

MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

The stock market put in a solid first quarter of the year as progress against the COVID-19 pandemic led to further opening of the economy and growth in employment.

The first quarter corporate earnings season is just beginning and the comparisons to the first quarter of 2020 show growth consistent with the progress seen since we were in the depths of COVID a year ago. First quarter earnings for companies in the S&P 500 Index should rise 33% versus the first quarter of 2020. This strength should continue well into mid-year and return to a more normal earnings comparison by year-end.

Sectors that should experience large rebounds versus 2020 include Energy, Industrials, Consumer Discretionary, Materials, and Financials. These cyclical sectors suffered as the economy went into its COVID-induced recession and started recovering in the latter part of 2020.

Employment has also recovered from the depth of the recession, but still remains below pre-COVID levels. Most of the unemployment remains either in states that have more restrictive lockdowns measures, such as California and New York, or travel destination like Hawaii and Nevada. The entertainment/hospitality industry made great strides in the most recent employment report. The direction of employment from here

likely mirrors the final reductions in COVID-related restrictions.

Economic growth has prompted a rise in bond yields as inflation should rise above the Federal Reserve's 2% target rate. We see this most easily reflected in gasoline prices which increased 42% since the start of the year. The Fed has pledged to keep short-term interest rates low until the economy has fully recovered. This is causing the yield curve to steepen, meaning that the differential between short-term interest rates and long-term interest rates is increasing.

Another concern that has percolated up to the headlines in recent weeks are proposed changes to the tax rate on capital gains. The initial proposal is expected to put the tax rate for long-term capital gains on par with short-term capital gains, which would apply to those making over a certain income level. This has not worked its way through the legislative process yet, and is likely to face some resistance in the Senate.

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, while the growth of the dividends can help offset the impact of inflation.

	<u>1Q21 Return</u>		<u>1Q21 Return</u>
S&P 500 Index	6.2%	Aggregate Bond Index	-3.1%
Dow Jones Industrial Average	8.3%	U.S. Dollar Index	3.7%
NASDAQ 100	1.8%	WTI Crude Oil	21.9%
Russell 2000 (Small Cap Index)	12.7%	Gold	-10.0%
International Stocks (MSCI ex-US)	4.0%	Real Estate (US REIT Index)	7.9%

Sources: S&P Global, Thomson Reuters



WEALTH MANAGEMENT

By JEFFERY V. WRIGHT, CFA

Better or Worse, not Good or Bad

“A lot of the money in the stock market is really our national retirement plan, for better or worse.” Ron Chernow

People often view the economy and investments as either good or bad. Practically, it is more appropriate to view them on a relative basis. Good or bad compared to what? It is all relative. A better question would be, is the economy getting better or worse.

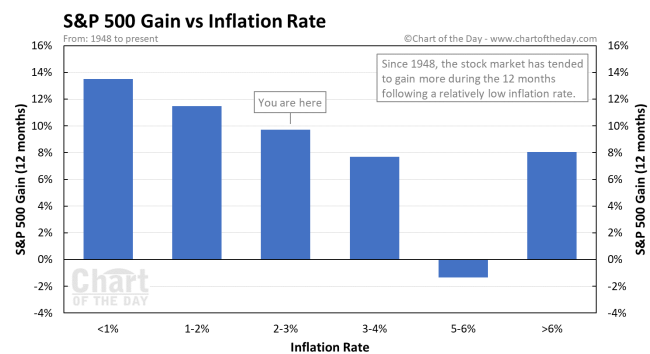
When thinking about future investment returns and economic growth, the opportunity set is better evaluated as degree of progress versus expectations.

For instance, the economic impact of the pandemic in 2020 was severe, but ultimately was less severe than expected. Similarly, the economic data has also improved more quickly than expected. For these reasons, investment returns have been strong since the recent market bottom in March 2020.

The economy is opening up more each day. For investors, this recovery and improvement could be a long-term opportunity.

The same principal applies to concerns about inflation. The rate of inflation in isolation is less impactful than when viewed in context. If inflation were to rise, it would likely need to be higher than currently expected to have

meaningful impact. Long-term investors can protect spending power by staying invested. History tells us that the equity markets should provide capital appreciation that far exceeds the cost of inflation. Inflation-adjusted investment return expectations are “better” (i.e. higher) than inflation expectations.



Opportunities are always relative. A long-term investor can achieve desired outcomes through a well-planned diversified investment strategy that benefits from these relative opportunities.

Stay the Course, but Know your Course First.

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 self-described 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 are left 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](#)



BUSINESS RETIREMENT PLANS

By ALAN J. CONNER



What is an “In Service” Distribution and should you consider one?

An “In-Service” distribution, or withdrawal, is when you transfer funds from your qualified plan (401k or 403b) while you are still employed. Not all plans allow this, and many of those that do have an age requirement of 55 or older. That being said, many large companies allow this, and many do not have an age requirement, although most require at least 5 years of service.

Advantages of 401k In-Service Distributions

An in-service distribution allows you to rollover your vested balance from your profit-sharing plan to an Individual Retirement Account (IRA), if you are eligible. Here are some reasons that you might want to do so:

Control: Who doesn’t like control? With an IRA, you are the account owner and have more control over your assets, free from the restrictions your employer-sponsored plan can impose.

Diversification: Many employer-sponsored plans offer limited investment options. In contrast, most IRAs typically provide a wider range of investment choices across virtually every asset class. This flexibility can help you better diversify your retirement assets to meet your individual investment goals.

Beneficiary options: IRAs allow non-spouse beneficiaries. This type of beneficiary distribution option is not available in most employer-sponsored plans, which require a spouse to be the primary beneficiary.

Disadvantages of 401k In-Service Distributions

With every advantage, there may be disadvantages. Please consider:

Age limitations: In qualified plans, the age 55 rule allows participants who stop working at age 55 or older to take distributions without the 10% IRS premature distribution penalty. In an IRA, you may not take distributions until age 59½. If you plan to retire early, you may want to preserve penalty-free access to your retire-

ment funds by not moving all of your 401(k) assets to an IRA before retirement.

Distribution Requirements: If you are over age 72, moving funds from your qualified plan while still employed could result in required minimum distributions. These distributions will increase your taxable income, and thus your tax bill. There are generally no required minimum distributions from qualified plans if you are still employed.

Creditor protection: While IRAs now have federal bankruptcy protection, other IRA creditor protection is still determined by state laws. Qualified plan assets continue to have broad federal creditor protection.

New contributions to your existing plan: Taking an in-service distribution may affect your ability to contribute to your employer-sponsored plan. Be sure to consult with your plan administrator before implementing this.

Cost: Fees related to having your own IRA would typically differ from those investment options inside the 401k. Make sure you know the cost involved on both sides of the equation.

After-tax dollars: After-tax dollars are generally segregated in a qualified plan, and can often be distributed separately. Should you choose to do a distribution of after tax contributions, work with a professional to make sure the transfer is done correctly to a Roth IRA. Failure to do so could make those funds taxable in the future.

At NovaPoint Capital, we are experts in the area of business retirement plans and we possess years of experience in converting and distributing qualified plans into both IRAs and Roth IRAs. If an in-service distribution is something you are considering, let us know and we will help you determine if it is the correct route for you.

Bacon Bourbon Jell-O Shots

For our Derby fans, here is a fun recipe to have at your watch party.

Ingredients (makes one dozen)

- 2 packages of jell-o (0.25 oz)
- 1 cup of bourbon
- 1 cup of apple juice
- 1/4 cup granulated sugar
- 4 strips of cooked bacon, patted dry
- 2 tablespoons lemon juice
- 1/4 teaspoon salt

Directions

Bacon should be fully cooked and patted dry of excess fat drippings.

In a large bowl or measuring cup, sprinkle gelatin over bourbon and let bloom for 5 minutes.

In a saucepan over medium heat bring apple juice and sugar to a boil. Wisk the boiling apple juice into the gelatin.

Cut bacon slices into thirds and place into shot glasses. Pour jell-o mixture into glasses and refrigerate two hours to set.



Courtesy of Delish

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



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