FINANCIAL SYNERGIES®
WEALTH ADVISORS

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★ Quarterly ★ Newsletter

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Successful Investors

MIKE BOOKER, CFP®,CHFC®,CFS®
SHAREHOLDER, FINANCIAL ADVISOR

As they say, we live in interesting times. Last year, of course, we investors rode the wildest roller coaster imaginable. Markets dropped like a stone in the first part of 2020 when COVID hit and recovered just as dramatically later in the year as the economy began to improve. Businesses began to open back up, folks began to buy things again, and generally feel better about the direction things were going and the improving news of the economy.

As I write this, I know clients are feeling better about their economic future because I've gone from discussions about keeping a long-term investment outlook when the market swooned in early 2020 to clients now asking if their portfolio mix is aggressive enough. This is human nature, and it is always, indeed critical, to reassess your portfolio from time to time to assure that it reflects your current life goals and objectives.

With the two such opposite markets, starting with the precipitous drop of over 30% in a few short weeks in March/April of 2020 and the dramatic recovery that followed, happening in such compressed period, I thought this would be a great time to review some investment policies that not only sustained us through this whipsaw of a market period, but have also gotten us to this point we find ourselves at. Here are the policies you applied so beautifully over the last 18 months:

You had a plan and you stuck with it. We wrote your investment plan together based on your life goals, investment goals, and objectives. It would have been so easy in March of last year, with your investment account dropping so quicky and so deeply, to forget about your plan and bail. Easy to panic and take your eye off the ball. Great investors do not panic. Great investors stay in touch with their plan and, in crunch time, they remind themselves they have a plan, and they will stick with it. As they say, "if you fail to plan, you plan to fail". You had a plan and, as an investor, you did not fail. You soared. This is what a successful investor does.

You tuned out the noise. Oh my gosh, was there ever a lot of noise! To be fair, all of us had a tremendous amount on our plates. A swooning economy coupled with massive uncertainty about not just our investments, but our loved ones, our very lives. And, as always, the media was reporting to us just how dire things were. And things were dire. But you toughed it out. You coped with it. Your mettle was tested, and you made it because you didn't let the noise overwhelm you. You managed to keep a positive attitude and hope for better days. This is what a successful investor does.

You had knowledge and belief. Over the past 18 months, you understood that markets go up and they go down and that they cannot be predicted, therefore they cannot be timed. You knew that fear destroys even the best of investment plans, and you kept your fear in check during those very dark hours of stock market decline. Ultimately, you believed in a combination of things that got you through the last 18 months, and to this point, as an investor. That is what a successful investor does.

As I mentioned, we live in interesting times. This is for certain: we will all be tested with future market downturns, our accounts temporarily dropping in value and the media there to remind us how bad things are again. This the natural way of things, it seems. But you will get through it. You know why? Because you are a successful investor and that is what a successful investor does.

CONGRATULATIONS, MARIE!

We are thrilled to announce that Marie and her husband Nick welcomed their newborn son, Robert Randall "Rand" Schmoyer, on the morning of Monday, May 24th at 8:07am - just in time for the market opening! Congratulations! (This gorgeous photo was taken by David Wanja's wife, Tiffany, owner of Tiffany Daniel Photography.)

Diversification is Your Friend

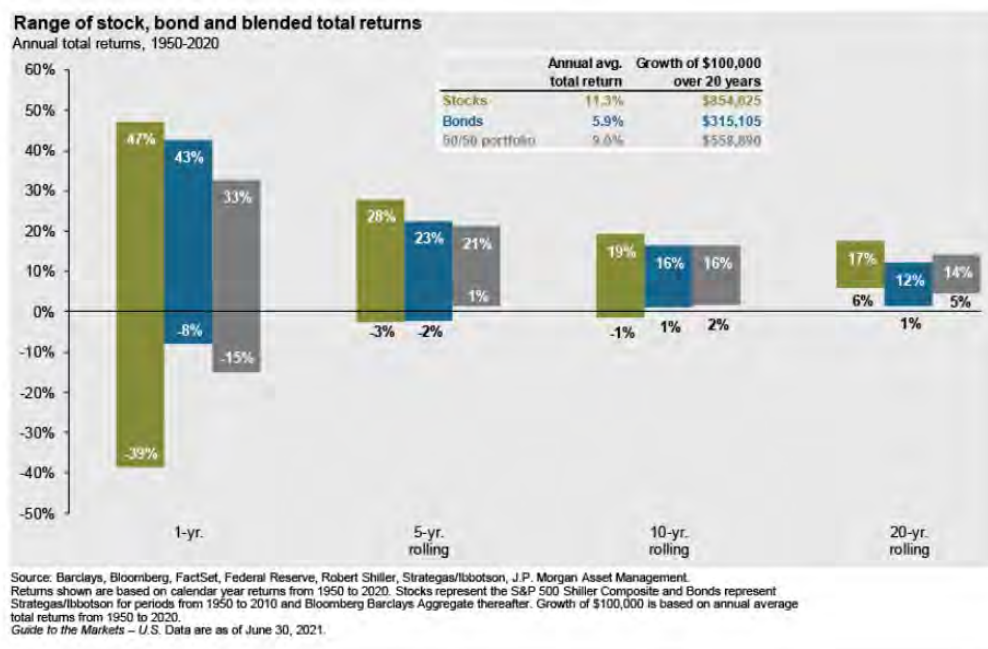
WILL GOODSON, CFP® | FINANCIAL ADVISOR

You have heard us say it time and again. One of the keys to long-term investing success is (cue the drum roll) … *diversification!*

There is a mountain of empirical data that supports using a diversified portfolio. The tough part is knowing that at any point, certain asset classes – or investment categories – are going to do well while others struggle. There is nothing we want more than for each piece of the portfolio to do well all the time. Unfortunately, that is just not the way things work.

I like to say diversified portfolios are like horse races. Some horses are viewed as the strongest runners (think U.S. large-cap stocks) while others may be slower out of the gate (bonds). However, it is difficult to know which will be in the lead, and which will be bringing up the rear at any given time. And just like with a horse race, there have been many times where the least likely asset class ends up being the "winner" in any given year.

But diversification alone is not the only key to this success. The other component is time. Markets are volatile, especially in the short term. However, that volatility is much more muted when viewed over longer time horizons. This chart shows the range of returns for stocks, bonds, and a 50% stock / 50% bond allocation over 1-, 5-, 10-, & 20-year rolling periods between 1950 – 2020. This 70-year period covers significant market events like double-digit inflation in the late 1970's, the Great Recession, and the Covid-19 shock.



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2020. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2020.
Guide to the Markets – U.S. Data are as of June 30, 2021.

The range of outcomes for the one year time periods are the most dramatic, especially for stocks. However, that volatility diminishes considerably over longer time horizons. The range of high & low returns for each for the 20-year rolling period is nearly identical. Over that 70-year period, the average annual return for stocks was just over 11% compared to approximately 9% for a 50/50 allocation.

Over the long term, being diversified can not only provide respectable returns but also helps smooth out the ride. This is most valuable when we go through difficult times like last year with Covid-19. It is not easy when we go through these challenging events, but we have seen that a broad mix of investments can weather the storm given enough time. That is why it is important to remember… diversification is your friend.

5 Things to Watch in the Second Half of 2021

MIKE MINTER, CFP®, CFS® | SHAREHOLDER, PORTFOLIO MANAGER

This has been an historic year for the economy and stock market. Economic activity is recovering at a once-in-a-lifetime pace as businesses expand and consumers spend. Financial markets are grinding higher with many major indices generating double-digit returns year-to-date, despite shifts in sector leadership. Inflation, which has been subdued for decades, is heating up. The pandemic rages on in parts of the world but signs of recovery are spreading too. What can long-term investors learn from the past several months as they prepare for the second half of the year?

If the best guidance for long-term investors last year was to focus on the light at the end of the tunnel, today the economy has already cleared the tunnel. In fact, it's likely that, in the second quarter, U.S. GDP broke through previous peaks reached in 2019. Many economic indicators, from manufacturing PMIs to retail spending, are at levels not seen in a generation.

This is even more true of the stock market which has been anticipating a full recovery since last year. S&P 500 earnings-per-share have returned to pre-pandemic peaks and are expected to grow at a breakneck pace over the next year. While valuations have been stretched to almost dot-com era levels, growing earnings could continue to keep the bull market healthy. Rising interest rates and commodity prices, while tricky for bonds and inflation, have helped a variety of sectors including financials, energy, and materials. This adds to gains (and volatility) in areas such as technology and communication services.

While the comparison to pre-pandemic levels is natural, the market is already looking further down the road. Consensus expectations are that the economy will hit a new gear as the cycle continues. The pent-up demand in spending on both goods and services could be met by a further ramp up in new hiring activity by businesses large and small. Today, there are as many job openings in the U.S. as there are unemployed individuals.

One of the biggest investor concerns could continue to be inflation as new data periodically emerges. By some measures such as the core consumer price index, inflation is already the highest in three decades. And while price increases for consumers this year have been driven by the recovery and supply/demand disruptions, the Fed continues to keep monetary policy loose. What's more, the government continues to increase spending, adding to the over $5 trillion in pandemic relief with new economic and infrastructure bills.

Naturally, it's these concerns and others that will occupy investors' minds during the next phase of the business cycle. While the recession and recovery have been unusual by historical standards, diversified portfolios can do well, even with the uncertainty of inflation and rising interest rates. Below are five insights that can help keep these questions and concerns in perspective.

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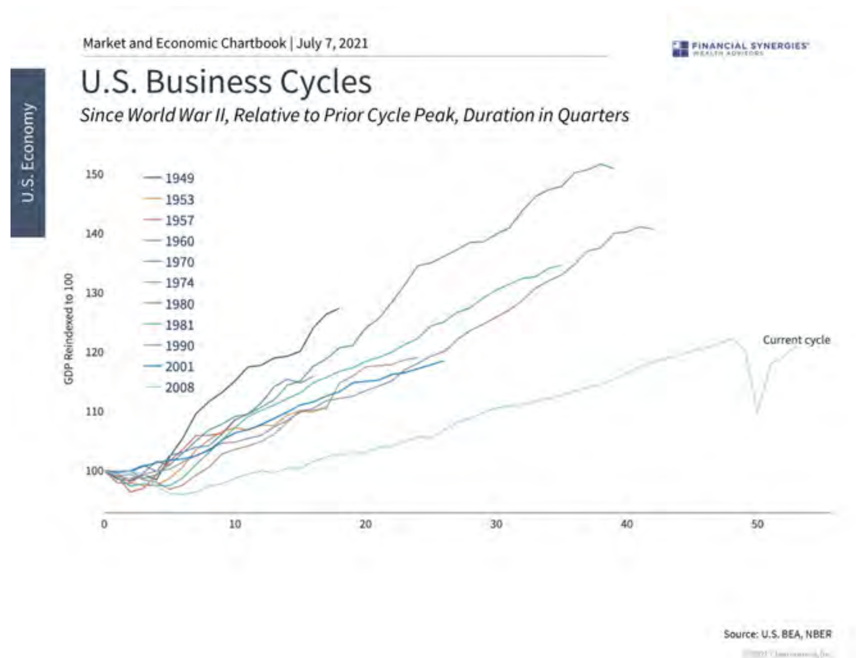
1. Has the economy fully recovered?

The U.S. economy, measured by GDP, had already recovered to within 1% of its pre-pandemic peak at the end of the first quarter. All signs point to an economy that achieved new highs in the second. From industrial production to retail sales, nearly all gauges of economic activity show signs of strong growth. Of course, this is expected during the early stages of a recovery and it's reasonable to expect the pace to slow somewhat.



2. Are stocks still attractive?

The economic recovery has directly translated into a recovery in corporate profits. S&P 500 earnings-per-share are also back to pre-pandemic levels which helps to make valuation levels more attractive. Like GDP, consensus estimates are for earnings to grow at a healthy pace over the next 12-24 months.

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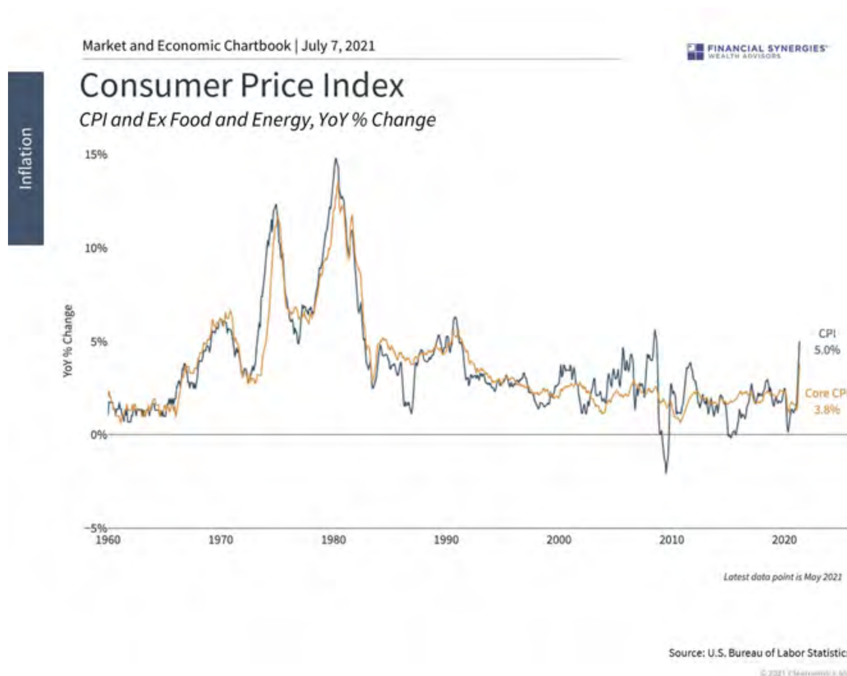
3. Will inflation overheat?

One red flag has been rising inflation which is often a sign of an overheating economy. The fact that price pressures have generally been subdued since the early 1980s has made it all the more important for investors to understand the risks to their portfolios.

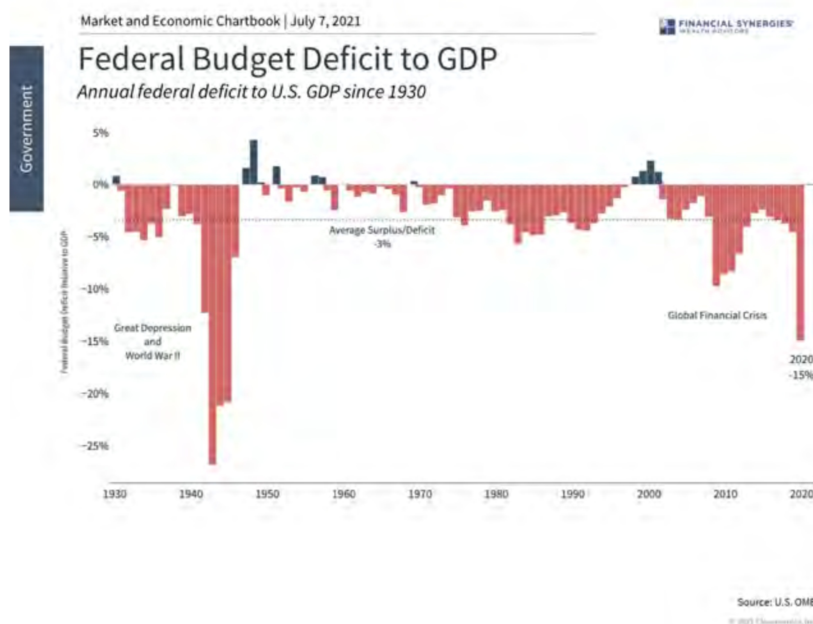
However, it's also important to understand what is driving inflation today. First, the recovery is naturally pushing prices higher compared to mid-2020. Second, supply and demand disruptions have occurred across industries but should eventually clear. Third, the Fed continues to keep monetary policy loose and the government is stimulating the economy. While the first two factors could resolve themselves over time, the last one is still a significant uncertainty.



4. How big is the government deficit?

Government emergency spending over the past 18 months pushed the federal deficit to levels not seen since the Great Depression. However, this is typically what happens during economic crises and times of war. As the economy recovers and emergency stimulus is no longer needed, the deficit should improve as a percentage of GDP.

While many investors would prefer that the government run balanced budgets or generate surpluses for a rainy day, this seems unlikely. Instead, it's important for investors to not overreact in their portfolios to short-term government spending.



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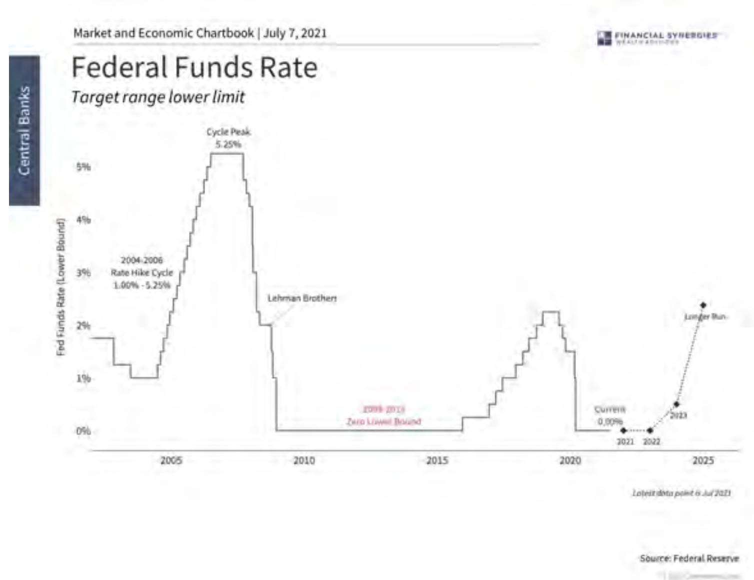
5. Will the Fed end the party?



With the economy fully recovered and inflation rising, many are expecting the Fed to begin "tapering" its balance sheet expansion and then raise rates. The Fed's latest projections show that they expect rates to begin rising in 2023 – at least a year and a half away.

Of course, this could begin sooner if the data heat up more. Even when the Fed does begin to slow its bond purchases, it will likely do so gradually. All told, the Fed will probably be cautious and keep monetary policy loose for quite some time.

Although these are certainly things to keep an eye on, they are not reasons to be concerned. This is all part of an extraordinary recovery from an extraordinary couple of years.

Source: Clearnomics

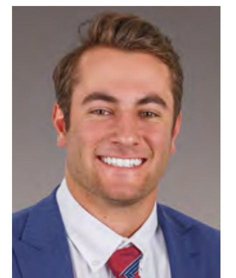
Our Team is Growing with Your Needs

Congratulations, David Wanja, Jr.!

David has been promoted to Financial Advisor, overseeing the Pathway program for younger accumulators. David's drive and dedication to his clients is a great example of the Financial Synergies way, and we are happy to have him lead such a dynamic and integral program!

Congratulations, Zach Robinson!

Zach has been promoted to Director of Client Service. Joining us a year ago, he has proven himself to be an excellent team player and his dedication to our clients is bar none!



Welcome, Dane Spencer!

Dane joins us as Associate Financial Advisor working with Heath and his clients. Dane joins us from Texas Tech where he was in the peer organization Red to Black, focusing on financial wellness. He will be pursuing the CFP(R).

Advance Child Care Tax Credit

DAVID WANJA, JR., CFP® | FINANCIAL ADVISOR

The IRS announced that they will start sending monthly Child Tax Credit payments on July 15th, as an advance to the annual Child Care Tax Credit. The basic qualification is having filed a tax return in 2019 or 2020. These tax credits are not as simple as they sound, and below I've detailed out how the IRS is handling them.

If you or your family qualify, you will receive half of your total annual credit amount in the form of a monthly payment. The IRS will automatically send the payments, but you are able to opt out and just receive the annual credit.

Let's take a look at the tables below to understand who qualifies for this tax credit:

Child Tax Credit payments start to be reduced if modified AGI exceeds:

- $75,000 for Single and Married Filing Separate filers
- $112,250 for Head of Household filers
- $150,000 Married Filing Jointly filers

Standard Credit Amounts:
- $3,600 per child under 6 ($300/mo)
- Credit amount is $3,000 per child ages 6-17 ($250/m0)

One of the things you'll want to take into consideration is that these tax credits are technically an "advance" and will apply to your 2021 income, so you could, potentially, end up owing more to the IRS if your income has changed between 2019 and 2021.

For instance, let's say your total 2020 household income was less than $150,000, which means your household will qualify for the full monthly credit amount. And, let's say you elect to receive the advance monthly credit payments this year. If your total household income for 2021 increased due to a change in salary or a bonus, then you could be pushed over the credit phaseout limits with those monthly advances added in. In this example, your household should have received a reduced credit amount, meaning there is a greater possibility on your 2021 tax return you will owe money to the IRS.

If your household usually receives a refund that could also change by receiving these monthly credits. You will need to weigh your options before deciding to stay enrolled or opting out, as you do not want to end up with an unexpected tax bill!

Deadlines to unenroll in the advanced child tax credit payments
To stop advance payments, you must unenroll 3 days before the first Thursday of next month by 11:59 p.m. Eastern Time. (Example: for payment date of August 13th 2021, you must unenroll by August 2nd.) You do not need to unenroll each month after your initial unenrollment.

Tax credits in general can be confusing, but one of our advisors can help you walk through the pros and cons to help maximize the certain benefit for your specific situation. Please feel free to reach out to us here at Financial Synergies to talk about this credit, or other tax benefits and situations.

The Importance of Starting Early

DANE SPENCER | ASSOCIATE FINANCIAL ADVISOR

The NCAA, the governing body of North American collegiate sports, has historically limited the monetary benefits that college athletes could receive from their schools to little more than scholarships. Due to some recent state-level changes and high-profile court rulings, student-athletes will now be able to cash in and make money based on their names, images, and likenesses, starting July 1st, 2021. While it is still forbidden to directly pay athletes to attend certain schools, they are eligible to profit from ventures such as autographs, monetizing social media, hosting training camps, and company-sponsored advertising campaigns.

With college athletes now being eligible to earn substantial income, it is a great opportunity to highlight the advantages of financial planning and investing at an early age. Compound interest may not be the flashiest of subjects, but Albert Einstein once referred to it as "the eighth wonder of the world," which means it is probably something worth paying attention to. Compound interest is simply earning interest on your principal as well as your previously accumulated interest. By leaving your principal and earned interest (or gains) invested, you are essentially putting your money to work for you as it continues to grow. While this is not a way to "get rich quick," it is a proven strategy to accumulate substantial wealth over time. The duration in which the money is invested plays an important role in the success of this strategy and has an enormous impact on the outcome. So, what is the best way to take advantage of that? Starting early.

Here is an example of the impact of starting early. Imagine there are three investors, each contributing $1,000 per month for ten years at an assumed 7% annual interest rate.

Investor #1: Invests their capital from age 25 to 35 for a total of $120,000 over that period.
Investor #2: Invests the same amount but did not start until age 35 and continues to until 45 years old.
Investor #3: Also contributes the same amount of investment principal but got a late start at age 45 and stops at age 55.

Although they each invested the same amount and earned the same rate of return, by the time they reach age 65 they have drastically different results:

Investor:	Amount Invested:	Years of Compounding:	Amount Accumulated at Age 65
Investor #1	$120,000	40	$1,444,969
Investor #2	$120,000	30	$734,549
Investor #3	$120,000	20	$373,407

The new ruling by the NCAA presents student-athletes with a great opportunity to generate income, and some are already taking advantage of it. Auburn quarterback, Bo Nix, did not waste any time announcing his sponsorship with Milo's Tea just minutes after the new rules were in place.

Although saving and investing may not be the most exciting way to spend your money in college and early adulthood, seeing the data above makes it it is hard to argue the importance of. With the substantial increase in opportunities for younger generations to accumulate wealth, there is no better time to start investing than today.

Compound Interest Example: Alaina Tweddale, et al. "Believe In The Power Of Compound Interest. BELIEVE!" *Money Under 30*, www.moneyunder30.com/power-of-compound-interest.