



The Mosaic Financial Group LLC

Your Wealth Management Partner

What's The Risk Of A Market Melt-Up?

The Standard & Poor's 500 stock index repeatedly broke records for months and the risk of a market melt-up should be considered. Are stocks fairly priced? For the answer, we turn to Jerome Powell, the U.S. Federal Reserve Bank chairman.

Fed chairmen generally avoid talking the stock market up or down. However, at a press conference in December 2020, Mr. Powell was asked specifically about the fact that stocks are highly priced by traditional valuation standards, like price-to-earnings (P/E) ratios. Mr. Powell's answer is important to investors, though it did not get much press.

That day, the East Coast faced the worst winter storm in years and a lot of things were going on, as always. But here's what Mr. Powell said: "Admittedly, P/Es (price/earnings ratios) are high, but maybe that's not as relevant in a world where we think the 10-year Treasury is going to be lower than it's been historically."

The Fed chair is saying stocks are not overpriced compared to bond yields, which are going to be low for a sustained period. The Fed is saying, pay no attention to the market's P/E ratio; it's more relevant in the current conditions to value the market's P/E ratio relative to bond yields. On that basis, stocks aren't expensive.

Mr. Powell was saying that the traditional valuation measures, including P/E ratios, may not be so relevant right now because of the low-interest rate situation worldwide. He's saying that what's most important in the current financial economic conditions, is the comparison of the P/E ratio to bond yields.

Just as you would not use a sledgehammer to drive a nail, the valuation method commonly used to measure current stock prices – P/E ratios – is the best tool for this situation. The current situation is uncommon, and it makes sense to use a tool to measure

Your Financial Psychology Under Current Conditions

Are you a risk taker? Will you follow through on a long-term plan? Or maybe your natural tendencies make you prone to spend impulsively and let short-term emotions control your budget and investing decisions. These are financial personality traits that behavioral economics helps you identify and manage.

The psychological dimension of financial planning is part of the knowledge learned from the burgeoning social science of behavioral economics, a field recognized for its contribution in helping to improve society through knowledge in 2002 with the award of a Nobel Prize in Economics to Daniel Kahneman, and again in 2017 with the Economics Prize awarded to Richard Thaler.

A practical benefit of behavioral economics is that investors can take assessments to understand their personal financial personality traits.

With traditional stock market price-to-earnings valuation benchmarks broken and growing concerns about a bubbly market, it is important to keep the speculative nature of excitement-seekers in check. Meanwhile, risk-averse individuals cannot allow their natural tendencies to make them so fearful that they avoid stocks and risk assets, or for retirees to worry excessively about outliving their savings.

The current economic boom, unprecedented government stimulus, inflation scare, and record-breaking stock prices make this a good time to assess your unique investor personality traits. Understanding your financial personality can help you make better decisions.



The Risk Of A Market Melt-Up

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A Tax And Financial Planning Opportunity Is Closing

From the perspective of a financial professional, the window of opportunity to act before taxes are hiked is about to close. The plan to end the step-up in basis on inheritances is perhaps the most significant change.

Other tax proposals President Biden campaigned on include a sharp reduction in the favorable treatment on profits from investments, a new

top tax rate of 39.6%, and an expansion of the 12.4% Social Security tax on tax-filers who earn more than \$400,000 in adjusted gross income annually.

At the time this was written, the details of the new taxes were still unknown. The elimination of the step-up in basis was still an open question but politics were dictating the timeline and dimensions of the tax changes.

It's possible the tax hikes about to be negotiated in Congress could be retroactive, which would render defensive planning measures fruitless. That's unlikely, but the window of opportunity to act is closing.

If your annual income is higher than \$400,000 or your family has an estate worth more than \$3.5 million, please let us know if you have questions. ●



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 has been the long-term trend. And, again, to know that, you'd have to examine the last five years of performance.

Financial news is rarely reported from the historical perspective of an investor building a sustainable retirement income stream. Count on



Going Out On Your Own Terms: Six Key Documents In An Estate Plan

Everyone's estate plan is unique, but these six documents are key in ensuring your final wishes are carried out and you end life on terms you have set out.

1. Financial power of attorney. This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

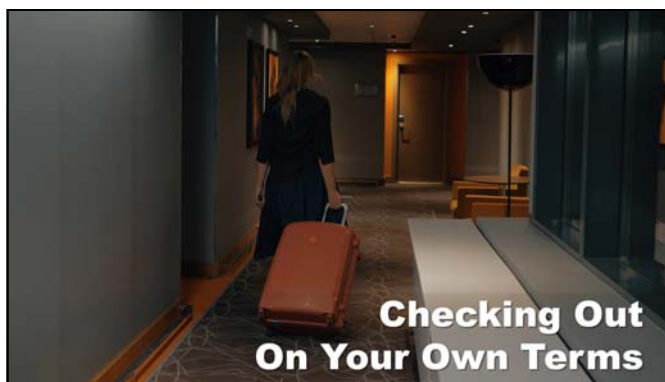
The attorney-in-fact may have broad powers. They may be enabled to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

2. Health-care power of attorney. This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

3. Living Will. While a health-care power of attorney may authorize someone to help with end-of-life

decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.



4. Trusts. There are many reasons for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will. Because assets in a living trust don't go through probate

court proceedings, it keeps the disposition of your final affairs private and asset transfers through a trust are harder to contest than assets that go through the public probate process. The probate process can also be lengthy.

Though there are a myriad of variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. While that's not the case with an irrevocable trust, it can protect assets from creditors and remove them from your taxable estate.

5. Final Letter. A final letter can be used to write down a plan for your funeral arrangements, who is to inherit precious family heirlooms, works of art, personal items, and to bestow final blessings and salutations to the people who matter most to you.

6. Will. Your will establishes how your assets will be distributed after you die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

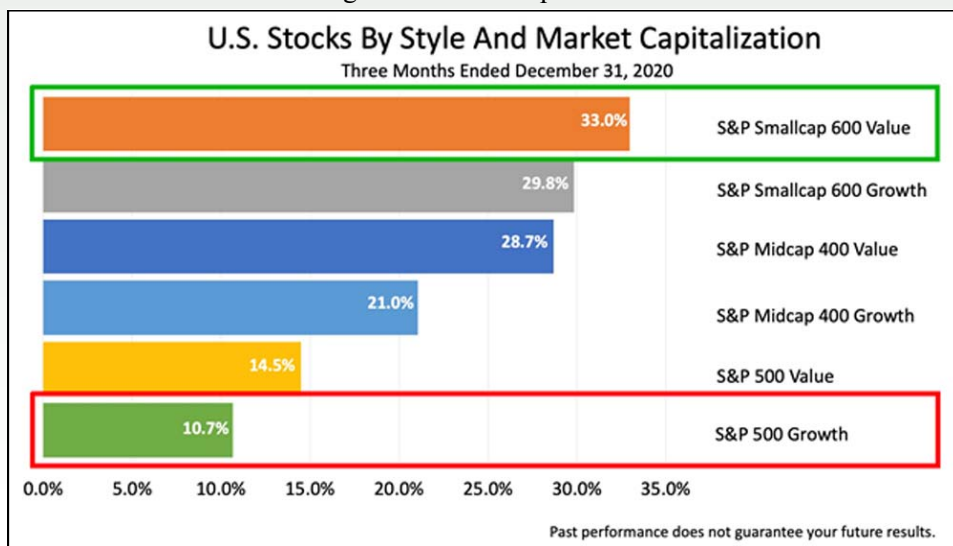
If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you can't be without.

Drawing up documents is left to legal professionals but coordinating the drafting of these documents with your attorney to ensure your final objectives in life are met after your death is often the province of a trusted financial advice professional, as is assuming powers over your financial affairs should you ever become incapacitated and quarterbacking a team of professionals.

How to best invest your final assets in the people and beliefs you hold most dear requires your most careful consideration and planning and is not a responsibility we take on lightly. If you have questions about going out on your own terms that you set out, please don't hesitate to contact us. ●

us for that kind of focus and for financial news filtered through a lens

reflecting history and investment experience. ●



Market Data Bank: 1st Quarter 2021 Ψ



S&P 500 SOARED AGAIN

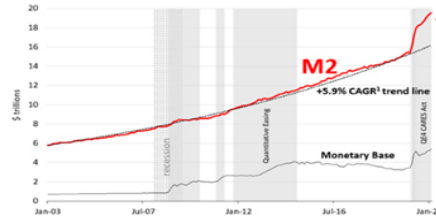
Stocks posted a +6.2% gain in 1Q2021, after a +12.2% gain in 4Q2020, an +8.9% gain in 3Q2020 and a +20.5% surge in the second quarter of 2020, which followed the COVID bear market loss in 1Q2020 of -19.6%. Not only did the S&P 500 recover from the -33.9% COVID bear market loss, but it broke its pre-pandemic high.



INDEXES TRACKING 13 ASSET CLASSES

US stocks returned 10 times more than bonds in the five years ended 3/31/21, while US large-company stocks returned twice as much as foreign stocks. US stocks are the growth engine of a prudent portfolio, which makes the outperformance by stocks fantastic news for retirement investors guided by modern portfolio theory.

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, 7T twelve™ Portfolio, Craig Israelsen.



COVID AID SENDS SAVINGS SKYWARD

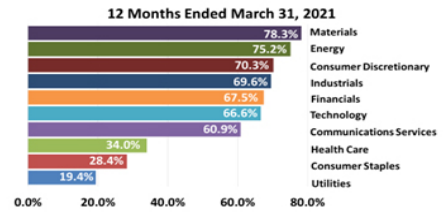
M2, currency held by the public plus checking, savings and money market accounts, shot up like never before after unprecedented US stimulus and aid payments in response to the pandemic. Unlike previous "quantitative easing" when the Fed bought US long-term bonds, Americans are loaded with cash to spend.

S&P 500 Total Returns For The Past 25 Quarters

Year	1Q	2Q	3Q	4Q
2021	+6.2%			
2020	-19.6%	+7.5%	+8.9%	12.2%
2019	+13.7%	+4.3%	+1.7%	+9.1%
2018	-0.8%	+3.4%	+7.7%	-13.5%
2017	+6.1%	+3.1%	+4.5%	+6.6%
2016	+1.4%	+4.0%	+3.9%	+3.8%
2015	+1.0%	+0.3%	-6.4%	+7.0%

HOW GOOD IS A +6.2% QUARTERLY RETURN?

The green boxes highlight the nine quarters, of the past 25, when the S&P 500 returned +6.2% or more. How good is +6.2%? It's extraordinary! Six years and three months of bull market gains interrupted by the February-March 2020 -33.9% bear market plunge. And the M2 surge could keep the bull running.



ENERGY WAS NOT WORST SECTOR AGAIN

Not that predicting which sectors perform best is possible, this bar chart shows slow and steady sectors definitely did not win the 12-month race, with utilities and consumer staples trailing growth-sector returns sharply. After six straight quarters in last place, energy-sector stocks came in at the No.2 slot.



WHAT TO EXPECT

It generally takes a recession to cause a bear market in stocks. The big downturns in the stock market almost all occurred concurrent with recessions. We're almost certainly not headed for another recession right now. In fact, because of the surge in M2, we're in an unprecedented boom!

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valuations in the context of the currently low interest rates.

It's important because, to the extent that the Fed chair believes that current conditions, which are unprecedented in history, then he's going to remain accommodative and keep aiding and abetting the Treasury in creating money. This would continue to support stocks, as well as the economy, for the foreseeable future.

In contrast to former Fed chair Alan Greenspan, who warned stock investors were growing irrationally exuberant in 1996 – four

years before the peak of the great bull market, remembered in history as the tech stock boom – Chairman Powell is saying: pay no attention to P/E ratios, the traditional valuation benchmark of stocks; what matters more is the P/E ratio compared to the 10-year bond yield, and, that bond yields are expected to remain

low for the foreseeable future because of population trends in developed and developing nations, improvements in technology, and other fundamentals.

If the Fed thinks high price-to-earnings ratios are less relevant and that bond yields relative to stock prices are the important measuring instrument under

current economic conditions, then that leaves leeway for stocks to rise without Fed action to quell an exuberant stock market. Thus, the risk of a market melt-up is a real thing.

If you fear missing out on a market melt-up or worry about being overexposed to stock risk, the right tool is a core portfolio diversified across low expense assets and professionally managed. ●

Federal Reserve Board
Press Conference
December 16, 2020