Schneider
WEALTH STRATEGIES

First Quarter 2021
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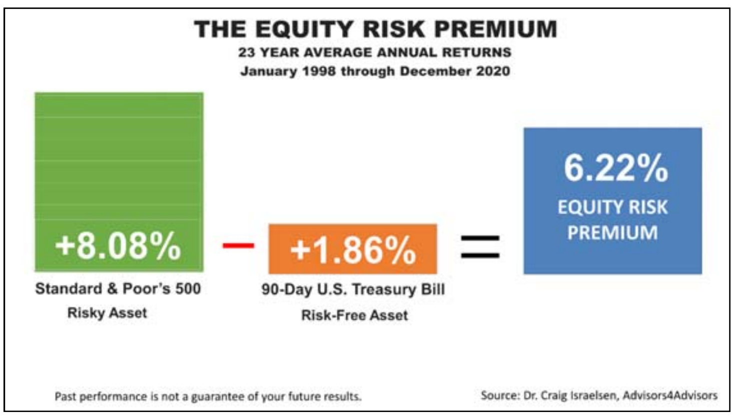
WEALTH MANAGEMENT REPORT

Why Risk Can Be Your Friend

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.

The following 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 may threaten the effectiveness of

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Counseling You On Financial Risks At Pivotal Moments

2020 was a lousy year in many ways, but stocks and bonds still performed reasonably well.

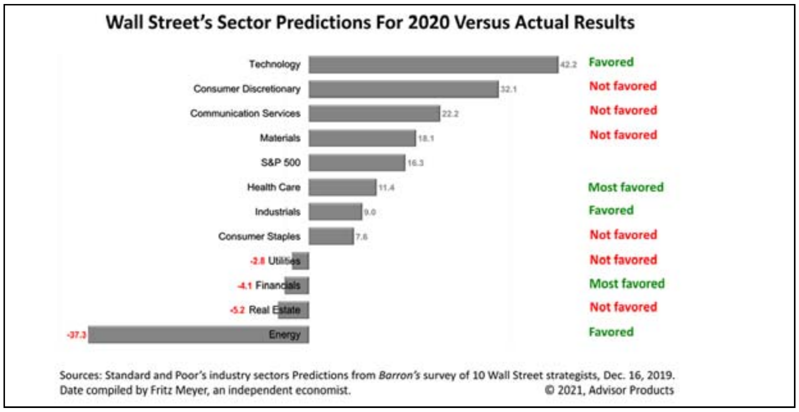
2020 illustrated how investing is as unpredictable as the future, and it was a pivotal time when the advice of a professional could make all the difference in building a retirement portfolio or legacy.

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 one can 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. 2020 was just such a time when panic selling would have had serious deleterious effects.

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, 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, rose nicely 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.

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.

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.

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. ●

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 had been going on for a while.

Financial news is rarely reported from the historical perspective of an investor building a sustainable retirement

Higher Taxes May Be Coming

The United States Government's Covid aid to individuals and businesses is expected to raise the nation's debt to about $28 trillion. For high-earning and high-net worth individuals, higher taxes are expected to be enacted in 2021. Here's what you need to know:

The $6 trillion in Covid aid and stimulus adds to the $22 trillion federal debt outstanding, incurred to pay for Social Security, Medicare, Medicaid, and other programs, and years of widening annual federal budget deficits. The nation's debt is about equal to current annual gross domestic product (GDP) but expected to swell to 127% of GDP, according to the Committee For A Responsible Federal Budget, a bipartisan think tank.

The U.S. has a low tax burden relative to other major world economies and it is the world's largest developed economy. It possesses the financial strength to pay the suddenly larger-than-expected debt due to the Covid crisis. However, fiscal reality means taxes are likely to rise in 2021.

With the U.S. approaching a major shift in fiscal and tax policy, high-income earners and high-net worth individuals are all but certain to be targets for tax hikes in 2021.

Precisely which taxes will rise and by how much is yet to be decided. Some of the tax hikes may be retroactive to the beginning of 2021 and although no amount of planning will change that, professional tax planning advice could nonetheless result in significant tax savings for high-income and high-net worth individuals, so talk to your CPA.

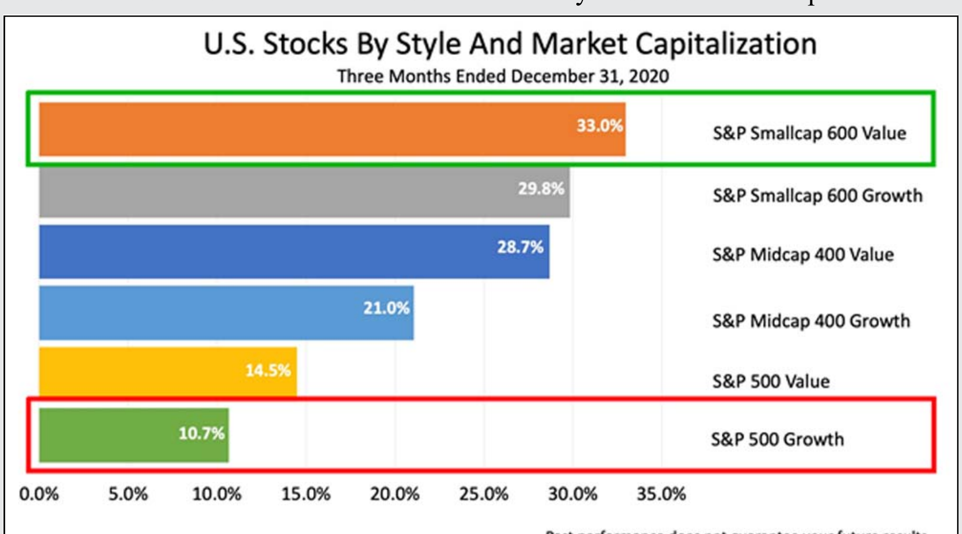
President Biden campaigned on a plan for increasing the payroll tax on select employees by adding a new 12.4% tax on those with wages of more than $400,000. Also planned is a hike in the top income tax rate, from the current 37% rate to 39.6%. Doctors, dentists, senior managers, business owners and other high-earning professionals will be affected if these two income tax hikes are enacted.

Meanwhile, the exemption from estate tax of $11.7 million – $23.4 million for a married couple may be reduced.

In addition to targeting high income earning and high net worth individuals, tax compliance by the IRS is expected to toughen. It's a way the Government can raise taxes without going to Congress.

You may not be able to avoid higher taxes under the new tax rules expected to be enacted. Tax planning is highly personal because everyone's timing, assets, income, and family situation is unique, and the precise law changes are not yet known. But enough is known about what's ahead to recommend being proactive about tax planning right now. ●

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, many 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. ●

Why Risk Can Be Your Friend

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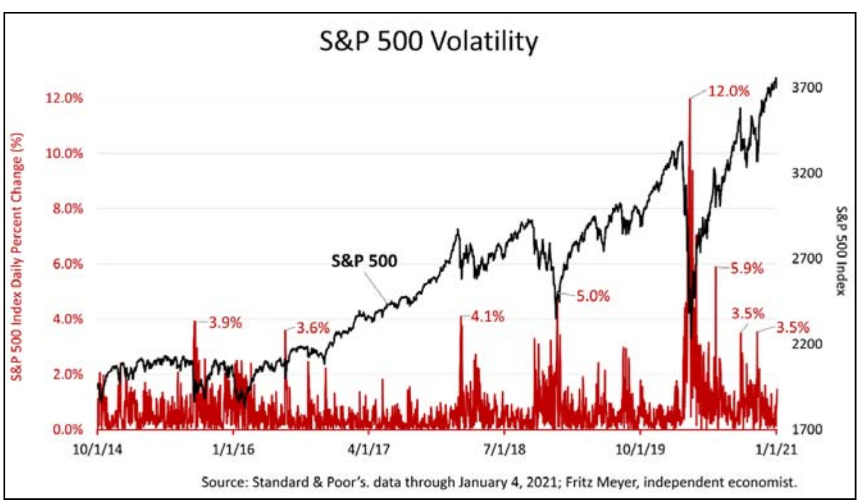
vaccines; rising inflation may pose risk for the first time in years; and the economy has recovered only five million of 14 million jobs lost in the pandemic. The risk of a stock market plunge dip is there, but retirement investors – permanent investors who plan to own stocks for the rest of their lives – 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, can enable 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 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! ●

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