Nelson Securities, Inc.
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WEALTH ASSET ADVISOR

Despite rough September ending Q3, stocks poised for strong year overall

Fall 2021
Vol. 29 No. 4

Long-term investors approach each fall with some trepidation knowing September and October are recognized as historically volatile months. September is best known for being the month the market is most frequently down, while October is known for the highest volatility, with some of the worst market declines happening during the month. This September did much to live up to its reputation with global stock markets down 3% to 5% across the board, paced by Nasdaq's decline of 5.3%. The benchmark S&P 500 fell 4.8% and the Dow lost 4.3%, while small- and mid-cap stocks slipped 3.1% and 4.1%, respectively. Markets were unnerved by the Fed's pending tapering plans and higher interest rates, supply chain constraints, and rising Covid delta cases, which could disrupt the economy's reopening progress.

The September slide pulled Q3 returns into negative territory, save for the S&P 500's very modest 0.2% gain, for the first quarterly loss for US stocks since Q1 2020. Nonetheless, US stocks finished Q3 with double-digit year-to-date gains across the board and led by the S&P 500 up 14.7% and the mid-cap S&P 400 up 14.5%. Of course, there has been historic Fed monetary and government fiscal policy support during the Covid-19 global pandemic but heading into Q4 with double-digit gains for US stocks, following 2020's remarkable returns, is pretty astonishing. Though past performance is no guarantee for future results.

Foreign stocks also finished in the red for Q3; however, developed markets as measured by the MSCI EAFE index slipped just 1%. Emerging markets plunged 8.8% on negative news out of China surrounding real estate developer Evergrande and regulatory reforms.

The Fed met again in September and while it held interest rates steady as expected, it painted its most transparent picture of future tapering

Continued on page 2

Q3-21 Market QuickTakes...

- Rough September, with major indexes down 3%-plus, sends US stocks to first quarterly loss, save for the S&P 500, since Q1 2020
- Concerns over the Fed's pending tapering plans and higher interest rates, supply chain constraints, and rising delta Covid cases added to historically volatile month of September losses
- While the S&P 500 edged higher by 0.2% for the quarter, small-cap Russell 2000 led on the downside losing 4.6%
- Despite Q3 setback, US stocks head into Q4 with double-digit gains led by S&P 500 and mid-cap S&P 400
- Foreign markets also posted losses in Q3, with Emerging Markets sliding 8.8% but Developed Markets slipped just 1%
- The September FOMC meeting caught everyone's attention as the Fed paved the way for its tapering of asset purchases to begin by year-end, with the likely announcement in November
- Bonds fell 0.9% in September on Fed tapering concerns and higher rates, but the benchmark Bloomberg Barclays Aggregate Bond index still edged slightly higher for Q3; 10-year Treasury Note yield rose 7 basis points to 1.52% in Q3 and 22 bps in September alone

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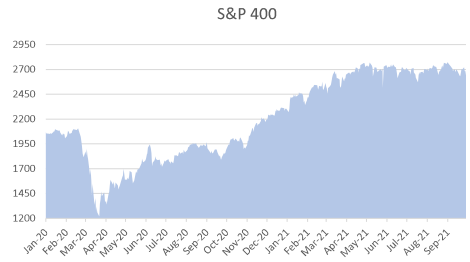
Market Snapshot

	Q-3 %	9-30-21 YTD %
Dow Jones Industrials	-1.9%	+10.6%
S&P 500	+0.2%	+14.7%
Nasdaq	-0.4%	+12.1%
Russell 2000	-4.6%	+11.6%
S&P 400	-2.1%	+14.5%
MSCI EAFE	-1.0%	+6.2%
MSCI Emerging Markets	-8.8%	-3.0%
MSCI World All-Cap	-0.6%	+11.9%
Barclays-Bloomberg Agg Bond	+0.1%	-1.6%

Mid-Cap Stocks among 2021 leaders



While Mid-Cap stocks, as measured by the S&P 400, fell 4.1% in September and 2.1% in Q3, they remain among the leaders for 2021. Heading into Q4, Mid-Caps are up 14.5% year-to-date and 41.9% over the trailing 12 months. Mid-Caps are often seasoned companies that have emerged from the more volatile Small-Cap stage and historically offer higher growth potential than Large-Caps. While overlooked by some investors, Mid-Caps remain an important part of our strategic asset allocations.

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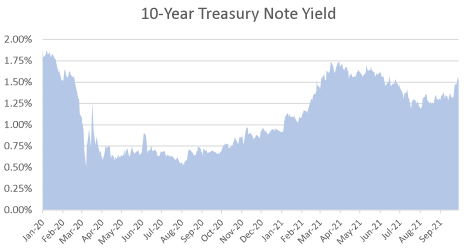
Fed taper talk sparks interest rate rise



Following its September FOMC meeting, the Fed set the stage for the long awaited tapering of its $120 billion per month of asset purchases to begin by year-end. The Fed will likely announce it at the November meeting. By month-end September, following the meeting, the benchmark 10-year Treasury Note yield rose 0.20% to 1.52% and 0.07% for Q3. Rising interest rates are a headwind for both stocks and bonds.

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Q3-21 Market Review Continued...

plans of its $120 billion monthly bond buying program to support the markets and economic recovery. The Fed noted progress in vaccinations and monetary support have furthered economic recovery overall though the recent rise in Covid-19 cases has slowed the recovery. The Fed lowered its 2021 US GDP projection from 7.0% to 5.9% but modestly raised 2022 from 3.3% to 3.8%. Nevertheless, a slowing of its bond buying will soon be warranted, and we anticipate that the Fed will announce its tapering plans at its November meeting. While future Fed interest rate hikes are anticipated by late 2022, they won't begin until its tapering program is complete. In anticipation and along with inflation concerns, the benchmark 10-year Treasury Note yield climbed 0.22% in September alone to 1.52%, though just 0.07% for Q3.

> *Heading into Q4 with double-digit gains for US stocks, following 2020's remarkable returns, is pretty astonishing*

The Outlook

Despite some setbacks surrounding the Covid-19 delta variant and rising cases in Q3, as well as growing Fed concerns, the return to normal has made significant progress in the *2021 Year of Transitions*, as we head into Q4. Encouragingly, as October began, Covid cases appear to have started to roll over and are again starting to trend in the right direction, as vaccination and booster rates have increased. The market has responded positively to start October thus far and may buck its historical volatility. However, like the Fed said, further progress is "dependent on the course of the virus" and we are heading into winter and more indoor activities. Our market and investment posture, despite anticipated volatility, remains cautiously optimistic for Q4 and the beginning of 2022. We continue to urge investors not to get complacent with risk.

Point by Point

- Biggest Market and Economic Risk Factors Q4:
  - > Surprise change in Fed policy guidance if inflation concerns don't subside
  - > COVID-19 delta variant re-escalates among the unvaccinated in the US and overseas
  - > Supply-chain constraints don't ease
  - > Biden Infrastructure Plan and Budget Reconciliation don't get passed in Congress or are significantly watered down
- Q3 Corporate Earnings have been very strong with 80% of S&P 500 companies reported posting EPS surprises, Q3 earnings growth for the S&P 500 is expected to be 30%, according to FactSet, the highest level since 2010
- Valuations remain stretched historically; Investors must begin reducing forward return expectations for both stocks and bonds
- Volatility expected to increase in Q4 but refrain from changing course; we look for a solid end to the year for the markets
- Maintain diversification, discipline, and focus long-term
- Refrain from chasing returns and making large portfolio changes
- Maintain regular contributions and a rebalancing program

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Fall 2021 Action Plan

Q4 is here and that means Year-End Planning:

- 2021 Required Minimum Distributions MUST be withdrawn by 12-31-21; make arrangements early
- Max out your 2021 Calendar Year Company Sponsored Retirement Plan Salary Deferrals: $19,500 and $26,000 for those Age 50+
- Tax-Loss Harvesting to offset *realized* 2021 capital gains
- Charitable Giving contributions must be made by 12-31-21
- Deplete Flexible Spending Accounts (FSAs) by 12-31-21
- Call your Nelson Advisor to set an appointment 800-345-7593

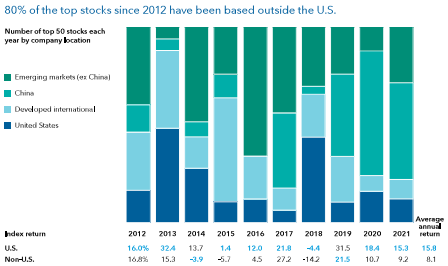
The Big Picture

Think all the best stocks are in the U.S.? Think again.

As Capital Group illustrates below, 80% of the top performing stocks since 2012 have been based outside of the U.S. despite the fact that International equities overall have lagged the U.S. over the past ten years. It helps explain how many of the popular International indexes don't tell the whole story.

Investors inherently have a "home bias," when it comes to investing. This means most investors tend to invest predominantly in "domestic" equities rather than diversify internationally. Clearly, over the past 10 years that has been beneficial.

However, now may be the time to take advantage of better valuations overseas relative to U.S. equities and diversify your portfolio.



Sources: Capital Group, MSCI, RIMES. 2021 data as of 6/30/21. Returns are in U.S. dollars. Top 50 stocks are the companies with the highest total return in the MSCI ACWI each year. Returns table uses S&P 500 and MSCI ACWI ex USA indexes for U.S. and non-U.S., respectively. MSCI ACWI ex USA is a free fl oat-adjusted market capitalization-weighted index that is designed to measure equity market in the global developed and emerging markets, excluding the United States.

Market Barometer

Index PE Ratios and Yields — 9-30-21

Index:	P/E*	Fwd P/E+	Dividend Yield%
Dow Jones 30 Industrials	22.98	18.89	1.89%
Dow Jones Utilities	24.54	24.43	3.16%
S&P 500	31.09	22.04	1.34%
NASDAQ 100	35.96	28.82	0.68%
Russell 2000 (Small-Cap)	315.95	32.93	1.14%

*Trailing 12 months Price Earnings Ratio - WSJ
+Forward 12 months Price Earnings Ratio Estimates - Birinyi Associates

Economic and Market Indicators — 9-30-21

Measure:	Latest	Change
Gross Domestic Product (GDP)	+6.7% Q2	+0.4% Q1-21
Fed 2021 Real GDP Projection	+5.9% Sep	+0.5% Jun
Unemployment Rate	5.2% Aug	-0.2% Jul
Inflation Rate (12mo CPI-Consumer Price Index)	+5.3% Aug	0.1% Jul
Consumer Confidence	109.3 Sep	-5.9 Aug
Index of Leading Indicators	117.1 Aug	+0.9% Jul
Volatility Index (VIX - S&P 500)	23.14 Sep	+46.2% Jun
US Dollar Index	94.24 Sep	+2.0% Jun

Source: WSJ, Barron's, StockCharts.com, Federal Reserve, BLS

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800-345-7593

Have a question? E-mail Us...
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*Use the **Quick Links** on the titles below (must be connected to the Internet) to view using Acrobat Reader, or other common multimedia applications.*

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NEW!

Financial Issues as Retirement Nears

Source: MFS Funds

As retirement approaches, the finish line can create anxiety and it's best met with identifying potential issues and dealing with them head on. This Heritage Planning piece from MFS Funds addresses many common financial issues retirees face to help make the transition to retirement smooth.

NEW!

Mind Over Markets

Source: Virtus Funds

This informative piece from Virtus Funds explores Behavioral Science and its impact on investing. We all must invest for a comortable retirement and we are all humans. These two facts can conflict with one another and create a "Behavior Gap," which can impact the outcome. Understanding how we process information can help lead to better investment success.

NEW!

You are here

Source: Capital Group

Sometimes it's best to stop and look around to make sure you are on track with your retirement goals. This piece from Capital Group can help assess where you are and what adjustments may be needed to reach your long-term retirement goals.

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Investor Note:

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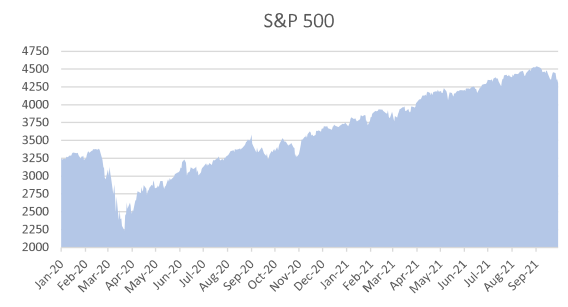
Source: Wall Street Journal, Barron's, BankRate.com, Morningstar **9-30-21**



Domestic Markets			9-30-21
Index:	Close	1-YR%	YTD%
Dow Jones 30 Industrials	33843.92	+21.8%	+10.6%
Dow Jones Transportation	14002.42	+24.9%	+12.0%
Dow Jones Utilities	874.40	+6.1%	+1.2%
DJ Total Stock Market	44705.79	+29.3%	+14.0%
S&P 500	4307.54	+28.1%	+14.7%
S&P 400 (Mid-Cap)	2640.54	+46.2%	+14.5%
S&P 600 (Small-Cap)	1374.84	+67.7%	+22.9%
Nasdaq Composite	14448.58	+29.4%	+12.1%
Russell 2000 (Small-Cap)	2204.37	+46.2%	+11.6%
BB Aggregate Bond	2254.86	-0.9%	-1.6%

Foreign Markets			9-30-21
Index:	Close	1-YR%	YTD%
Tokyo Nikkei Stock Avg.	29452.66	+27.0%	+7.3%
Shanghai Comp. (China)	3568.17	+10.9%	+2.7%
London FT 100-share	7072.57	+20.5%	+9.7%
Frankfurt Xetra DAX	15260.69	+19.9%	+11.2%
Paris CAC 40	6520.01	+35.2%	+17.5%
S&P/TSX Comp. (Canada)	20070.25	+24.0%	+15.1%
MSCI EAFE Index	2281.29	+23.0%	+6.2%
MSCI Emerging Mkt Index	1253.10	+15.8%	-3.0%
MSCI World All-Cap Index	2532.11	+28.5%	+11.9%

Bond Yields & Key Interest Rates	12-31-20	9-30-21
Benchmark:	Yield/Rate	Yield/Rate
30 Year Treasury Bond Yield	1.65%	2.08%
10 Year Treasury Note Yield	0.93%	1.52%
5 Year Treasury Note Yield	0.36%	0.98%
2 Year Treasury Note Yield	0.13%	0.28%
Bank Money Market Yields (*10-1-21)	0.09%	0.07%*
1 Year Certificates of Deposit (*10-1-21)	0.22%	0.23%*
Prime Rate	3.25%	3.25%
Federal Funds Rate	0.0-0.25%	0.0-0.25%
Discount Rate	0.25%	0.25%

Morningstar Fund Averages		9-30-21
Investment Style/ Objective:	1-YR %	YTD%
Large-Cap Growth (L-C G)	+26.5%	+12.4%
Large-Cap Blend (L-C B)	+30.1%	+15.1%
Large-Cap Value (L-C V)	+34.9%	+16.3%
Mid-Cap Growth (M-C G)	+33.3%	+9.8%
Mid-Cap Blend (M-C B)	+38.8%	+15.0%
Mid-Cap Value (M-C V)	+46.9%	+19.4%
Small-Cap Growth (S-C G)	+39.8%	+9.8%
Small-Cap Blend (S-C B)	+51.0%	+17.7%
Small-Cap Value (S-C V)	+62.3%	+24.2%
Financial Funds (Fin)	+65.3%	+27.2%
Technology Funds (Tech)	+33.4%	+9.1%
Communications (Comm)	+30.0%	+10.1%
Natural Resources Funds (NatR)	+50.9%	+20.4%
Health Funds (Health)	+21.0%	+5.7%
Utilities Funds (Util)	+14.6%	+4.2%
Real Estate (REITs)	+34.6%	+21.3%
Foreign Funds- Lg Blend (Fgn)	+24.0%	+7.1%
Emerging Market (EMkt)	+21.3%	+1.2%
Precious Metals Funds - Equity (Prec)	-12.6%	-16.6%
Long-Term Bond (Long-Term)	+1.0%	-2.4%
Intermediate Core Bond (Int-Term)	-0.3%	-1.3%
Short-Term Bond (Short-Term)	+1.7%	+0.5%
Multi-Sector Bond (MS-Bond)	+6.4%	+2.2%
Inflation-Protected Bond (Infl-Prot)	+5.6%	+3.6%
High Yield Bond (HYld)	+10.6%	+4.3%
World Bond (Wld Bd)	+0.8%	-3.4%
World Allocation (Wld-Alloc)	+18.5%	+7.1%

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