PARADIGM
Protect & Empower

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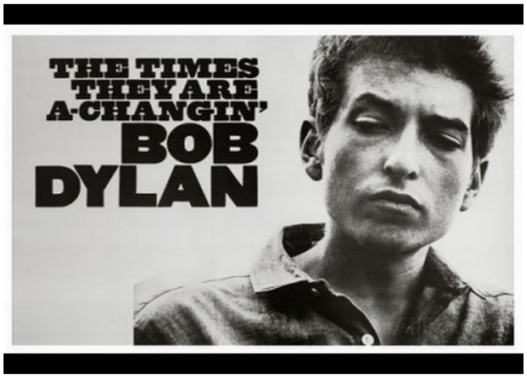
The Times They Are A-Changin'



May 2021 marked the 80th birthday of Bob Dylan, one of the most influential song writers of his generation. Dylan is an icon of the 1960s, a time of profound changes in our society. In similar fashion, we believe current factors will bring about major changes in our economy and investment markets.

Today, massive government spending is bound to be a major catalyst for economic change. According to the Congressional Budget Office (CBO) the U.S. federal deficit hit $3.1 trillion in 2020, and deficit spending continues. For 2021 the CBO projects revenues of $3.842B and outlays of $6.845B for a deficit of $3.003B. Add to that, this year's COVID-19 relief package of $1.9 trillion. And, the current administration is working on an infrastructure package of as much as $4 trillion.

> ***"Inflation is the one form of taxation that can be imposed without legislation."***
>
> ***-Milton Friedman***

There are essentially two ways to deal with spending more than is brought in. Reducing future spending could lower the epic deficit, but that's an unpalatable position for any politician. The more likely solution will be higher taxes. Yes, you the taxpayer will get to keep less of the income and gains you generate. Higher taxes tend to slow growth vs. the effect of lower taxes: e.g., the Tax Cuts and Jobs Act of 2017 is estimated to have boosted S&P 500 earnings by about 20%.

Government spending is currently putting a lot of money into the economy, which is not true economic growth. The classic view among economists is when the supply of money outpaces economic growth, inflation occurs. It then takes more dollars to buy the same amount of goods and services. In the U.S. we have had the luxury of a long period of relatively low inflation. Many investors today have not experienced investing during an inflationary period, which is quite different.

To quote Bob Dylan, “The Times They are A-Changin.” These “Winds of Change,” Jefferson Starship (guess I am hooked on classic rock) have implications for investors. Some noteworthy changes we observe follow:

⇒ Growth vs. Value: There has been a marked change in the type of stocks moving higher in the previous six months. The Russell 1000 Value ETF gained 29.39% while the Russell 1000 Growth index gained 12.4%. Historically during times of higher inflation, companies with pricing power perform better; these tend to be value-oriented stocks.

⇒ Be intentional about the bonds you own. Since the interest rates on bonds are fixed, they lose purchasing power during times of inflation. This makes bonds less attractive for investors, particularly longer-term bonds. Higher interest rates tend to coincide with inflation which also makes bonds less attractive. Remember bonds are like a seesaw. When interest rates go up, bond prices go down and vice versa. Interest rates can also have an affect on the valuation of real estate. In our opinion, managing the type and maturity of the bonds you own will be essential.

⇒ Beware of volatility. Volatility is a foe to people in a “distribution phase of life” when resources are used to finance lifestyle, as opposed to when they were accumulating investments. Major changes in the economy can create volatility in the financial markets. The stock market has increased steadily with low volatility over the last 10 years. Until recently. Now we believe there is a great possibility investors will experience more volatility in the markets going forward.

⇒ A balanced portfolio can mitigate volatility. There are many strategies that may reduce investment volatility. Perhaps the most effective is to create a balanced portfolio and realign asset classes when they get too far out of target. Making tactical decisions about the types of investments you own is another way to position your investments for the future. If indeed the next 10 years are different than the last 10, you want to make sure you are taking advantage of the changes that lie ahead.

We hope these big picture comments give you a general idea of what we see on the investment horizon and about actions we think may be helpful. We certainly have more thoughts and strategies than we can share with you in a brief newsletter. Getting sound investment advice is important to any investor. We would be honored to talk with you further about the planning and investment management we can offer.

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