STONEGATE FINANCIAL

MARKETUPDATE

"For 240 years it's been a terrible mistake to bet against America, and now is no time to start."
- Warren Buffett

Asset Class Returns (as of March 31, 2021)

Source: FactSet; Raymond James Equity Portfolio & Technology Strategy

MARKET/ECONOMIC SYNOPSIS

Terry Wiles, CDFA™, CRPC®, AWMA®
Branch Manager,
Raymond James Financial Services

WHAT A DIFFERENCE A YEAR MAKES

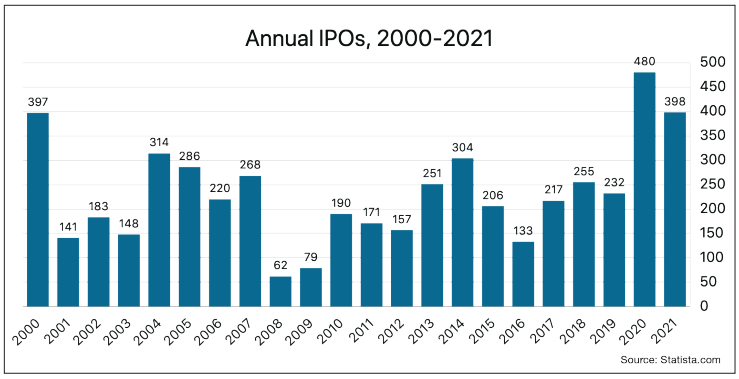
Just over a year ago, I was on vacation skiing in Utah when the stock market started to become unhinged. It was yet again another gut-wrenching period in my 20 plus-year career of helping clients achieve their dreams.

The Stonegate Team did everything in our power to assure folks that this was not the time to sell investments. We believe in the Warren Buffett strategy: "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful". On March 29th I wrote in our quarterly newsletter ***"This could very well be the best stock market buying opportunity of the decade".*** The good news is that some people heeded those words and put some extra savings to work at that time.

The stock market peaked on February 19th, 2020, then rapidly fell 34% to a March 23rd low. Since that time the S&P 500 is up close to 75%, and folks have been handsomely rewarded for adding to their investments and for staying put.

Now I feel the situation is shifting. Investors may be getting greedy. Our clients at Stonegate may have noticed we took the opportunity in January after this astonishing market run to rebalance portfolios and bring our over-extended stock exposure back to their intended weightings. Many of you know we don't like to take unwarranted risk with your hard-earned money, and we don't buy investments that we simply don't understand, or that are extremely overvalued.

There is definitely a sense of euphoria building in the market place. People are buying shares in businesses that they do not understand, and plowing money into unprofitable, speculative public companies. Speculators have FOMO (Fear of Missing Out) on the hottest new fads or craze – IPO's (Initial Public Offerings), SPACs (Special Purpose Acquisition Company), Reddit trading, Cryptocurrencies, NFTs (Non-Fungible Tokens), and even home flipping. I don't know if any or all of these are in a bubble, but I do see many similarities to the dot.com bubble of 1999/2000 and the housing bubble of 2005/2008, neither of which ended well. You can see in the chart on the top of the next page, that IPOs in 2020 outnumbered those in 2000, and 2021 is already on track to outpace last year.



We are not saying that we don't have much runway left in the market's upside. What we are saying is that we have started taking some precautions to decrease some of our growthier stock positions and reduce some of our interest rate sensitive bond risk, just in case they decide to take the punch bowl away. We do believe the re-opening of the economy will boost GDP in the United States, create additional jobs, and lead to consumer spending. Everyone has been pent-up for a year now, and they are chomping at the bit to get out and see this incredible country again.

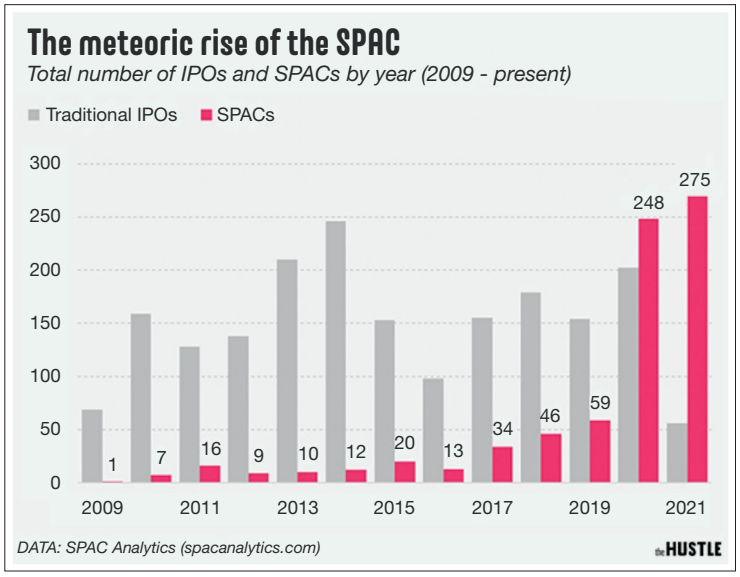
As you know, we are not market timers, so we won't be GUESSING when to sell out of the market or GUESSING when to jump in with both feet. Market timing is a foolish game that some investors play, and they usually get burned. Let's be honest, did you know for a fact that the United States would shut-down the economy on March 16th, 2020? Did you know that the Stock Market, which started its decline on February 19th, 2020, would in fact bottom exactly one-week after being told we are shutting down our economy indefinitely? Hindsight is 20/20 and we don't practice managing our client's portfolios in the rearview mirror. We'd much rather look out the windshield at reality and stay invested through tough times, rebalancing when necessary, all the while owning high quality, profitable companies that we feel will produce solid long-term results for our clients.

WARNING SIGNS WE ARE SEEING

FOMO (Fear of Missing Out) & Speculation

The chart below is from SPAC Analytics and shows the amount of euphoria being generated in SPACs in 2020 and 2021, with listing volumes we haven't seen since the 2000 internet bubble. The scariest part of these new offerings is that very few are profitable and the list is growing rapidly considering we are only through the first quarter of 2021. According to Renaissance Capital:

Of the 313 SPACs IPOs since the start of 2015, 93 have completed mergers and taken a company public. Of these, the common shares have delivered an average loss of -9.6% and a median return of -29.1%, compared to the average aftermarket return of 47.1% for traditional IPOs since 2015. Only 29 of the SPACS in this group (31.1%) had positive returns as of JANUARY 5TH, 2021.



INFLATION

Inflation is starting to rear its ugly head, whether the FED wants to believe it or not!

We are seeing higher costs in almost everything we do, from home prices to autos, lumber, metals, fuel, food, clothing, appliances, home goods, etc. Milk seems to be the only commodity that did not increase in price in February as seen on the top of the next page.

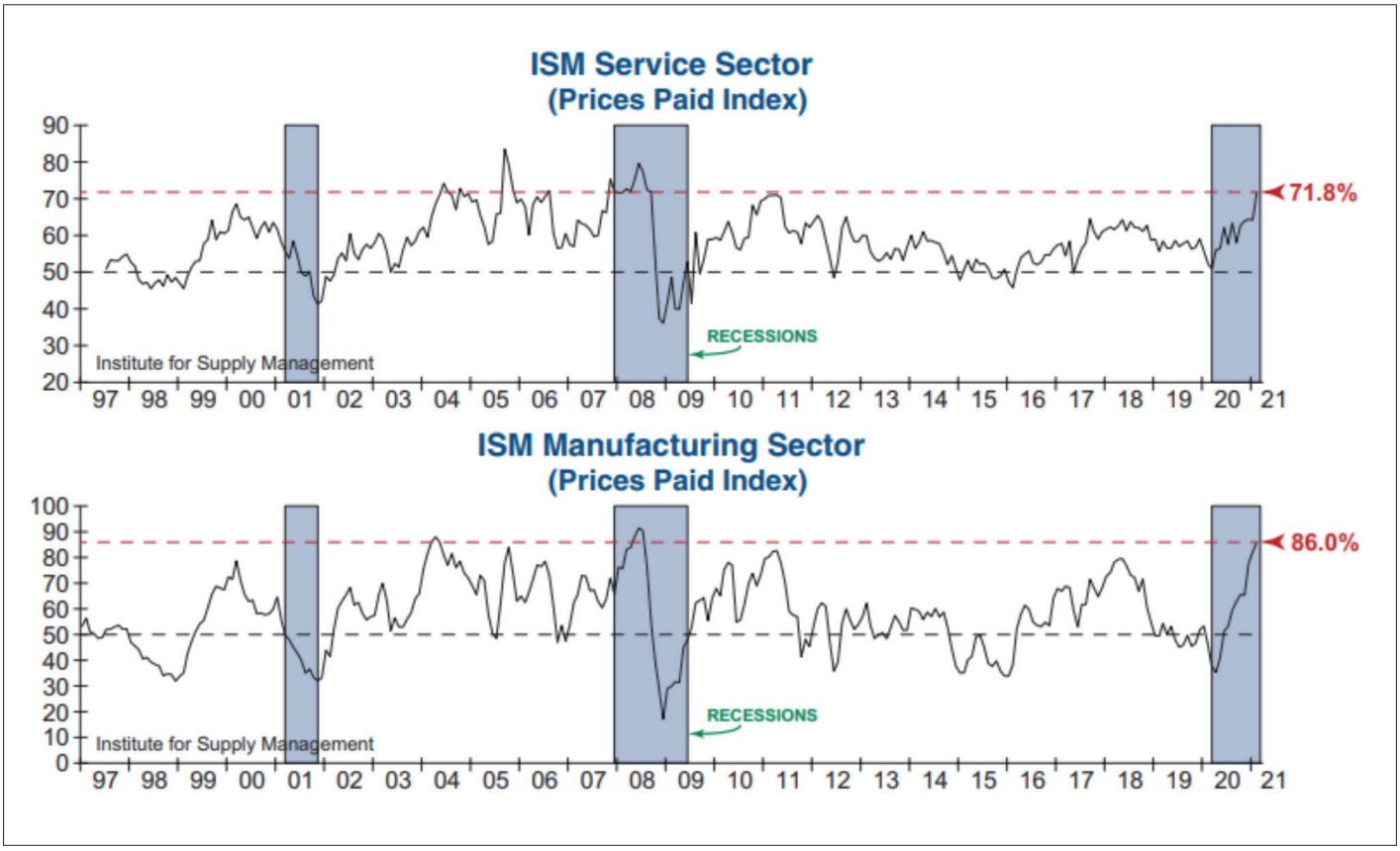
INSTITUTE FOR SUPPLY MANAGEMENT

COMMODITIES REPORTED UP/DOWN

Commodities Up in Price: Acetone; Acrylonitrile Butadiene Styrene (ABS) Plastic (2); Aluminum (9); Aluminum Extrusions; Capacitors; Copper (9); Corrugate (5); Corrugated Boxes (4); Crude Oil (3); Diesel (2); Electrical Components (3); Electronic Components (3); Fiberglass Products; Freight (4); High-Density Polyethylene (HDPE) (2); Lumber (8); Methyl Methacrylate; Natural Gas (2); Nylon Fiber (2); Ocean Freight (3); Oil-Derived Products; Packaging Supplies (3); Paper Products (3); Personal Protective Equipment (PPE) — Gloves (3); Plastic Resins (6); Plywood; Polyethylene; Polyethylene Terephthalate (PET); Polypropylene (8); Polyurethane Foam Products; Polyvinyl Chloride (PVC) (5); Precious Metals (2); Propylene (2); Resin-Based Products; Resistors; Rubber Products; Semiconductors; Solvents — Other; Soybean Products (5); Steel (7); Steel — Carbon (3); Steel — Cold Rolled (6); Steel — Hot Rolled (6); Steel — Scrap (3); Steel — Stainless (4); Steel Plate; Steel Products (6); and Wood — Pallets (3).

Commodities Down in Price: Dairy.

These next two charts from Investech Research highlight that both the ISM Service Sector and the ISM Manufacturing Sector are registering the highest prices paid since the financial crisis of 2008.



BOND MARKET INTEREST RATES

The yield of the 10-year Treasury has increased 78% year-to-date, as seen in the chart below. Please remember that bond prices move inverse to interest rates. As rates rise, bond prices fall. We feel the FED will be walking on a long tight-rope trying to keep a balance between low interest rates, decreasing unemployment, while combatting an ever-increasing cost of living. This is something your team here will be watching closely.

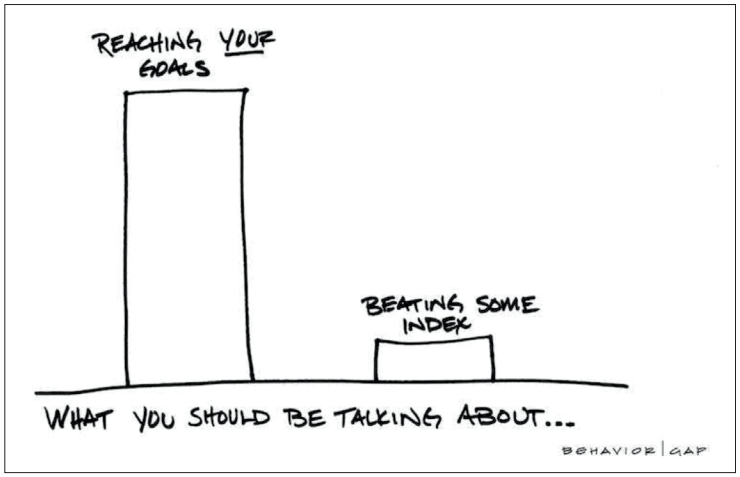
A DIFFERENT MEASUREMENT OF SUCCESS

Terry Wiles, CDFA™, CRPC®, AWMA®
Branch Manager,
Raymond James Financial Services

Becky recently asked me "what really makes you happy in life?" My answer was pretty simple. Obviously spending time making memories with her and the kids is first and foremost. But in my daily life I get the most enjoyment out of helping others succeed and fulfill their dreams. Whether this pertains to our children, relatives, friends, clients, or colleagues, it doesn't really matter. It's what makes me tick.

I'm fortunate that I've always loved investments as well as planning. The markets excite me, and I believe there are always great investments to be found in good and bad times. Someone is always profiting while someone else is losing.

I'll be the first to tell you that the investments aren't the main concern you should have when trying to achieve your dreams. The financial plan is the #1 focus that clients should have, and having a good financial planner to help guide you is paramount to your long-term success. Beating an index may or may not fulfill your dreams. But recognizing a sound financial plan will help you realize those dreams. The drawing and commentary below are from an industry friend Carl Richards, founder of the Behavior/Gap. (https://behaviorgap.com/)



When it comes to personal finance, what matters is not beating some index. What matters is meeting your goals. Those are not the same thing.

An index is just a broad measure of how a particular market has done. Think of it as the average.

The investment industry seems to think that their entire purpose in life is to convince you that the best thing you could ever do is hire someone to help you beat an index.

For the purpose of this email, I'd like to set aside the entire debate about whether that's even possible and focus on why it doesn't even matter.

Pretend you live in some magical fantasy world where all of your dreams (according to the investment industry) come true, and you actually beat an index every quarter for your whole life. Congratulations!

Let me just be clear about something: It's still possible, even under that fantasy scenario, that you don't meet any of your financial goals.

Because beating an index has nothing to do with meeting your financial goals!

So here's my question: You landed in Shangri La, according to the financial industry. You beat the index. But you didn't meet your goals. Are you happy?

The answer is… "No."

Now let's flip that scenario on its head. The worst thing in the world happens to you (again, according to the investment industry). You slightly underperform the index every quarter for your whole life. But because of careful financial planning, you meet every one of your financial goals. Let me repeat the question: Are you happy?

And the answer is obviously… "Yes."

Stop worrying about beating indexes. Focus instead on meeting your goals.

Carl's perspective clearly articulates how we feel.

We've built an incredibly successful wealth management practice by adding highly talented and accredited partners along the way. We are thrilled with all of their achievements in the industry and we want you to lean on these resources to ensure that you are meeting your financial goals and living out your dreams!

FINANCIAL PLANNING CORNER

The American Rescue Plan – Highlights and Considerations

Trey Stilley, CPA
Financial Advisor, RJFS

On March 11th, 2021, President Biden signed into law the American Rescue Plan ("ARP"). The goal of ARP is to provide economic relief for Americans most impacted by the COVID-19 pandemic. With a $1.9 trillion price tag, ARP represents the third round of economic stimulus since the beginning of the pandemic in early 2020. Discussed below are three key items included in this legislation that may impact you and your family.

Stimulus Checks

A core element of ARP is a third round of stimulus checks. The official payment date for these checks was March 17th, though many eligible Americans may not have received their checks as of the date of this publication, primarily due to IRS processing delays.

The maximum amount of a taxpayer's stimulus payment is calculated by multiplying $1,400 times the total number of eligible individuals (taxpayers and their dependents). However, these stimulus payments phase-out very quickly. For example, a married couple filing a joint return would be entitled to the maximum payment described above so long as their Adjusted Gross Income ("AGI") does not exceed $150,000. As AGI increases from $150,000 to $160,000, the stimulus payment is reduced. If the couple's AGI was above $160,000, they would not receive any stimulus payment. For single filers, the stimulus payment phases-out from $75,000 to $80,000 of AGI. Single filers would not qualify for any stimulus payment if their AGI exceeds $80,000. You can find your AGI on line 8b of your 2019 return and line 11 of your 2020 return.

Many Americans are curious as to what data the IRS will use to figure stimulus payments. Here's how that works:

- If you **have not** yet filed your 2020 tax return, the IRS will look to the AGI on your 2019 tax return to calculate your stimulus payment.
- If you **have** filed your 2020 return, the IRS will likely use that 2020 return to calculate your stimulus payment.

Don't worry – there are no "clawbacks," meaning that if your income was actually higher in 2020 compared to 2019, but you received a stimulus check based on your 2019 AGI, you do not have to pay anything back.

If your AGI was too high to qualify for stimulus in 2019 but was reduced to qualifying levels in 2020, the IRS will issue a stimulus check after processing your 2020 tax

return **so long as your 2020 tax return is filed within 90 days after May 17th, 2021.** Finally, if you do not qualify for stimulus based on your 2019 and 2020 AGI, but you do qualify based on your 2021 AGI, you will receive a tax credit on your 2021 tax return, resulting in either a larger income tax refund or a reduction in your 2021 taxes due.

Child Tax Credit

The American Rescue plan includes significant changes to the Child Tax Credit for 2021. One such change is a temporary increase to the maximum amount of credit available for each child to $3,000 (up from $2,000 previously). For children under six years of age, the credit is $3,600 per child! Of course, there are phase-out thresholds to keep in mind. For example, a married couple filing a joint return would begin to see a reduction in the credit once their AGI exceeds $150,000

More good news – ARP allows taxpayers to receive the credit for children age 17 and younger in 2021. This is a temporary increase in the maximum age, which was previously 16 and younger. The child tax credit is also fully refundable in 2021. This means that if the household's total tax due is negative in 2021, the taxpayer may receive some (or all, depending on the situation) of the child tax credit back as a refund!

COBRA Subsidies and Obamacare Premium Assistance

For taxpayers that were involuntarily terminated from employment in 2020, ARP will allow them to maintain their existing health insurance via COBRA from April through September 2021 at no cost. These health insurance premiums will be paid by the taxpayer's former employer (the employer will later receive a tax credit to help offset this cost).

ARP is also temporarily reducing Obamacare premium costs for 2021 and 2022 via an enhanced premium tax credit. In short, taxpayers across all income levels will pay less for their Obamacare healthcare premiums, with significant cost reductions for lower-income taxpayers.

Final Thoughts

Albeit wide-reaching, the American Rescue Plan did not check all the boxes that some taxpayers hoped or expected. Notably, ARP did not extend the 2020 CARES Act provision that waived required minimum distributions ("RMDs"). **RMDs will be required once again in 2021.**

Please also note that, while not part of the American Rescue Plan, the IRS has extended the tax filing deadline to **May 17, 2021.** This provides an additional month for filers and their preparers to get their tax affairs in order ahead of filing or extending their returns.

The items above certainly do not cover every aspect of the American Rescue Plan, but we hope that these highlights are valuable as you navigate tax season with your tax advisor, and as you consider any impacts to your overall goals and financial plan.

CONGRATULATIONS TO LAUREN TOMPKINS!

Our team members are always striving to increase their knowledge in ways that will most benefit our clients' needs. We recognize that it is also important to keep our expertise current through the changing landscape of legislation, technology, and planning considerations to best serve you.

In that vein, we are excited to share that Lauren Tompkins recently completed the requirements for her Retirement Income Certified Professional designation!

The RICP® designation, unlike the broader CFP® which Lauren completed requirements for in 2016 through Duke University's Certificate in Financial Planning program, dives much deeper into the specific area of retirement income planning. Near-retirees and retirees have unique needs and it requires different strategies to draw down assets rather than building a nest egg. At Stonegate, we often talk about dreams and goals. We want to help our clients live the lives they have always dreamed. Knowledge gained through the RICP® coursework helps Lauren maximize our clients' lifestyles, while evaluating and confronting the risks retirees may face. These could include a wide range of topics including healthcare, Social Security planning, providing a legacy, working to not outlive your money, minimizing your tax burden, and so many more.

We welcome you to give Lauren a call with any questions that you may have regarding your retirement income planning!

TEAM MEMBER SPOTLIGHT

Q&A with Jack Tompkins

Greeter in Training

In this section, we give you the chance to get to know one of our team members a little better. This quarter we will hear from Jack Tompkins!

Q: How did you become a Stonegate team member?

A: My mom has been wanting me for a long, long time but it just didn't seem possible with all of the things she does. Fortunately for me, last year wasn't a normal year and she had enough time to bring me home and help me learn how to be a good boy. Her friend even has my brother, Spot, and we get to play together in the backyard sometimes! Mom brings me everywhere with her – work, on walks to the park, to teach kids how to sing, and on trips to meet other dogs. I love getting to spend so much time with her!

Q: How do you help support and serve clients?

A: Well, I haven't gotten to meet a lot of clients yet, but I love to lay at my mom's feet while she talks to clients on a big screen! I do spend a lot of time checking in with everyone in the office to let them pet me – I know that makes their days a lot better! I can't wait to run to the door to greet everyone and let them pet me too!

Q: What do you enjoy the most about working at Stonegate?

A: I love getting to take car rides to the office and to run as hard as I can to get to the front door. We go on walks sometimes, and it's really fun to pick up leaves and to smell every bush or tree I pass. Luna, Sky, and I run around the office and play when our parents are in meetings – and we love to get treats and share our water bowl. I'm still learning not to bark at the delivery people and that the doorbell means friends are coming in the door, not enemies. I just can't wait until I get to meet all of you!

AROUND THE OFFICE – HAPPY ANNIVERSARY!!!

Terry Wiles is getting ready to celebrate a very significant milestone with our clients who began working with him in 2001. Yes, it was 20 years ago on April 30th, 2001 when Terry made the transition from wholesaling mutual fund products, to working directly with investors and planning for their financial future. It is likely one of the best decisions he has ever made, and one that not only allowed him much more quality time with his young family, but also the chance to build some incredibly rewarding long-term relationships with people who have become his extended family.

We appreciate those of you who trusted Terry in 2001, and continue to be grateful for those who have chosen to partner with us since then. It brings us great joy to work with all of you who value our expertise, whose principles align with ours, and who invest in building a relationship that flourishes over time.

We look forward to many more wonderful years ahead!

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