The Mosaic Financial Group LLC
Your Wealth Management Partner

The Cost Of Not Having A Financial Plan Is Surging

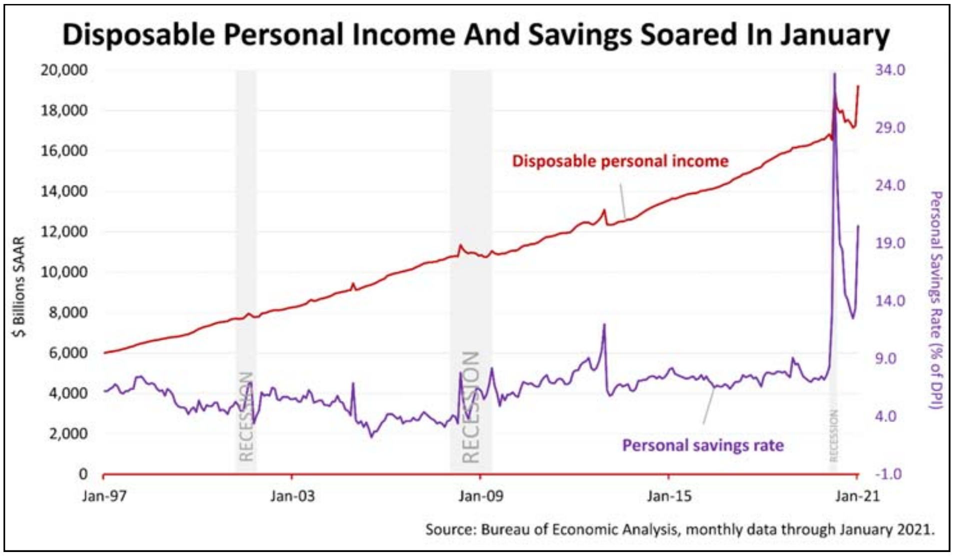
With the cloud of the Covid pandemic still hanging heavy across the nation, Americans are sitting on an unprecedented mountain of cash while income, estate and gift tax rates are changing. Financial planning in the current environment of accelerated change is suddenly much more important.

If ever there were a silver lining, it's that staying at home has enabled Americans to amass a cash reserve as never before. However, the speed of change has accelerated rapidly, driving up the cost of failing to update a personal financial plan. What's going on?

The pandemic has spawned federal payments to Americans at a level never seen before. Here's the latest snapshot of the unprecedented change in disposable income and savings under way, according to the latest data from the U. S. Bureau of Economic Analysis.

While the following chart only goes back to 1997, the dual surges in these two important factors driving growth of the economy are without precedent in modern U.S. history. The surges resulted from Covid relief cash payments made by the government in April and May 2020 and again in January 2021. Cash from the 2020 payments accumulated in savings accounts and was being spent down when January's Covid aid payments hit. The $1.9 trillion aid and stimulus package is going to cause another surge in disposable income and savings.

The fundamentals driving this economy are confounding and totally unexpected. In 2020 and early 2021, as the nation endured its worst public health crisis ever, stock prices repeatedly broke new all-time record-highs! The proximate cause of the stock price gains amid a pandemic was an explosion in savings held by



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Counseling You On Financial Risks At Pivotal Moments

2020 was a terrible year, but stocks soared and 2020 was actually a great year for the Standard & Poor's 500 stock index!

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.

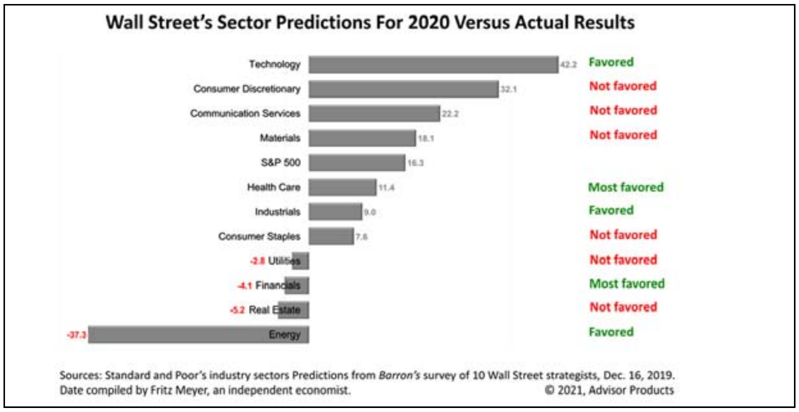
At the outset of the Covid pandemic, so many investors bailed out after stock prices began to drop. Some investors dropped out after the S&P 500 lost -10%, and some sold off after their stock holdings dropped by 20% or 25% from their peak value. Ultimately, the bear market bottom of the Covid crisis 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 can you 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.

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.



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. © 2021, Advisor Products

Fritz Meyer, an independent economist, whose content is licensed by this firm, 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, shot up by 16.3% 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.

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. © 2021, Advisor Products

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.

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. ●

Test Your Knowledge Of Urgent Wealth Management Issues

Do you know what's happening at this pivotal moment in U.S. financial history? Take this quiz to find out.

1) More than two-thirds of financial professionals surveyed by a leading continuing education website say the odds of a 12.4% hike in 2021 on high-income earners are greater than 50/50.

a) True
b) False

2) Forty-five percent of financial professionals say there's at least a 50/50 chance that the estate tax will be expanded in 2021.

a) True
b) False

3) Financial professionals predict that millions of Americans are about to get slammed with much higher taxes unless they act by the end of the year.

a) True
b) False

Act Before Hitting The Crossroad Of Fiscal And Tax Reality

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 now is your last chance to act before 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 going 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. Acting now – before the shift in tax policy is enacted into law – could result in significant tax savings in 2021 and subsequent years.

Precisely which taxes will rise and by how much is yet to be decided. Some of the tax hikes will 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.

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 – is almost certain to be slashed to $3.5 million – $7 million for a couple, under Mr. Biden's tax plan. If this change is enacted, the estate tax will be expanded to hit millions of families.

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. ●

4) Assuming the 12.4% payroll tax increase proposed by President-Elect Joseph R. Biden does indeed go into effect next year, shifting income into 2020 before the end of this year could save business owners, as well as doctors, dentists, and other professionals who are employees, tens of thousands of dollars in taxes in 2021.

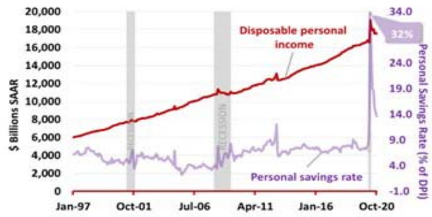
a) True
b) False

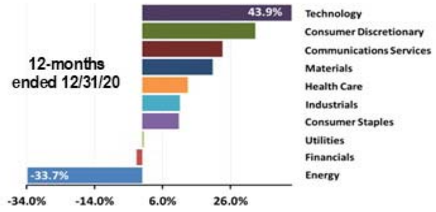
5) President-Elect Biden's tax plan would slash the $11.58 million currently exempt from estate taxes to:

a) $1.1 million.
b) $3.5 million.
c) $7.5 million.
d) zero.
e) None of the above.

Answers: 1-a; 2-a; 3-a; 4-a; 5-b

Market Data Bank: 4th Quarter 2020 Ψ





S&P 500 SOARED AGAIN

Stocks posted a +12.2% gain in 4Q2020, following an +8.9% gain in the third quarter and a +20.5% surge in the second quarter of 2020, which followed the COVID bear market loss in the first quarter of 2020 of -19.6%. Not only did the S&P 500 recover from the -33.9% COVID bear market loss, but it broke its pre-pandemic high.

COVID AID SENDS SAVINGS SKYWARD

Disposable personal income was sent skyrocketing in April 2020 by COVID aid totaling nearly $4 trillion. It sent personal savings surging to a once-unfathomable 32% rate! A new aid package expected to be enacted would send savings surging again. The excess liquidity is driving capital-gain asset prices higher.

ENERGY WAS WORST SECTOR AGAIN

Propelled by Facebook, Amazon, Apple, Netflix, Google (FAANG), tech stocks outperformed all other industry sectors again. It was the sixth consecutive quarter in which 12-month returns on the 10 industry sectors were led by tech stocks and energy industry shares were the poorest performers.

INDEXES TRACKING 13 ASSET CLASSES

Across a diverse group of 13 asset classes, what stands out is the doubling of the S&P 500 in the five years ended 12/31/20. Since 1926, stocks have historically averaged a +10% return annually. Doubling historical returns is particularly unexpected, considering the February–March 2020 COVID bear market loss of –33.9%.

EQUITY RISK PREMIUM

Over the 23 years ended 12/31/20, a risk-free 90-day U.S. Treasury bill averaged +1.86% annually, compared to +8.08% on stocks. That's equal to a +6.22% annual premium for taking the risk of owning stocks through the tech crash of 2000, the 2008 global crisis, and the COVID bear market.

WHAT TO EXPECT

The equity risk premium grew because stocks, relative to bonds, grew more valuable. Stocks have been trading above the historical price/earnings ratio. With the normal valuation relationship between stocks and bonds out of whack, stock plunges should be expected. Volatility spikes, in red, grew more frequent in 2020.

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. Actual annual sector performance data from Standard and Poor's; equity risk premium data ©2021, 7Twelve™ Portfolio, Craig Israelsen.

Cost Of Not Having A Financial Plan

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Americans, financed by a series of cash payments from the Government.

With interest rates low and the Fed reiterating in March that it does not plan to raise rates for the foreseeable future, bonds are not an attractive investment. So, consumers sitting on this mountain of cash that has been mounting for many months now may spend it or invest it for the long run. Both outcomes would be good for asset prices on stocks and housing.

Central bankers and economists will be debating the long-term effects of the growing influence of government in the U.S. economy and the risk it poses, but the financial outlook for now is unexpectedly bright, even as the dark cloud of the pandemic casts a long shadow over the nation.

Financial assets are being revalued, as the relative value of stocks versus bonds has changed.

Meanwhile, taxes are about to be hiked by another new Covid aid legislation package, the American Rescue Plan, and another round of legislation that will hike taxes further is expected to be adopted after the economy has recovered but before the end of 2021.

When the pace of change in the world was slower, the cost of not having a strategic financial plan was not so dear. This is not the time to sit on your hands. This is the time to act. ●