1st Quarter 2021 Newsletter
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NovaPoint CAPITAL LLC

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MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

We welcome 2021 with hope for a year of positive improvement in the economy, social and family interaction, and healthcare regarding COVID.

Much of the economic data we monitor has migrated from "off the bottom" (meaning from the depths of the short, but steep recession), to "highest levels since COVID", and some are now starting to eclipse their pre-COVID highs.

The job market made great strides in recovering since the COVID-19 induced lockdowns and business closures. That improvement as started to level off and employment remains below pre-COVID levels. We view employment growth as the key economic factor to solidify a recovery.

Most of the unemployment remains either in specific industries, such as events/entertainment and hospitality/food service, or in states that have more restrictive lockdowns measures, such as California and New York, or travel destination like Hawaii and Nevada. The rollout of multiple vaccines should start to loosen state-level restrictions as well as potentially entice individuals to travel, dine out, and attend events.

With a recovery in the economy should also come a recovery in corporate earnings. Fourth quarter 2020 earnings reporting is currently underway. Earnings for companies in the S&P 500 Index are forecast to decline 5.7% versus the Fourth Quarter of 2019 and full-year 2020 earnings are forecast to decline 14.1%. While these are negative comparisons, that should start to change as we anniversary the economic impact of COVID toward the end of the First Quarter. Full-year 2021 earnings for the S&P 500 Index are currently forecast to rise 23.7% versus 2020.

The stock market is a forward-looking mechanism and some of the price appreciation seen in the fourth quarter of 2020 was in anticipation of the earnings recovery in 2021. Near to mid-term price movement is likely to depend on both earnings results and outlooks, as well as pace of the vaccine rollouts and their corresponding influence on elimination of the remaining COVID restrictions in various states.

With the new Administration coming into the White House, there are several economic and business issues that may unfold over the course of the year. Trade policy, business regulation, domestic spending, and a tax plan could all impact various industries.

Our equity holdings are well diversified across sectors. We favor high-quality stocks with a demonstrated track-record of increasing dividends as we believe they are more durable through economic cycles as the dividends can provide some ballast in a volatile market.

	4Q20 Return	2020 Return
S&P 500 Index	12.1%	18.4%
Dow Jones Industrial Average	10.7%	9.7%
NASDAQ 100	13.1%	48.9%
Russell 2000 (Small Cap Index)	31.4%	20.0%
International Stocks (MSCI ex-US)	15.3%	8.0%

	4Q20 Return	2020 Return
Aggregate Bond Index	0.8%	8.1%
U.S. Dollar Index	-4.2%	-6.7%
WTI Crude Oil	20.6%	-20.5%
Gold	0.6%	25.0%
Real Estate (US REIT Index)	10.5%	-11.1%

Sources: S&P Global, Thomson Reuters

Clarity

“Life is like riding a bicycle, to keep your balance, you must keep moving.” -Albert Einstein

All of the challenges that persisted in 2020 have not disappeared simply because of the calendar transition, but there is a sense that 2021 will be a better year as we move past the impact of COVID.

One reason for optimism is that we have clarity following the elections. When potential outcomes vary, it is more difficult to plan. With clarity comes direction and the opportunity to analyze implications and strategize.

As such, we remain focused on relevant economic data as well as investors’ long-term goals and short-term liquidity needs, which inform how to manage risk on an ongoing basis.

Vaccines for COVID-19 also provide cause for optimism. Moving to a more open and mobile economy could be the biggest driver of growth in 2021. It has been said that if 2020 was the year of the pandemic, 2021 will be the year of the vaccine and recovery.

Uncertainty will always exist, but clarity provides valuable direction into the future. The pace and timeline of vaccine distribution is uncertain, but the existence of vaccines provides some clarity of a remedy to the pandemic. Politics remain uncertain, but the clarity of knowing the government make-up provides insight as to how the economy (and investment portfolios) can benefit.

From a planning perspective, 2020 showed that we cannot control outcomes in the world, but clarity of outcomes informs potential scenarios to plan for. We can, however, put in place a plan and processes to follow.

We can provide for spending needs and not over-invest (liquidity risk). We can stay diversified and not make focused bets (concentration risk). We can stay on a disciplined plan without reacting to volatility (market timing risk).

When these are planned for, we can stay focused on the long-term and participate in either market advance or recovery (upside risk).

Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 15%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and wondering why they are not able to achieve the returns they want.

We work with our clients to identify the risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Follow this link to take our complimentary risk analysis questionnaire.

BUSINESS RETIREMENT PLANS

By ALAN J. CONNER

If you thought it was too late to lower your 2020 taxes...

While 2020 is now in the rear view mirror, it is not too late to make some changes that can impact your tax bill.

SEP-IRA – A sole proprietor and many other small businesses can still establish a SEP-IRA that will allow contributions up to $57,000 per person. Contributions are based on a percentage of salary and are capped at either 20% or 25% depending on company structure. Your funding deadline is up to the date when tax returns are filed.

401k – While it is too late for employee contributions, profit sharing contributions can be made until business tax returns are filed, which can be extended until September 15th.

Defined Benefit / Cash Balance Plans – For high income earning professionals and business owners, you may want to consider this option. In most cases, it would be too late to establish this plan for last year, but as we all know, 2020 was not a typical year. Due to COVID legislation, Defined Benefit / Cash Balance Plans can be established as late as September 15th or your tax filing date, whichever is earlier. A plan could allow you to defer taxes on $100,000 to $300,000 or more (in addition to your 401k).

When was the last time you looked at your plan?

It is not uncommon for a plan sponsor to simply establish a 401k plan and forget it. All plans should undergo an annual or biennial review.

Investment options – Investment options available through the plan may change from year to year. This can be due to consolidation or the closing of a particular fund. Reviewing investment options can ensure you have the best possible choices for your participants at the lowest possible cost.

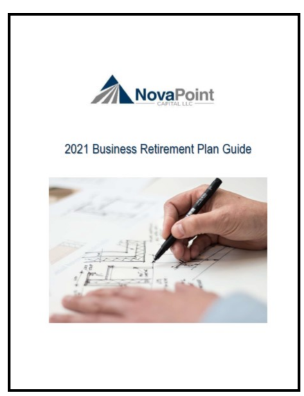
Expenses – There are many types of plan expenses, and the common theme is usually that they go up more often than they go down. We can do a benchmark of expenses for your plan to potentially provide options that can reduce cost and increase efficiency.

Participation – Employee participation rates can significantly impact the highly compensated persons in the plan. We can provide the education to better inform participants about your plan and how it can help them achieve their retirement savings goals. This can help increase participation rates and allow highly compensated persons to contribute more.

Audit – If your plan has more than 120 participants, you are required to have an annual audit. If some participants are no longer employed, you may be able to remove many of them and avoid an audit.

Please contact us if we can help with a fiduciary review of an existing plan or help with the design of a new one. If you would like a copy of our 2021 Business Retirement Plan Guide, please use the link below or contact us and we can send you a copy.

DOWNLOAD THE GUIDE



Bacon & Tomato-Topped Haddock

Ingredients (makes 6 servings)

- 6 bacon strips, chopped
- 1 medium onion, sliced
- 1 garlic clove, minced
- 1 cup panko bread crumbs
- 2 plum tomatoes, chopped
- 1/4 cup minced parsley
- 2 tablespoons olive oil
- 1 tablespoon butter
- 5 haddock fillets (6 oz each)
- 2 tablespoons lemon juice
- 1/4 teaspoon salt

Directions

Cook bacon over medium heat until partially cooked but not crisp. Add onion and garlic, cooking until golden brown, stirring occasionally.

Remove from heat. Stir in bread crumbs, tomatoes, and parsley. Set aside.

Preheat oven to 400-degrees. Spread oil and butter in an ungreased baking pan. Place fillets in pan. Drizzle with lemon juice and sprinkle with salt. Top with bred crumb mixture.

Bake, uncovered, 10 to 15 minutes or until fish flakes easily with a fork.

Courtesy Taste of Home

Follow our Weekly Blog Posts

Each Monday, we publish a report on the NovaPoint website blog highlighting important financial and investment issues for the week. You can find the blog on the website on the News dropdown menu or at https://novapointcapital.com/blog/

If you'd like to receive it by email, please contact Jeff Wright at jwright@novapointcapital.com

NovaPoint Capital is an investment management and advisory firm. We manage investment portfolios for individuals, family offices, businesses and their retirement plans, nonprofit organizations, and institutions.

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