# WOODARD & COMPANY
## Asset Management Group, Inc.
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# Portfolio Profile



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**Important question for clients who became *significantly* more conservative with your investment portfolio during the pandemic, the election, and the strange time that was the year 2020.** Many clients have maintained the allocation parameters long established for their accounts; others made changes during the past year. Either decision was reasonable in light of the volatile and uncertain environment of 2020. If you changed, do you want to retain the conservative allocation you made or do you want to return to your former allocation?

Actually, it may be a great choice for many investors to keep the current allocation, but not necessarily for all. We can't tell you what your risk tolerance is, but we can endeavor to address it thru our allocations. If you made modest changes, it is likely best that you stay the course.

However, if you went to cash or made a really major change, there may be reasonable alternative allocation options. It seems that all of Wall Street has anticipated a significant "correction" for months. Modest downturns occur often but it seems that due to the virtually straight-up movement of the S&P500 since the bottom last March, perhaps a more significant downturn would have occurred by now. That expectation seemed valid especially when coupled with all the news we have had over the past twelve months. With the uncertainty of Covid spikes and deaths in various states, the elections, the riots and violence across the nation, and the change in the Senate increasing the likelihood of higher taxes, there was certainly plenty of market-moving news. But with all of that, the market seems to have shrugged it off. Stocks just have not declined significantly and the big "correction" just did not occur to enable a classic reentry point.

For those that went to a really cautious allocation, you may wish to consider a modest increase in risk and equity exposure to something like 25% stock and 75% bond or even 50% stock and 50% bond. And if you went to cash in the past 12 months, you may consider one of these allocations for now as a first step, and then a return to your original asset mix if the market does eventually correct significantly. These allocations would have historically provided relatively good overall portfolio stability during market downturns with modest returns. It is something to think about.

**To clarify why the market continues higher,** here are some quotes from our year-end 2020 Newsletter: "Near term, government spending will flood more dollars into the economy and markets, this cash infusion will likely push the equity markets yet higher." There has certainly been a gracious and continuous infusion of Federal cash into the economy, and it certainly appears it will continue unabated into the future.

We went on to write, "The widely accepted measure of U.S. domestic economic strength-GDP (Gross Domestic Product) is a monetary measure of the market value of all the final goods and services produced in a specific time period. GDP does not know the difference when money flows into

the economy whether it is from a healthy, vibrant economy or profligate government spending. Furthermore, many of the economic policies put in place in recent years which include energy independence, the much-improved manufacturing sector, improved trade deals, etc. will continue to bear fruit."

So, if you scratched your head like many have and you wondered if stocks can defy the laws of gravity forever, well probably not forever but they are doing a good job now, to a great extent enabled by massive government spending. When you throw a couple trillion dollars of taxpayer money at the economy here and there, it adds up to real money. Obviously, there is some cynicism in that comment, the National debt is bad news for future generations but let's make hay! The sun is shining.

Does all this mean the markets continue higher? Likely. But…there will be a stock market correction. When it will occur and how long it lasts, we do not know. Presently the Dow is around 33,000 and the S&P 500 has topped 4,000, both at record highs.

One thing we have noticed that we do not like is the rise of the "Robinhood" traders. These are typically young investors who have not yet learned that markets and good securities can decline sharply. Remember the famous "day traders" of the late 1990's? At that time, it was virtually impossible to do wrong buying a technology stock; that is, until it was possible, and then it was very wrong. In early 2000 we had the beginning of a 50% decline over a 2½ year period (80% decline in technology stocks). Many of the technology stocks were still down more than 50% even ten years later! Also, during that time, we had the 9/11 terrorist attack. Unpredictable events like this and the Covid pandemic are known as "Black Swan" events.

There will be more unknown "Black Swan" events in the future. They are unpredictable and can be economically devastating for a period. Events such as those, recessions, bad economic policy, and more can all cause declines, but business and industry typically adapt and endeavor to thrive and prosper. It is capitalism and over the long-term it works for you in your investment portfolio.

**Reminder.** Our office hours are 8:30 AM–5:00 PM daily, we are closed for all NYSE (New York Stock Exchange) holidays and weekends.

**Tax reporting** deadline is May 17th this year. We are pleased to provide any cost basis information and we are also pleased to speak with your tax preparer but we require your permission to do so.

**Thanks to you,** again this year we have made a significant donation in honor of you, our clients as a sponsor of the Salvation Army "Hearts and Hands" annual fund-raising event. Again, this year it is virtual and it is on May 13th. The link is http://bit.lyhandshearts21. You can learn about the life changing services they provide to families and individuals in need.

**Market Review and Forecast.** Stoked by the incredible creation of money by the Federal Reserve and the Washington D.C. politicians, stock prices continued to climb last quarter. As one Wall street publication wrote: "The Fed was created in part as a fire department, and the virus-induced panic called for the largest fire hoses the Fed could bring to the emergency."

It is now buying a huge $120 billion a month of government securities (treasuries and mortgages). The Fed's balance sheet will double by the end of this quarter to nearly $8 trillion from its pre-Covid $4 trillion total 14 months ago. (Remember that the Fed has unlimited power to create money! And for perspective, a trillion seconds is about 31,500 years.) In fact, 35% of all dollars ever created were brought into existence within the last year.

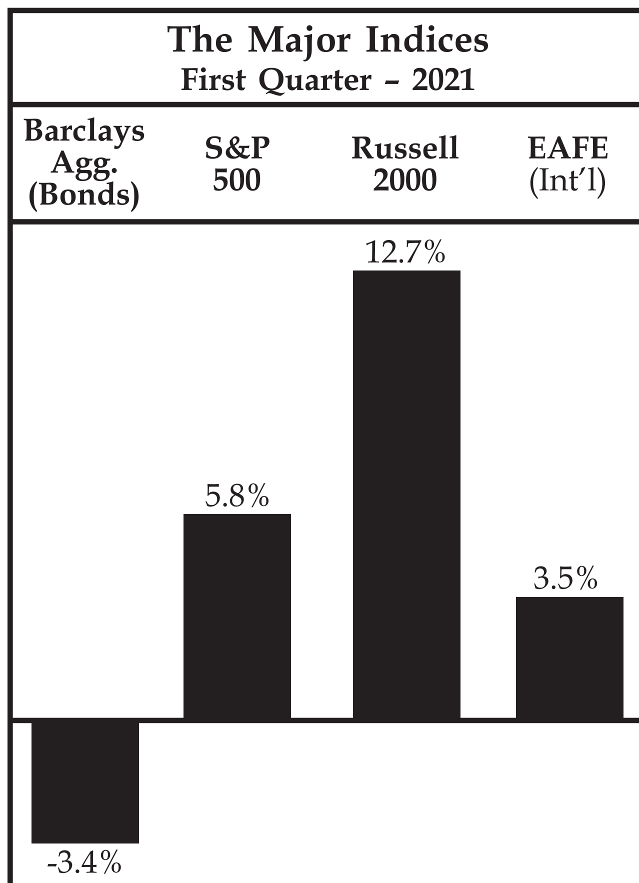
After bipartisan support for about $4 trillion for Covid relief last year, the new Democratic administration pushed through (without a single Republican vote) a massive $1.9 trillion Covid package last month that featured $1,400 per-person payouts to about 85% of U.S. citizens.

Everyone was eligible for the full payments (even children) unless they made more

than $75,000 (singles) or $150,000 (couples). Given that 85% of citizens will receive money, it is not surprising that polls showed 70% support for Uncle Sam's generosity.

All that new money must find a home. Almost all short-term CDs and money markets are still paying less than 1% and bonds typically lose value as interest rates rise as they have done this year. The Barclay's Aggregate Bond Index lost 3.4% last quarter. Money has flowed into stocks, which are near record highs, so it is no wonder that investors continue to grow wealthier as markets keep climbing. A recent survey discovered that "retail investors on average plan to put 37% of their Covid payments into stocks."

Last quarter the S&P 500 returned a solid 5.8%, then hit an another all-time high in early April. A rotation away from tech (up only 2% for the quarter) and other high growth stocks caused the growth-oriented NASDAQ to drop 5% from its high on February 12 to March 31.




The big winners last quarter were so called "value" stocks as well as small-company stocks as represented by Russell 2000, up 12.7%. Even international stocks averaged a 3.5% rise. This is why we stayed diversified. It is difficult to pick the precise time to rotate from on asset class to the other.

Almost two trillion dollars from last month's Covid relief bill is now beginning to pour into the economy. The examples below are certainly not all inclusive but they do highlight where much of the $1.9 trillion will go.

A huge $350 billion was gifted to state and local governments: $130 million of that amount went to Winston-Salem and Forsyth County! The $1,400 per-person payments total about $422 billion. The cost of providing federal unemployment payments that are $300 in addition to state benefits until September 6 is estimated to be $246 billion. There are currently 10 million unemployed. The national unemployment rate was 6% for March, less than half of the 14.8% post-W.W. II record high set last April.

Massive layoffs at airlines were averted when they received $15 billion. Restaurants got $29 billion and the bill also included $22 billion for rental assistance. Vaccine distribution received $7.5 billion while testing and tracing received $48 billion.

Schools (K-12, $125 billion) and higher education got a whopping $165 billion and child care was allotted $39 billion with its providers receiving $24 billion of that total. The child and dependent care tax credit was nearly doubled from $2,100 to $4,000. Families with two or more kids can receive $8,000 to offset their costs.

More money will once again pour into the economy if President Biden's $2.25 trillion infrastructure plan proposed March 31 is passed. The largest amount – $174 billion –would be allocated for the development and subsidy for electric vehicles and charging stations.

Only about 5% of the money ($115 billion) would go to build and repair bridges and roads. A larger amount ($165 billion) would

be used to modernize public transit and Amtrak. A total of $50 billion would be set aside for "infrastructure resiliency" to counter "climate disasters."

There is no question we need infrastructure spending but his proposal seems somewhat excessive and will once again get no Congressional support from Republicans. Unlike the $1.9 trillion plan passed last month that was all funded by borrowed money, Biden is proposing tax hikes (over 15 years) to pay for it.

He wants to increase the corporate income tax to 28% from 21%. (It was 35% before the Trump tax cuts passed in 2017.) He also backs higher income taxes for those making over $400,000.

President Biden also has previously suggested that the inherited tax-basis price of assets be set at what was originally paid for them, rather than their tax basis calculated on the price the day the deceased died. Unfortunately, prices paid by the deceased many years ago is often unknown and may be nearly impossible to verify.

It is estimated that the higher 28% corporate tax rate would reduce profits by less than 10%, likely not enough to derail our bull market. The bigger danger for the economy is probably inflation, but it is still under 2%.

Asked about too much money flooding into the economy, new Treasury Secretary and former Fed Chief Janet Yellen replied to a question about rising inflation last month. She said "I really don't think that it is going to happen. We had a 3.5% unemployment rate before the pandemic and there was no sign of inflation increasing." Our answer to her would be that was before nearly $10 trillion was created.

Jeremy Siegal, Wharton School Professor at the University of Pennsylvania, wrote March 29 that he believes we will have "4 - 5% inflation for the next few years." The Fed is not worried about inflation given its current commitment to keep its Fed funds rate at 0 - .25% until 2024, even if inflation exceeds its 2% target rate.

Given that worldwide rates are even lower than ours, ever-increasing productivity that helps keep prices from rising, and an all-time high savings rate, inflation will likely not be a major problem (above 3%) until at least the summer of 2022 or later.

That forecast and a fast-recovering economy, juiced by huge money creation and vaccination rates that will soon enable us to have a more normal economy, seems to indicate that stocks will continue to rise this year.

Most GDP forecasts for growth this year are between 6% and 7%, nearly three times higher than the 2.5% decade-long average. It was reported in early April that the economy created 916,000 new jobs last month, the highest monthly total since September 1983. (The consensus forecast was for 615,000.)

**Interest Rates.** After starting 2021 yielding close to 0.95%, the 10 Year Treasury continued its wild ride. Readers may recall in the last newsletter we were hoping for a gradual increase in interest rates. We like gradual moves because bond prices move inversely to interest rates. Last quarter saw the benchmark 10 Year Treasury move from .95% to 1.75% by March 31st. This is not gradual and explains why fixed income investors have not seen the gains thus far in 2021, like they did in 2020. The Barclays Aggregate Bond Index finished the quarter down 3.4%.

This initial sharp move up in interest rates seems to have moderated a bit but our revised expectation is that the 10 Year could be above to 2% by 4th quarter of this year.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.

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