



The Mosaic Financial Group LLC

Your Wealth Management Partner

Special Report: Long-Term U.S. Equity Investments And Demographics

Population trends of the United States versus other countries rarely make headlines in the financial press, but a population bust has been in the news this week.

According to a newly released Pew Research study of U.S. adults, 44% of non-parents ages 18 to 49 say it is “not too or not at all likely that they will have children someday,” an increase of seven percentage points from the 37% who said the same in a 2018 survey. That sounds frightening, but is it?

Pew also reported that, unchanged since 2018, 74% of adults younger than

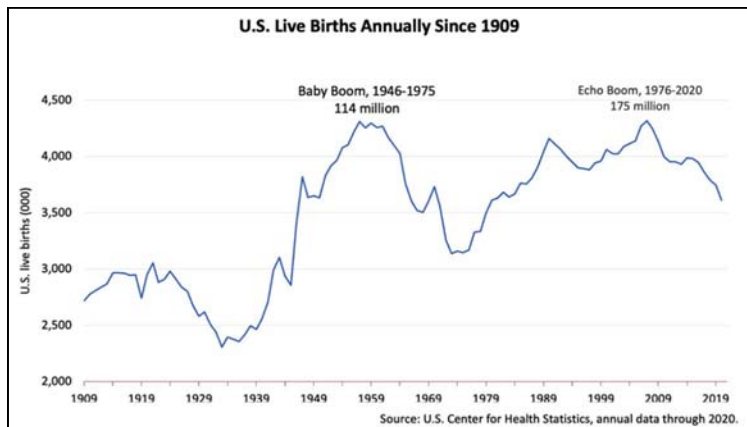
50 who are already parents say they are “unlikely to have more kids”. To be clear, the same number of parents are not planning to have more children now versus pre-pandemic.

Moreover, though the pandemic may have caused a larger proportion of 18- to 49-year-olds to say they are not too or not-at-all likely to have children someday, the larger demographic trend in the decades ahead is very positive for the United States compared to other global economic powers. Here’s why U.S. demographics are a highly favorable and influential factor in the forecast for U.S. equity investments for the long run.

The size of a nation’s labor force is one of the two factors in the equation for calculating an economy’s growth

potential. Productivity growth plus growth in the working age population, combined, determine the growth potential of an economy. So, how will demographics boost the potential growth of the U.S. economy and U.S. equity investments in the years ahead?

Here’s the answer: This chart shows the change in live births in the U.S. annually since 1909. It tells us that the



demographic story of the U.S. now is driven largely by these two peaks -- the Baby Boom, which started after World War II, and the Echo Boom, which started in 1976 and encompasses Gen X, Gen Y millennials, and Gen Z millennials. Since 2008, the story has been somewhat gloomy. Growth in the U.S. working-age population has been declining. But look at the long-term forecast.

While the proportion of 18- to 49-year-olds saying it is “not too or not-at-all likely that they will have children someday,” grew by seven percentage points, they are on the margins of a larger wave reverberating from the Baby Boom.

In the near-term, the number of baby

Spotlight On... Frank Miller

Hello, my name is Frank Miller, and I am an investment associate at the Mosaic Financial Group. I started working at Mosaic in December of 2020.

I graduated from Illinois Institute of Technology with my bachelor’s in business administration with a focus on finance. I became interested in investments after taking a strategic options course in college and learning about the unique attributes of options.

I was born in Chicago and live in the southwest suburbs. During my free time, I enjoy helping my father remodel homes and rebuild cars. When it is warmer, you might also find me driving yachts on Lake Michigan.

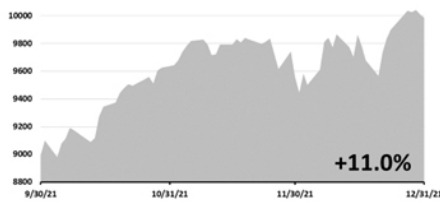
I am thankful to work with a great team of tax and investment professionals at Mosaic, and I wish everyone a happy and healthy 2022.



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Market Data Bank: 4th Quarter 2021 ^ψ

S&P 500 Total Return
Three Months Ended December 31, 2021



S&P 500 SOARED AGAIN

In the final quarter, the S&P 500 gained 11%. It was the seventh consecutive quarter of gains since the -19.6% quarterly loss in 1Q2020, when the pandemic struck. Between the March 23, 2020, bear market low and end of 4Q2021, the S&P 500 total return, which includes dividends reinvested, was more than 70%.

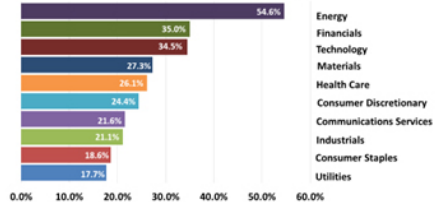
S&P 500 Total Return
12 Months Ended December 31, 2021



A 12-MONTH WALL OF WORRY

The S&P 500 gained 28.7% in 2021. The hot economy, fueled by government pandemic aid and the lowest interest rates in U.S. history, drove stocks. With yields on U.S. Treasury bonds negative after inflation, stocks were more attractive than bonds and a new stock valuation paradigm was in place.

Standard & Poor's 500 Sector Indexes
12 Months Ended December 31, 2021



INDUSTRY SECTORS

All 10 industry sector indexes maintained by Standard & Poor's showed positive returns in 2021. A rebound in oil prices fueled a +54.6% return on the S&P energy stock index in 2021. However, look at how poorly oil indexes performed relative to other investments over five years in the next chart.

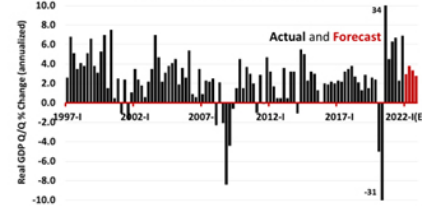
Indexes Tracking Asset Classes
Five Years Ended December 31, 2021



INDEXES TRACKING 13 ASSET CLASSES

Of 13 asset classes represented by indexes here, oil was the biggest loser over five years. Despite a rebound in 2021, oil investments lost -28.6%. Master limited partnerships, heavily weighted in the energy sector, was second-worst. But the main takeaway is the outstanding performance of the broad stock market.

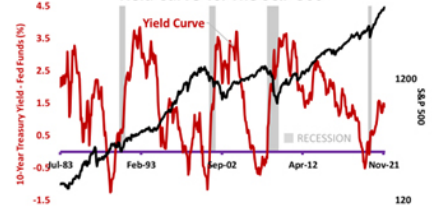
Consensus GDP Forecast



STRONG GROWTH EXPECTED IN 2022

In a big surprise, 4Q2021 growth was 6.9%! It propelled a growth rate for all 2021 of 5.7% – the best growth since 1984! With economists underestimating the strength of the U.S. economy in 4Q2021, it's likely the consensus forecast for 1Q2022 is also low, making a growth surprise in early 2022 more likely.

Yield Curve Vs. The S&P 500



YIELD CURVE

The Federal Reserve Bank has caused every recession in the U.S. since 1950s by inverting the yield curve, making long-term yields fall below short-term yields. At 1.39%, the yield curve is not even close to inverting, and this Fed has been very accommodative for years. A positive yield curve is favorable for continued growth.

Past performance is never a guarantee of your future results. Indices and ETFs representing asset classes are unmanaged and not recommendations. Foreign investing involves currency and political risk and political instability. Bonds offer a fixed rate of return while stocks fluctuate. Investing in emerging markets involves greater risk than investing in more liquid markets with a longer history. Indices are unmanaged and not available for direct investment. Investments with higher return potential carry greater risk of loss. Sector performance data from Standard and Poor's. GDP chart data from Bureau of Economic Analysis, quarterly data through December 2021; forecast from The Wall Street Journal survey released January 2022. Yield curve data from National Bureau of Economic Research, Federal Reserve, and Standard & Poor's through December 2021.

Make This Financial Resolution For 2022

The U.S. stock market's 133% five-year return dominated this diverse group of 13 securities

investments. None of the other asset classes came even close to the total return of the Standard & Poor's 500 stock index.

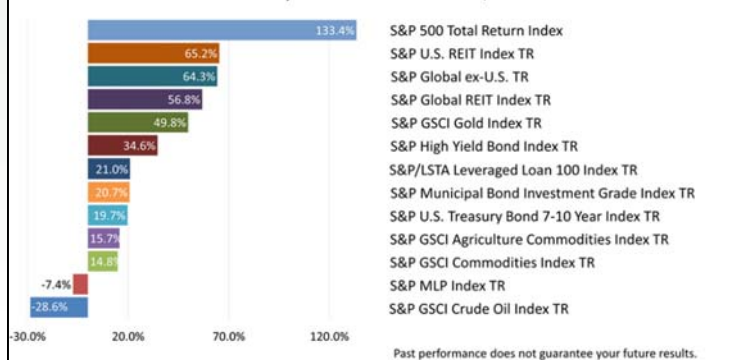
With another year passing, the financial media is naturally talking a lot about the spectacular returns on stocks and real estate, and there's a smattering of coverage about the big losers – investments in energy and

commodities. The coverage will get talked about at business luncheons, cocktail parties, and investment

seminars. We suggest resolving not to get caught up in the talk in 2022.

The spectacular returns of stocks are causing speculation – not just speculation in risky investments but speculation in the media that the stock market is in for a lackluster year in 2022 or even a loss. For example, *The Wall Street Journal's*, January 3, 2022, print edition, led with a story entitled, "Stocks Confront Rockier Course In 2022." Similarly, *The New York*

Indexes Tracking Asset Classes
Five years ended December 31, 2021



Past performance does not guarantee your future results.

7 Signs The Economy Is Doing Better Than People Think

Consumer sentiment is depressed, and business owner optimism declined by 18 points in the four months between August and November. Amid the Covid-weary, inflation-battered economy, here are 10 signs the economy is doing much better than most consumers and businesses think.

The U.S. Leading Economic Index (LEI) has soared well beyond heights previously reached in modern history in recent months, and it surged again in November. The index of leading economic indicators is at an all-time high, suggesting the current economic expansion will continue into 2022 and may even gain some momentum in December and into the first quarter of 2022.

Household net worth has surged on stock market and real estate gains, according to newly released data from the Federal Reserve Bank. The average annual growth rate is 5.8% in household net worth versus the current reading, which has gone parabolic. Liquidity pumped up cash in Americans' checking and savings accounts from pandemic aid stocks and

home prices have soared. "The 'wealth effect' is something real," according to economist Fritz Meyer. "And it is doing something that it hasn't done since the last bubbles in both the stock market and real estate. When household net worth goes higher, it stimulates higher spending, which stimulates higher stock prices."

The latest financial obligations ratio from the Fed shows the percent of monthly after-tax income that the average household pays for fixed monthly obligations, such as a mortgage, car payments, utilities, and real estate taxes, is near a record low. This suggests there's more left over from monthly after-tax

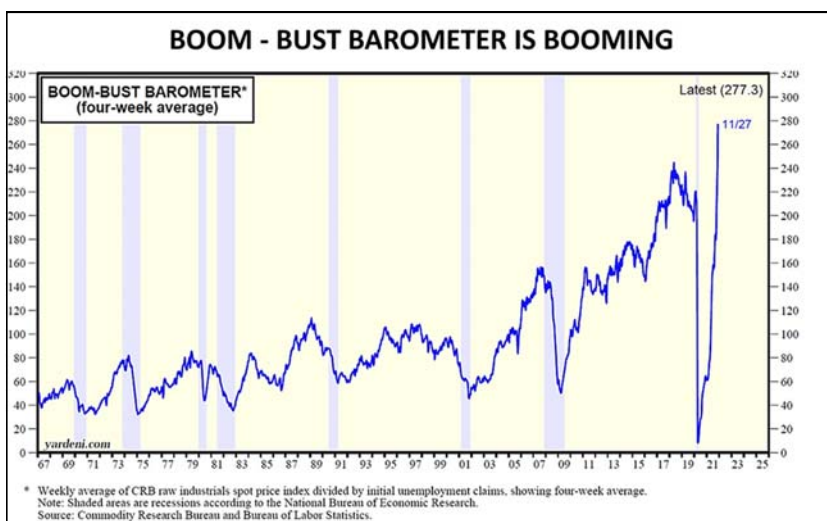
income available to spend on discretionary purchases.

Retail sales, which account for 30% of U.S. economic activity, have skyrocketed since the pandemic first hit in March 2020. Retail sales have not returned to their pre-pandemic growth trend, they've soared well beyond. Retail sales consist mostly of tangible products, as opposed to services. This indicates people may be spending more on goods versus services than they do historically because of Covid-19.

The Institute of Supply Management's survey of business conditions monthly at service-sector companies has soared to a record high.

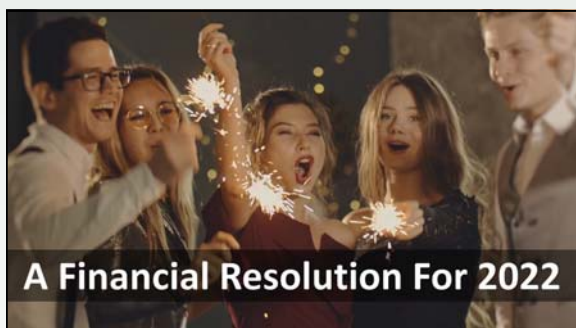
The service sector accounts for 89% of U.S. economic activity and 91% of non-farm jobs. A forward-looking component of this index, which measures the flow of new orders, was also at a record, at 69.7.

Commodity prices recently hit a record high while initial unemployment claims plunged, causing Yardeni



Research's Boom-Bust Barometer to go parabolic. Shown here since 1966, the boom-bust barometer went bust when Covid hit the U.S. in February 2020 but in March 2020 when the recovery began, it soared and in recent months it's soared faster and higher than ever before!

Dr. Yardeni designed the Boom-Bust Barometer to predict economic slowdowns before they become recessions and for predicting expansions before they become booms. The index divides the price of a basket of commodities by the number of initial unemployment claims, and it has a good track record as a reliable predictive tool. It's current reading is consistent with expectations of a boom in the economy. ●



Times, led its business section on Jan. 1, 2022, with the headline, "The Big Uneasy." "Shares soared as interest rates stayed low and stimulus programs helped the economy," *The Times* reported. "But expected changes could make investors wary."

We suggest ignoring the

speculation. The stock market is unpredictable. Covid, too, has been unpredictable. Inflation is higher than in decades. Federal Reserve policy just changed from dovish to hawkish on inflation, but interest rates have never been so low in U.S. history.

Despite the unprecedented crosscurrents, the stock market could go much higher in 2022. It also could go down. However, the economy is roaring and there is certainly no sign of a recession on the horizon.

If you rely on our advice, resolve in 2022 not to get caught up in the financial zeitgeist. ●

A Framework For Investing For Life

Modern Portfolio Theory, or MPT, is a framework for investing. It provides part of the intellectual underpinning of our firm's approach to managing investments. So, it is important to explain it periodically.

Just as constructing the framework for a home is strategically designed by connecting one piece of wood with another, MPT provides a system for constructing a portfolio based on measurable dimensions of investments – history and quantitative characteristics.

Owning different kinds of investments is less risky than owning only one type of asset, and MPT is a system for diversifying across a wide range of assets based on their statistical characteristics.

Classifying investments based on their distinct characteristics – such as the aggregate value of a company's shares outstanding, profit growth, and share-price variance – imposes a quantitative discipline for selecting combinations of investments based on historical data. Investments revolve around a world that is always changing, however, and not enough statistical history of different kinds of investments exists to make

investment predictions about the future with certainty. MPT is a way of managing that uncertainty.

Just as every stud and joist in a home has its own mathematical dimensions, investments have their own unique shape and characteristics. MPT organizes statistics that measure the characteristics of different kinds of investments used to construct a portfolio. It's a way of building a portfolio so that the return you expect over the long run is maximized for a given level of risk.

Just as a home can be built to your personal needs and preferences, so, too, can a portfolio be custom-built to suit your personal risk tolerance specifications. To be clear, cookie cutter portfolios is not what we do.

Each portfolio can be tailored to an investor's preferences.

Economist Harry Markowitz introduced MPT in a 1952 essay. He was awarded a Nobel Memorial Prize in Economic Sciences in 1990. Thus, it took from 1952 to 1990 – 38 years – for Markowitz to be recognized by the Nobel committee. This provides insight into the how long it takes for knowledge to be accepted.

Over the last 70 years, the power of Modern Portfolio Theory has grown to be understood. It is now the framework for investing embraced by most institutional investors worldwide and it is now a foundational element in teaching finance at the world's best colleges and universities.

MPT is a starting point for constructing a quantitatively driven portfolio based on fundamental economics. Just as the laws of physics are relied upon for building a home, fundamental factors of economics are relied upon in constructing a portfolio using MPT. To receive a report on investment performance and current financial economic conditions, please contact us. ●



Special Report: Long-Term U.S. Equity...

(Continued from page 1)

boomers set to retire is peaking now through 2026. Then, growth of the labor force is expected to slow to a crawl through 2030. In the early 2030s, just a decade from now, the trend shifts, and the U.S. workforce is expected to begin to grow again, and steadily at that, through 2050.

Despite the growing proportion of adults less likely to have children, according to Pew Research, investors should be mindful of the favorable demographics expected to swell the ranks of the working age population in the U.S. at the same time as other global economic powers will be experiencing slowdowns in the rate of growth of

their workforces.

By comparison, the economic growth rate for the United States in the decades ahead is going to look attractive to investors globally, because the other major economies that compete for investment dollars -- Europe, China, and Japan -- are all now in the throes of declines in the size of their

working age population.

As a result, the U.S. is likely to remain an attractive investment destination for the foreseeable future. The U.S. is widely expected to continue to benefit from a continued inflow of capital from investors worldwide -- a portion of which undoubtedly can be expected to flow into the stock market.

Math driving economic and investment growth is hard and is further complicated by the non-stop, 24/7, never-ending cycle of news and social media streaming to our smartphones. The information explosion, ironically, makes it easier to overlook the proverbial forest of evidence crucial to success of your investment plan. ●

