Quarterly Newsletter

# COVID-85

by Mike Booker, CFP(R)

Like everyone else, I am weary of COVID-19. Last year we lost more Americans to COVID-19 than in the prior, terrible year of 2020. Overall, we have lost over 800,000 Americans to this virus, some of them were friends of mine. It has been easy to allow the virus to beat us down, because it has had such a strong touch on our lives, on the way we interact with one another, and the way that we make a living.

I also resent the fact that when we speak of a trip overseas or a conference we went to, it is framed as, “before COVID”. Or we wanted to go to this event or that place last year, “but COVID knocked it out”. Not in my lifetime has a bug worked its way in to our vernacular so deeply. As terrible as this experience has been for every person on planet earth, I couldn’t help but think how much more destructive this virus would have been had it emerged in 1985 instead of 2020. Recovery from COVID in 1985 would have taken an incalculable number of years. For example:

**Education**: As ineffective as remote learning has been for our kids, if the virus had surfaced in 1985, there would be no remote learning at all. The World Wide Web, as it was known, wasn’t established until 1989 when AOL’s iconic, “You’ve Got Mail!” was heard for the first time. With no ability to stream online or have a Zoom-type meeting, school-aged children would receive their books in the mail, take their tests at home and mail them to their teachers who they never met. Teachers would then grade the tests at home and mail them back to their students. How could a class move on to the next section if they haven’t even received their test back from the prior section?

There would be no class discussion of any kind and no ability to ask teachers a question and receive an answer in a timely manner. Because of these issues, I can’t imagine that a typical school year could be completed in a year, meaning kids might be 22 years old when they graduated high school…or older. This would not only have substantially reduced the number of students continuing to college due to their need to make an income – where they could find it – but also would create a massive shortage of skilled workers entering the workforce.

**Medical Technology**: Obviously, no area is more remarkable or important for the dealing with current COVID advancements than the medical field. In 1985, the vaccine for Haemophillis Influenza Type B was licensed, but not placed on the recommended list for use until 1989. Had a COVID pandemic struck the U. S. in 1985, based on the vaccination turnaround time in that decade, millions more Americans and tens of millions around the world would have perished. Likewise, the technology granting the speedy development of miracle drugs to treat patients who have contracted COVID simply wasn’t available in 1985.

E**conomy**: The current COVID virus stopped our economy in its tracks in early 2020. Thousands of businesses, large and small, were put out of business because of COVID. But, in 1985, there was no online commerce to have things delivered to our doorstep. And because of that, there was no real way for merchants to sell their goods without someone coming in to purchase. Bank failures would be commonplace if the virus hit in 1985 as a panicked public would demand to have their savings close to home, causing yet more banks to fail. Making stock trades and transferring funds would take several days to weeks as a depleted work force at brokerage firms would be overwhelmed with an onslaught paper orders, gumming up the entire financial system. Can you imagine

placing a buy order for a stock and waiting 10 days to find out how much it ending up costing you? A COVID-type pandemic taking hold in 1985 would have thrust the entire world into an economic depression that might have lasted decades, making the 1929 depression look like a cake walk.

**Mental Health & Socialization**: The core story of the pandemic of 2020-2022 is the number of infected people and those who succumbed to it. But, many Americans also succumbed to suicide, death by drug overdose, and depression brought on by the isolation COVID demanded. The collateral damage to the nation's overall health may never be fully calculated for the current pandemic, but, in 1985, the collateral damage would have certainly been worse. There were no teledocs to get quick medical attention for both mental and physical issues, no online help services of any kind. Although the first handheld cell phone was invented in 1973, cell phones did not become widely used until the 1990s, making it extremely difficult to call a friend for help as they were sharing one phone line with other family members. Remember busy signals?

As difficult as this current pandemic has been for all of us and as much as it has affected our day-to-day lives in deep and negative ways, had it emerged in 1985, it is not a stretch to imagine that we would still be feeling its effects.

# CHANGES TO REQUIRED MINIMUM DISTRIBUTIONS

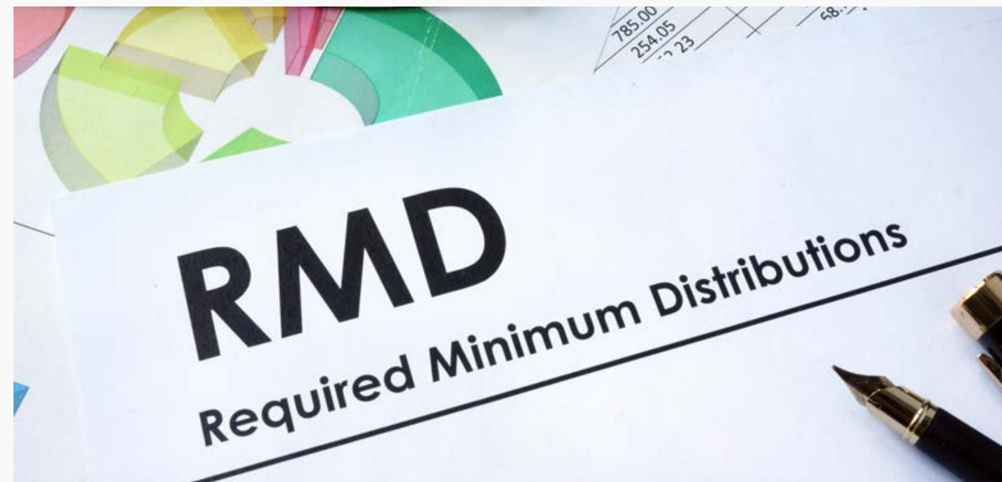
by Will Goodson, CFP(R)

The New Year brings good news to anyone who must take a Required Minimum Distribution (RMD) from their retirement accounts. Tax-deferred accounts – such as 401ks and Traditional IRAs – allow individuals to save during their working years and push the taxes associated with that savings out into the future.

Under current law, when the account owner reaches age 72, the IRS requires they begin taking RMDs annually. Through the eyes of the IRS, it's time to pay the piper.

The calculation of RMDs has two components. The first part is to take the retirement account's year-end balance from the previous year. This amount is divided by what's known as an RMD "factor." These factors are compiled in an IRS table that contains age ranges and a number that is associated with every age. You take the number for your age and divide it into the year-end balance. The result is the RMD that you must take for that calendar year.

The factor tables for RMDs had not been adjusted since the early 2000's. In 2018, a study was conducted to evaluate longevity amongst retirees to see if these current amounts were still suitable. The study showed that adjustments were needed to account for the fact that retirees were living longer on average.




**As a result, a new factor table has gone into effect starting in 2022.** The result is a modest reduction in the amount most retirees will be required to distribute from their retirement accounts each year.

*For a PDF download of the new RMD table, contact us.*

For example, an IRA account owner has a year-end balance $500,000 and turns 72 in 2022. The new RMD factor for age 72 is 27.4. Dividing the factor into the account balance results in an RMD of $18,248.18. Under the previous factor table, they would have to divide the account balance by 25.6, which results in an RMD of $19,531.25. Thus, the account owner is now allowed to keep over $1,200 in the account.

Any amount that can remain invested and grow tax-deferred is a positive in our view. If you notice your RMD amount for 2022 looks a little smaller than last year, this is likely the reason why. The IRS does not often make adjustments that potentially *reduce* taxes, so we'll gladly welcome this change!

# FIVE INVESTMENT LESSONS FOR 2022

by Mike Minter, CFP(R)

With the ups and downs of the market and the on-going pandemic, the fact that we are approaching the third year of the business cycle may surprise you. After the headlines of the past year, one might expect that the market would have struggled.

Events during this period include the protests at the U.S. Capitol, the delta and omicron variants, the foreign policy disaster in Afghanistan, Fed tapering, challenges passing new fiscal bills, reddit trades, the rise of cryptocurrencies, China's bursting housing bubble, inflation at multi-decade highs, supply chain disruptions, and many more. As in most years, there was no shortage of reasons to be pessimistic in 2021.

Yet, the S&P 500 gained nearly 29% with dividends over the course of the year and 119% since March 2020, finishing near all-time highs. Even though markets felt choppy, 2021 was objectively one of the least volatile years on record. Who would've thunk it??

There were rotations within the market throughout the year, but in the end, growth stocks gained 26% and value stocks 25%. International developed markets rose 12% and although emerging market equities lost -2% in 2021, they are up 70% from the 2020 bottom. This all occurred even though the 10-year Treasury yield jumped to 1.5% and the Fed is set to tighten policy in the coming months.

2020 and 2021 both underscore the importance of staying invested and diversified. The path of markets and the economy are impossible to predict, even in the face of a once-in-a-century pandemic or skyrocketing inflation. These lessons will also likely be true of 2022 regardless of what transpires. Already, investors are worried about a possible first Fed rate hike by mid-year, the midterm election in November, and whether inflation will ease or worsen in the second half of the year.

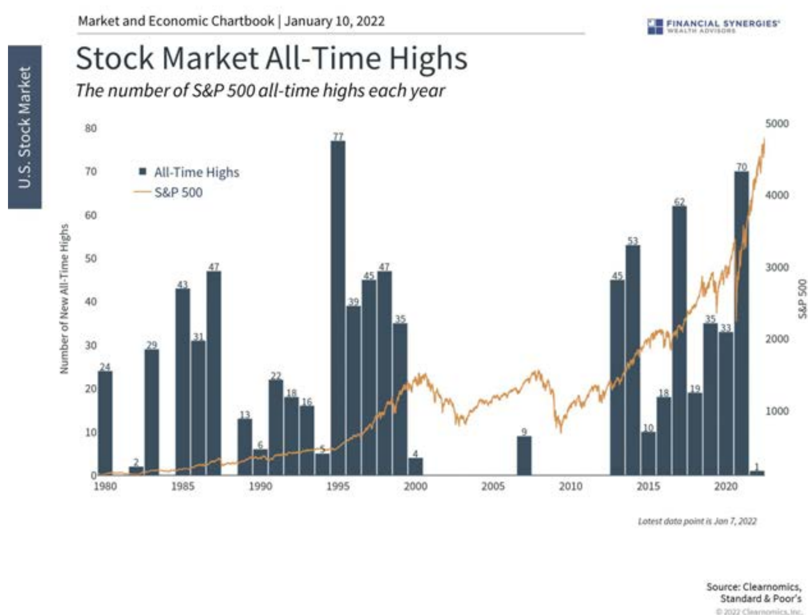
In times like these, it can help to focus on the big picture. Although every market cycle is different, we are still quite early in this expansion. The underlying economic trends are strong with businesses growing, earnings rising and employees finding better jobs and higher wages. Inflation is elevated but much of this is due to year-over-year comparisons and supply chain disruptions. High inflation could become "sticky" and sour the mood among businesses and consumers, but it could also begin to subside later this year.

Even without rising inflation, the Fed would reasonably be expected to raise rates at this stage in the cycle. After all, their job is now to make sure the economy doesn't overheat. And although we are still in the middle of another COVID surge, this is having a smaller impact on economic growth and will likely subside as well – until the next variant is discovered.

Controversy over these topics is what fuels the day-to-day market debate.

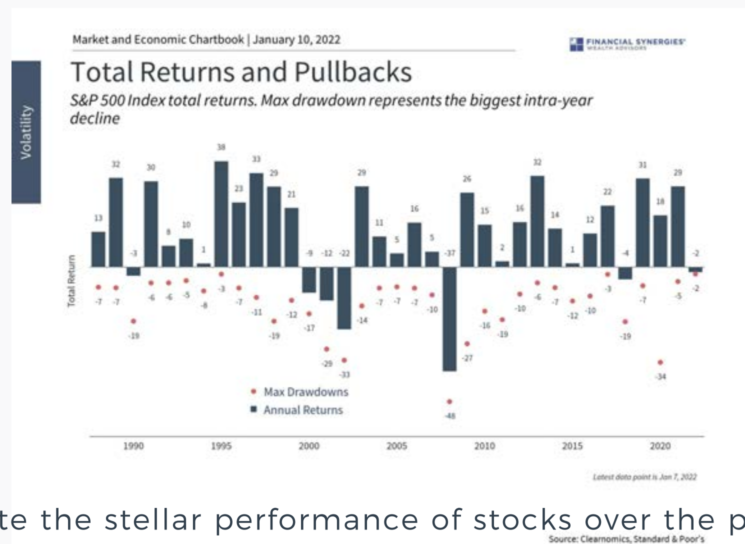
Below are five key lessons of the past year that will no doubt carry forward into 2022 and beyond.

### 1. Markets can do well when investors least expect it




Despite ongoing concerns around a variety of issues, the S&P 500 achieved 70 new record closes in 2021. This is the most since 1995 during the early stages of the dot-com boom. This is not unusual – the U.S. stock market has historically risen over long periods of time and, by definition, spends much of each cycle at new all-time highs.

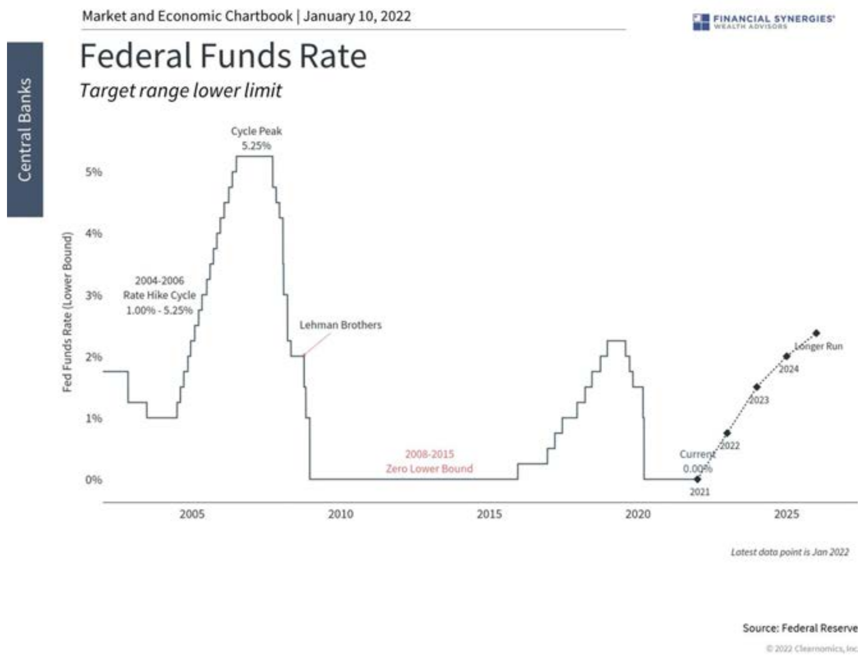
### 2. Investors should expect more uncertainty



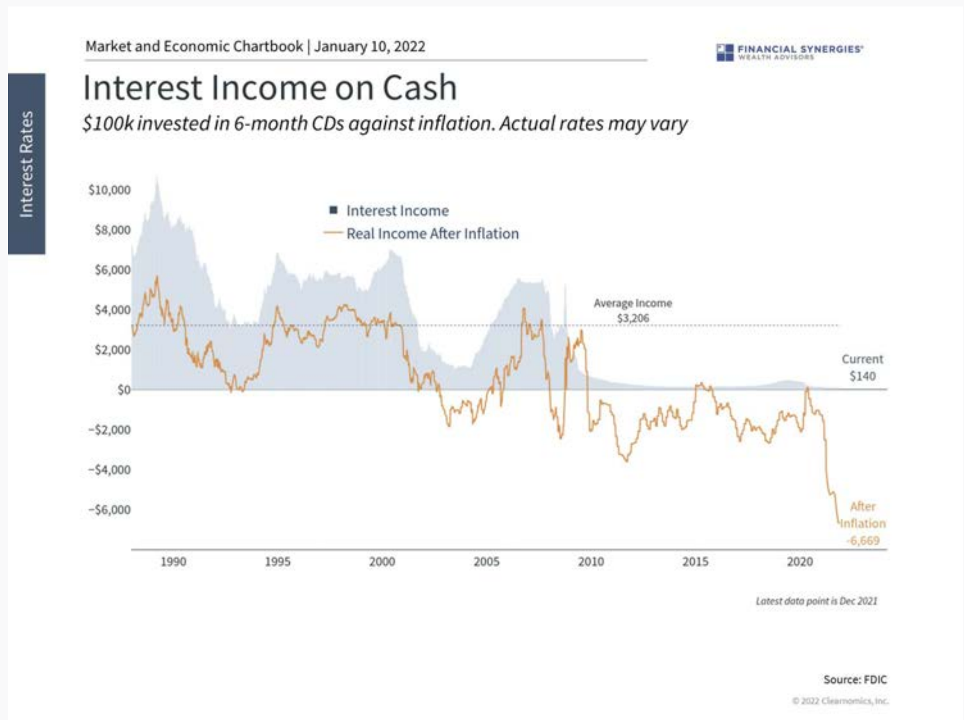

Despite the stellar performance of stocks over the past two years, investors were constantly worried on a day-to-day basis. In reality, 2021 was one of the least volatile years on record with only a single 5% pullback that occurred at the end of the third quarter. Thus, there was a wide disconnect between how investors felt and how markets actually performed.

At the same time, investors should always expect greater uncertainty and volatility in the stock market. After all, the willingness to take appropriate risks is why investors are rewarded in the long run. Last year's volatility fell far short of the average decline experienced by the S&P 500 each year.

### 3. Fed rate hikes are only the beginning, not the end, of the cycle



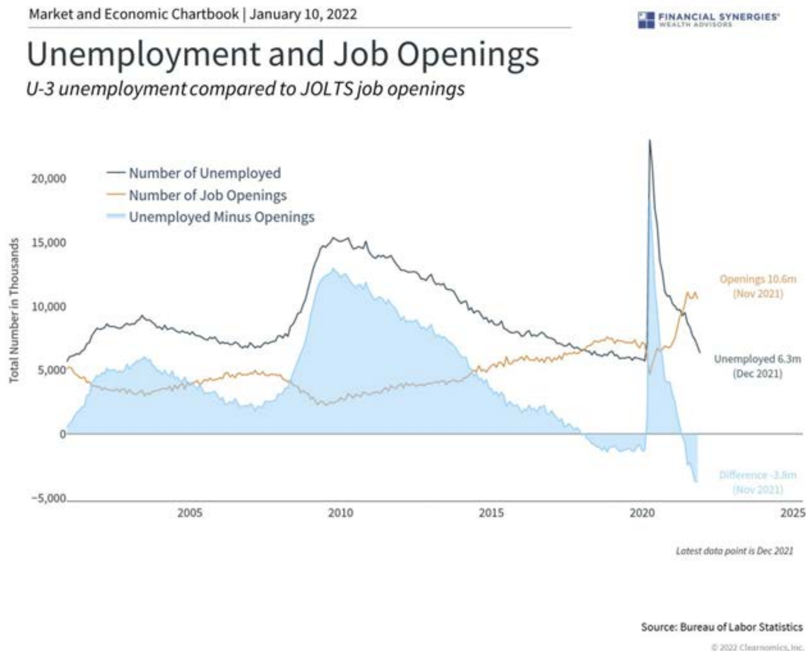

### 4. The value of cash is eroded by inflation




The Fed has accelerated its taper process, which reduces the amount of bonds it purchases each month, and is expected to raise rates by the middle of the year. Although this will no doubt continue to drive market volatility, Fed rate hikes are normal and justified if the economy is doing well. Fed officials currently expect three rate hikes in 2022.

Rising inflation has a number of implications for the economy and investment portfolios. For many, however, the primary challenge is that inflation erodes the value of hard-earned cash savings. This underscores the need to properly invest this cash to generate a return in order to preserve purchasing power over time.

**5. Many parts of the economy are booming**




The economy is doing well. Businesses are hiring at a rapid pace and job openings exceed the number of unemployed individuals. Over time, workers who had previously given up may re-join the labor force while others may receive new job training. Ultimately, this is a positive sign for the economy in the years to come.

Whatever 2022 throws at us, we'll get through it. The good news is that the economy continues to recover strongly, and we may still be early yet.

# AVOID PROCESSING DELAYS

by Marie Villard

The COVID-19 pandemic has allowed many industries to change at warp-speed, ours included. Our custodians, Fidelity Investments and Charles Schwab & Co., Inc., have really put it into gear ways to adapt to the change of the remote-working world, and have asked that we jump on board their focus of electronic onboarding and document processing.

**What this means for you:**

**1) We will be encouraging your online adoption of Fidelity.com and Schwab.com**

**2) We will walk you through how to sign documents electronically the next time you need to sign something**

**3) We are available for any questions each step of the way**

Electronic processing is a safer and more secure way of sharing information. By using our custodian tools, we avoid mail thievery, email takeovers, and overall cybersecurity risks. It will also allow us to have faster processing times with the custodians and will avoid delays.

If you have any questions, feel free to reach out to me or Zach. We want the transition of signing and approving items electronically to be seamless for you.

# THE POWER OF COMPOUND INTEREST

by Bryan Zschiesche, CFP(R)

Albert Einstein called compound interest “the eighth wonder of the world.” He went on to say, “He who understands it, earns it; he who doesn’t, pays it.”

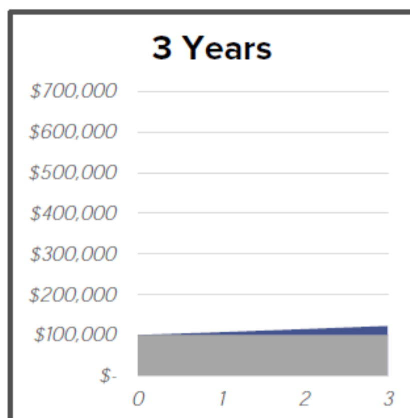
So, what is compound interest? Put simply, it’s when you earn interest on your interest. Here’s an example. Let’s say you invest $100,000 in a diversified portfolio, and in the first year, you earn a 7% return. Your $100,000 grows by $7,000 to $107,000.

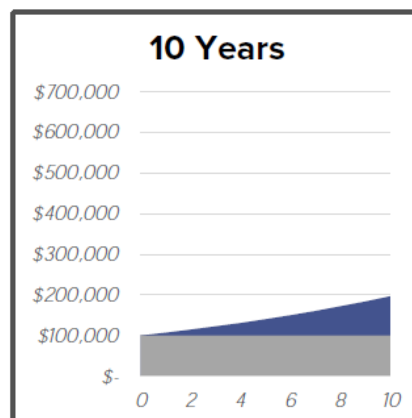
Now you have a choice. You could take the $7,000 profit out of the portfolio and keep only your original $100,000 invested. Or you could leave the $7,000 profit invested.

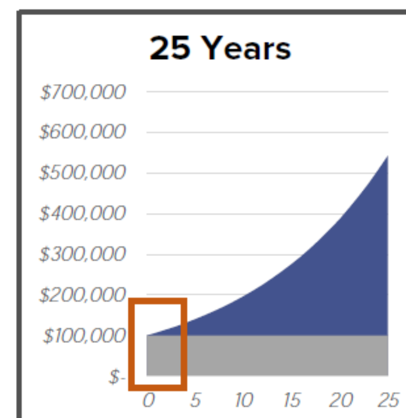
Let’s say you keep the profit invested, and you earn another 7% the following year. Your $107,000 would grow to $114,490. That extra $490 is the effect of compounding. You only earned that kicker because you kept the $7,000 invested. You earned interest on your interest.

When you begin investing, the effects of compounding aren’t obvious. In the graphs below, we continue the example of $100,000 invested in a diversified portfolio which experiences an average annual return of 7%. Our original investment is shown in gray, and the growth isshown in blue. Note how little the portfolio value changes over the first few years. The three-year graph shows just a small sliver of growth.

However, as time marches on, the compounding begins to build momentum. After 10 years, the portfolio has nearly doubled in value, and after 25 years, you have over 5 times as much as you started with!



It is also interesting to look at our first three years of investment history on the 25-year graph. We were only able to achieve this exceptional long-term result because of the foundation built by those first few years.

Consider this metaphor from James Clear's bestselling book, Atomic Habits:

"Imagine you have an ice cube sitting on the table in front of you. The room is cold, and you can see your breath. It is currently twenty-five degrees. Ever so slowly, the room begins to heat up.

Twenty-six degrees.
Twenty-seven.

Twenty-eight.

The ice cube is still sitting on the table in front of you.

Twenty-nine degrees.

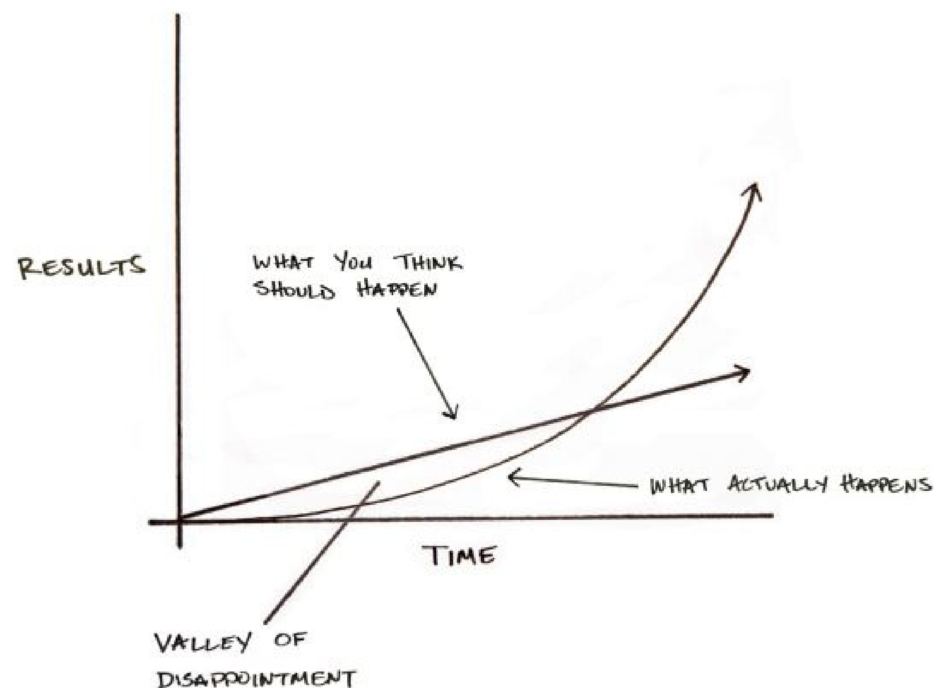
Thirty.

Thirty-one.

Still, nothing has happened.

Then, thirty-two degrees. The ice begins to melt. A one-degree shift, seemingly no different from the temperature increases before it, has unlocked a huge change.

Breakthrough moments are often the result of many previous actions, which build up the potential to unleash a major change." (emphasis mine)



Reproduced with permission from James Clear.

Similarly, compound gains are the result of smaller foundational gains all along the way. The only way to achieve the long-term benefit of compounding was to be patient with the foundational years at the beginning.

As Clear concludes, "All big things come from small beginnings." If you have just started investing with us, take heart. The temperature is rising, even if you don't feel it just yet.

Source: James Clear, Atomic Habits, pp. 20 – 22.