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THE ADVISOR

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GameStop Saga & Interest Rate Jump Highlight a Wild January

Though the challenging year of 2020 finally ended, the first month of the New Year was no big improvement. As expected, coronavirus case numbers continued to rise, and the long-awaited vaccine rollout was fraught with problems. Meanwhile, new strains of the Covid-19 virus emerged and — even as a new presidential administration took office — the nation remained as politically divided as ever. How did the financial markets react to all this? Well, mostly with the same kind of cautious optimism we've seen since November, but there were some new signs of vulnerability.

The Dow Jones Industrial Average started February near where it started January: at just over 30,200. In the days between, it hit several new record highs, and just before the month ended, it briefly sank below 30,000 again for the first time since mid-December. What caused the dip? Well, it was a wave of investor panic and confusion over the stunning GameStop rally fueled by day traders on apps like Robinhood and Reddit.[1] The surge of buying in this fairly modest retail stock pushed the price sky-high and caused what's known as a "short squeeze", which forced sellers who had bet against the stock to quickly unwind their trades. Those sellers were mainly big hedge funds, and they ended up losing billions.

In addition to the Dow's big drop, the S&P 500 and Nasdaq both fell by nearly 2% amid the frenzy, and the market overall had its worst week since October.[2] Within a few days, it had regained most of those losses as the GameStop rally fizzled.[3] Many hailed all this as a David and Goliath tale showing how "everyday Americans" could beat Wall Street at its own game. Unfortunately, it's not that simple, since it wasn't just big brokerage firms and corporate kingpins who took the hit; it was other "everyday Americans" whose pensions are tied to those hedge funds, and whose 401(k)s shrink when the market drops.[4]

Risky Business

Much has already been written about this remarkable turn of events, and the Securities and Exchange Commission is taking a hard look at it. Was it a fluke, or a hint that the market may be vulnerable to a major correction triggered by everyday investors playing games (no pun intended)? Some analysts have said the incident illustrates all too clearly how a certain kind of stock market investing is really just another form of legal gambling.

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Financial Harmony in Marriage

Financial stress in relationships can come from many sources, but one of the most difficult is when one spouse is a spender and the other a saver. We enter marriage with attitudes toward money deeply engrained in our psyche, and those attitudes are not easily changed. But don't despair — if you find yourself engaged in a struggle with a spouse who is your opposite when it comes to saving and spending, there are steps you can take to achieve balance and harmony.

1. Agree to be a team. You got married to spend your lives together, so it shouldn't be difficult to start with this understanding, even if it may seem hard to reconcile with your money behavior. To be a team, you have to act like a team, and that starts by giving up individual possessiveness about money: there's no "your money" and "my money." It needs to be "our money."

2. Agree on your goals. Start your teamwork by articulating your long-term goals; they're the most important and the easiest to agree upon. Long-term goals might include living the lifestyle you want in retirement and educating your children. Be sure to be specific. A goal isn't a dream, like "a comfortable retirement" or "a good school for the kids." Articulating specific long-term goals involves knowing how much those dreams are

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GameStop Saga

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There is a strong element of "gaming" involved in investing in growth stocks. Although you might feel the risk is worthwhile when you're in your 30s or 40s, once you're older you tend to realize that suffering a big loss at the "gaming table" would have harsher consequences. That's because you no longer have the luxury of time to recoup the savings you'll need to generate retirement income. Even the common stock strategies used in an income portfolio can mitigate risk by being value-based rather than growth-based, which means oriented toward dividends rather than capital gains.

Another good example of the difference between investing for income versus growth was well-illustrated by another market development in January that got much less attention than the GameStop rally. Between January 4th and the 11th, the yield on the 10-Year Treasury rate spiked from 0.93 to 1.15%, then leveled off.[5] That's significant because when interest rates go up it creates a bit of a headwind for the bonds and bond-like instruments that typically form the foundation of an income-based portfolio. If you have such a portfolio and were reviewing your statements every day during the week when the 10-Year took that jump, you may have seen the value of your bonds and bond-like instruments drop by 1 or 1.5% due to the headwind. However, if you had kept reviewing them daily for the rest of the month, you would have seen those values rebound to a large extent as interest rates leveled off.

Even Better

The even better news is that none of that really matters because your income was unaffected. That means if you didn't look at your statements at all during January, you probably wouldn't even have noticed how the interest rate jump affected your investments. Now, is another interest rate jump possible this year? Could the 10-Year Treasury yield get to 2%? Well, anything is possible, but I think that scenario is unlikely.

The initial rate spike in January was probably triggered by New Year's optimism around the prospect of more coronavirus relief, along with the Fed's commitment to quantitative easing and keeping short-term rates near zero. That could trigger some healthy inflation and keep the recovery moving forward. Although with Covid-19 cases still rising and unemployment a growing concern again, there is still a lot of uncertainty out there, and many potential triggers for another stock market correction.[6] Those are just the obvious triggers; never mind the potential of another surprise like the GameStop saga!

As always, the main point right now is to make sure your current allocation is still aligned with your goals, your situation and your risk tolerance — all of which are subject to change, especially during a period of unprecedented change and uncertainty, like now!

[1] "GameStop? Reddit? Explaining What's Happening in the Stock Market," NBC, Jan. 27, 2021

[2] "Dow Drops More Than 600 Points… Amid GameStop Trading Frenzy," Jan. 28, 2021

[3] "GameStop Rout Deepens to Erase $26 Billion from Peak," Bloomberg, Feb. 2, 2021

[4] "Why GameStop Frenzy May Hurt Retirees Along with Hedge Funds," CNBC, Feb. 1, 2021

[5] YCharts.com

[6] "US Workers File 847,000 New Jobless Claims as Pandemic Rages On," AP, Jan. 28, 2021

Tips to Teach Children to Save

Think of all the lessons parents teach their children — manners, looking both ways before crossing the street, and buckling up in the car, to name a couple — but what about learning to save? Short- and long-term savings are important life lessons that should start early and remain an ongoing conversation. Here are some tips you can use to help your child learn to save:

Wants versus Needs

To a child, most everything is a need. A toy, a new bike, and a video game are all needs to them, so the first important lesson of saving is helping them understand the difference between wants and needs. You'll want to explain that needs are the basics, such as food, housing, and clothing, and that anything beyond the basics are wants. You could use your own budget to help illustrate that wants are secondary to needs.

Their Own Money

To help your child become a saver, they need to have their own money. Giving your child an allowance in exchange for chores will be a step in helping them learn to save as well as understanding the value of work.

Set Goals

Setting savings goals is a way for your child to understand the value of saving and what a savings rate is. For example, let's say one goal is a $40 video game, and they get a weekly allowance of $10. You can help them understand how long it will take to reach that goal based on how much of their weekly allowance they put toward the goal.

A Place to Save

Kids need a place to save their money, so take your child to a bank or credit union to open a savings account. This will allow them to see how their savings grows over time, as well as the progress they are making toward their savings goals.

Track Spending

Knowing where your money goes is a big part of being a better saver. Have your child write down their purchases and then at the end of the month add them all up. Just like adults, this can be an eye-opener. Help your child understand that if they change their spending habits, they will be able to more quickly reach their savings goals.

Mistakes Are a Good Lesson

A parent's natural reaction is to step in to prevent mistakes, but part of learning to control money is letting your child learn from their mistakes. A bad purchase decision can be a great lesson to understanding that a savings goal will now take much longer than they thought based on decisions they made.

Financial Harmony

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going to cost and precisely when they will occur. You need dates and dollar figures.

Once you've reached an agreement on your long-term goals, try to set out the same kind of specific plans for your intermediate- and short-term goals, like your next vacation and your savings and retirement account balances for the end of the year.

3. Practice full disclosure. Being a team means each of you is empowered to act on behalf of the other with implicit approval. This requires that each of you has full command of the facts: how much money you make, how much you owe, and how much you spend. Share the balances in any individual accounts you may hold, like checking and credit cards. You need to be completely honest with each other, even if you make a mistake now and then.

4. Budget and pay bills together. Create a monthly budget (spreadsheets are ideal for this) that compares the total of your bills and expected out-of-pocket expenses with every penny of incoming and available cash. Include an itemized list of your debts and scheduled payment amounts, as well as your asset accounts and their balances.

Thoroughness is a key determinant of your success, so don't overlook anything, especially significant one-time expenses like gifts or big nights out. Create a catch-all category called "miscellaneous" for the little things you might forget — or those that are small and hard to pin down.

Pay your bills at the same time in the same place, and then update your budget spreadsheet as you do. This means revisiting your monthly budget at least once a month. Print out two copies and keep them somewhere you can easily glance at should the need arise.

5. Update your checkbook(s). One way spenders rationalize their behavior is by keeping themselves in the dark about how much they really have to spend. If you're going to be faithful to the budgeting process, you have to keep careful track of your cash on hand and that means being sure your checkbook entries are up to date.

6. Agree on spending rules. You both need to agree on how much you can spend on purchases without consulting each other. Beyond this preset amount, you should talk about the purchase in advance and adjust your budget accordingly.

7. Create a financial plan. Everybody should have a professionally prepared plan, but for couples with polarized spending and saving habits, it's especially important. A professional can provide the expertise and tools you may lack. He/she will also serve as an impartial third party to help you defuse your money debates.

For help creating that financial plan or putting any of the other financial steps into practice, please call.

Guarding Your Financial Information

Protecting your financial accounts and information is extremely important. Here are some steps to help you:

Passwords and PINs

Create strong passwords that contain numbers, letters, and symbols, and don't share them or store them on your computer. If you need to write down your passwords and PINs, put them in a secure place. You should change your passwords and PINs on a regular basis.

Keep Your Computer Secure

It is best to always use your own computer or device to access your financial accounts. Make sure your computer has up-to-date security software, including anti-virus, anti-spam, and spyware detection.

Completely Log Out

Always click the log out button to terminate your session. Access to your account may not be terminated by closing your browser or entering a new web address.

Use Secure Wireless Connections

Only use secure wireless connections when accessing your financial accounts, as they provide much more security. Be cautious of using hotspots in public areas, like airports, hotels, and restaurants, because they often reduce their security settings to make it easier to access their wireless networks.

Protect Your Apps

If you access your financial accounts through an app on your mobile device, make sure you use the highest security setting that is available and that your device is password protected.

Check for Secure Websites

Most financial institution sites are very secure, but when shopping online with your credit card, make sure you are using a secure site. The address of a secure website connection starts with https instead of just http and has a key or closed padlock in the status bar.

Never Respond to Emails Requesting Personal Information

If you receive emails that request personal information, such as your Social Security number, passwords, or PINs, do not respond to them. A legitimate company or financial institution would not ask you to provide or verify sensitive information through email.

Review Your Statements

Make sure to review all of your monthly financial account statements to ensure that all transactions are accurate.

Secure Your Documents

Find a safe location to maintain your financial documents. When disposing of any financial information, make sure that you shred the documents before throwing them away.

Protect Your Social Security Number

You should keep your Social Security card in a secure place and not carry it with you. You should also never use your Social Security number as a username or password.

Check Your Credit Reports

By reviewing your credit report on a regular basis, you may be able to identify inaccuracies or unauthorized activity. You can obtain a free credit report every 12 months from the three different credit bureaus by visiting AnnualCreditReport.com.

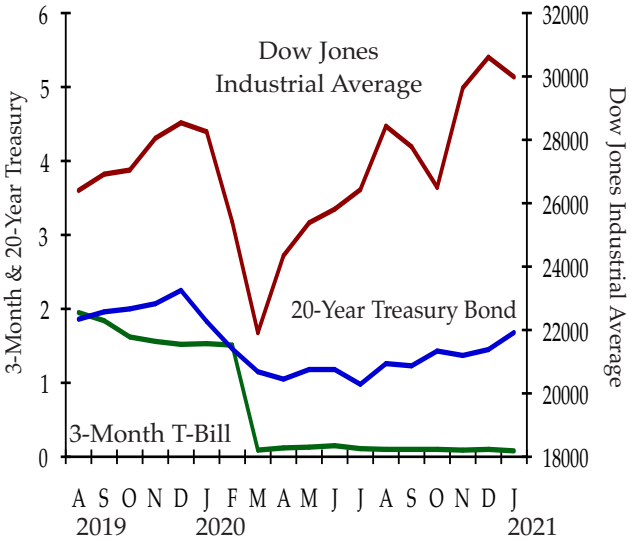
Business Data

Indicator	Month-end Nov-20	Dec-20	Jan-21	Dec-19	Jan-20
Prime rate	3.25	3.25	3.25	4.75	4.75
3-month T-bill yield	0.09	0.10	0.08	1.52	1.53
10-year T-note yield	0.84	0.93	1.11	1.92	1.51
20-year T-bond yield	1.37	1.45	1.68	2.25	1.83
Dow Jones Corp.	2.01	1.93	2.04	2.84	2.59
GDP (adj. annual rate)#	-31.40	+33.40	+4.00	+2.10	+2.10

Indicator	Month-end Nov-20	Dec-20	Jan-21	% Change YTD	12 Mon.
Dow Jones Industrials	29638.64	30606.48	29882.62	-2.0%	6.1%
Standard & Poor's 500	3621.63	3756.07	3714.24	-1.1%	15.2%
Nasdaq Composite	12198.74	12888.28	13070.69	1.4%	42.8%
Gold	1762.55	1887.60	1863.80	-1.3%	17.6%
Unemployment rate@	6.90	6.70	6.70	0.0%	91.4%
Consumer price index@	260.39	260.23	260.47	0.1%	1.4%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
August 2019 to January 2021



Do You Have a Rainy Day Fund?

None of us know when a crisis is going to hit, and a job loss or sudden disability can be financially devastating. Financial professionals suggest you should have at least six months of living expenses readily available to meet urgent short-term needs.

If you haven't established a cash reserve, here are some steps you can take to build that rainy day fund:

- Budget a savings amount as part of your regular household expenses.
- Use payroll deductions so the money automatically goes into your savings account.
- If you get a raise or bonus, put some of it into your fund.
- Reduce your discretionary expenses and put it toward your fund.
- Consider banking earnings from investments.
- Set-up a money jar where change and small bills are put in at the end of each day.
- Open a savings account at a different institution so you are less likely to spend the money.

You'll want to make sure that your cash reserve is readily available when you need it. There are several accounts that you can use, including a traditional savings account; a money market account, which typically pays higher interest tiered by balance; and short-term certificates of deposit.

While you shouldn't consider loans as part of your cash reserve strategy, if you have an immediate cash need and don't have the funds, you can look at other sources such as an insurance policy with a cash value you can borrow from or a home equity or personal line of credit.

Please call if you'd like to discuss this in more detail.

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