is simple but can be hard to implement without coaching and education, and it grew more important lately: Investors who take equity risk expect to earn extra return.

To quantify the risk premium of stocks – the amount you get paid for owning a risky asset, according to modern investment theory – here are the numbers: Over the 23 years ended December 31, 2020, the risk-free 90-day U.S. Treasury bill averaged an annual return of 1.86%, compared to the 8.08% annualized return on the Standard & Poor's (S&P 500) stock index. By subtracting the 1.86% return of the risk-free asset from the 8.08%, the resulting 6.22% annually earned on stocks over the boom-and-bust cycles since 1998 represents the equity risk premium.



To be clear, owning stocks through the tech bubble in 2000, the financial crisis in 2008 and 2009, and the Covid bear market rewarded investors with a premium of 622 basis points over what they would have earned by investing in a risk-free 90-day Treasury.

The equity risk premium flattened considerably in the last quarter, moving from 5.75% to 6.22%, as the return on stocks improved while the 90-day Treasury bill remained incredibly low. Low Treasury bill rates and the $900 million federal economic stimulus and relief aid enacted in December have created a mountain of cash, driving up stock prices.



This chart better illustrates the risky aspect of the equity risk premium. The red data series shows the daily changes in the stock market prices, as represented by the S&P 500. Big one-day drops of between -3% and -5% are not uncommon in recent months, and, earlier in 2020, stocks plunged -12% in a single-day! So, indeed, earning the equity-risk premium is hard and scary at times. Armed with these kinds of statistics, which show that big plunges do come frequently, may make it easier to withstand the uncertain times.

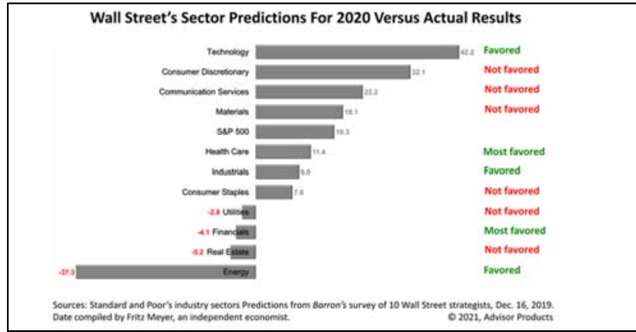
As always, the current outlook is fraught with fear. New Covid variants threaten the effectiveness of vaccines; rising inflation suddenly poses risk for the first time in years; and the economy has recovered only four million of 14 million jobs lost in the pandemic. The risk of a stock market plunge should be expected, but retirement investors – permanent investors who plan to own stocks for the rest of their lives – would be wise to view volatility as a friend. That's a different way of looking at the world, but it absolutely is valid.

Choosing to expose a portion of your portfolio to price volatility, also known as risk, enables you to earn a better return over the long run. You wouldn't earn the six-percentage-point equity risk premium in stocks if you weren't exposed to lots of volatility. It just goes with the territory. It's part of owning a risk asset.

With bonds out of favor, the inflation rate remaining low despite persistent signs of stronger than expected economic growth, and consumers flush with cash payments from the federal American Rescue Plan, 2021 could be a good year for the equity risk premium once again. As always, however, you'll have to earn it by putting up with some risk! ●

An Important Investment Idea To Remember In 2021

Just before the beginning of every year, 10 top Wall Street investment strategists are asked by *Barron's*, the century-old financial magazine, to predict which industry sectors will outperform and underperform the Standard & Poor's 500 stock index for the year ahead.



Fritz Meyer, an independent economist, whose content is licensed by this firm, has tracked the results of Wall Street's predictions in Barron's every year since 2007, based on the *Barron's* survey of Wall Street's top strategists. The accompanying infographics show Wall Street's inconsistent results for the 12 months ended Dec. 31, 2020.

In Dec. 2019, nine of the 10 strategists said financials would outperform. Sounds like a sure thing? Nope! Financial stocks lost 4% in 2020. That's a major miss, considering the S&P 500 – which is comprised of the 10 industry sectors, shot up by 16.3% in 2020.

Similarly, stocks benefiting from increased discretionary spending by consumers were picked to outperform the S&P 500 by three strategists, while four predicted they would underperform. Although consumer discretionary was panned by more strategists than those who favored it, it was the second-best performing sector of 2020, with a spectacular 32.1% gain.

Wall Street's Sector Predictions For 2020 Versus Actual Results

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Communications Services	Utilities	REITs
RBC Capital Markets	-			+		+		-	-	+	
Yardeni Research		-	+	+	+					-	
T. Rowe Price	-			+	+						
Nuveen				+	+	-		-			
State Street	-			+	+		+			-	-
J. P. Morgan		-	+		+	+		+	+	-	-
Citi	+	-	+	+	+	+	+		-	-	
Morgan Stanley	-	+		+			-			+	
Blackrock	+		-	+	+		+	-			+
BofA Securities	+	-		+		+		-		+	-
Net (+/-)	-1	-3	+2	+9	+7	+3	+2	-3	-1	-1	-2
Actual 2020	+32%	+8%	-37%	-4%	+11%	+9%	+42%	+18%	+22%	-3%	-5%

Sources: Standard and Poor's industry sectors Predictions from *Barron's* survey of 10 Wall Street strategists, Dec. 16, 2019.
Date compiled by Fritz Meyer, an independent economist. © 2021, Advisor Products

Technology stocks, a perpetual favorite with Wall Street, were a good pick for 2020, as was health care. However, another favored sector, energy, lost a stinging -37.3% in 2020.

Based on the data compiled annually since 2007 by Fritz Meyer (an independent economist widely praised by independent financial professionals for many years), Wall Street's best minds are shown to be chronically inconsistent in predicting which industry stock sectors will be the best or worst performing during a particular calendar year.

An important investment idea to remember in 2021 is this: Strategic investing is not preoccupied with predicting what happens tomorrow or in the next 12 months.

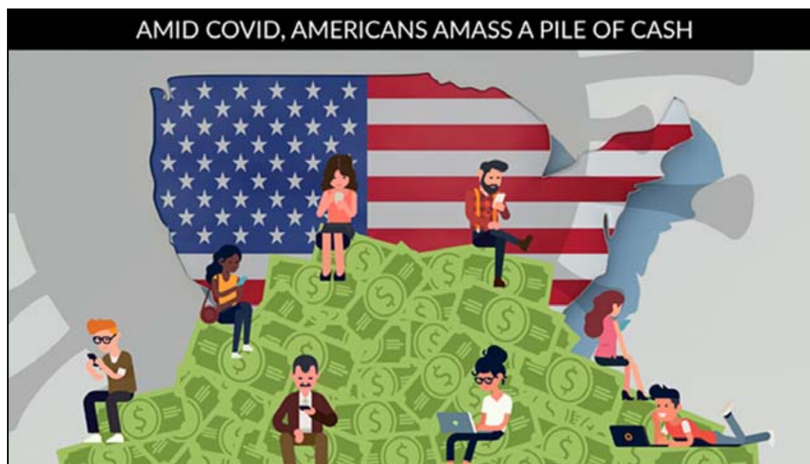
Wall Street pundit's predictions make great magazine covers but have nothing to do with investing strategically over the long run. ●

Cost Of Not Having A Financial Plan

(Continued from page 1)

Americans, financed by a series of cash payments from the Government.

With interest rates low and the Fed reiterating in March that it does not plan to raise rates for the foreseeable future, bonds are not an attractive investment. So, consumers sitting on this mountain of cash that has been mounting for many months now may spend it or invest it for the long run. Both outcomes would be good for asset prices on stocks and housing.



Central bankers and economists will be debating the long-term effects of the growing influence of government in the U.S. economy and the risk it poses, but the financial outlook for now is unexpectedly bright, even as the dark cloud of the pandemic casts a long shadow over the nation. Financial assets are being revalued, as the relative value of stocks versus bonds has changed.

Another round of legislation that will hike taxes further is expected to be adopted after the economy has recovered but before the end of 2021.

When the pace of change in the world was slower, the cost of not having a strategic financial plan was not so dear. This is not the time to sit on your hands. This is the time to act. ●

John R. Day CPA/PFS **Bill Ennis CPA/PFS** **Stephanie Hall CPA CFP®** **Matt Heller MBA CFP®**
Macon, Ga (478) 474-7480 **Blairsville, Ga (706) 400-5763** **www.dayandennis.com**

Articles are written by a journalist hired by Day & Ennis, LLC and are general infomation not intended as advice to individuals.

©2021 API