the financial planner

GOLDMAN LANCASTER, INC.
REGISTERED INVESTMENT ADVISOR

Spring 2021

The Markets

A photo out of focus, a square image stretched across a rectangular screen, the scratchy sound from a blown loudspeaker, the reflection in a circus mirror — these things have all been affected by distortion. When distortion has its way, what we see and hear is inconsistent with our expectations. We are presented instead with an inaccurate depiction, an altered version of reality.

As we look back on economic and financial events of the first few months of 2021 and ahead to the rest of the year, we get the sense that we're looking at the world through a fisheye lens. Thanks to the continuing rollout of vaccines the US is on the vanguard of the developed world's slow move out of the pandemic, and there are clear signs of an improving economy as many sectors hardest hit by the pandemic reopen. At the same time, fiscal spending continues to ramp up. The Biden administration's first legislative win, dubbed the "American Rescue Plan", was enacted in March and added another $1.9 trillion to the roughly $3.8 trillion of emergency spending provided by five bills passed under the Trump administration over the preceding twelve months. For those keeping score at home, that's $5.8 trillion, which amounts to over 27% of GDP and contributes to a federal deficit of $3.1 trillion in fiscal year 2020 and an expected deficit of more than $2.5 trillion in fiscal 2021. Both years will see deficits of around 15% of GDP, far larger than in any year since WWII. And while Congress spends, the Federal Reserve remains committed to its ongoing purchases of US government bonds, at a rate of roughly $120 billion per month, all the while keeping short term interest rates pinned near zero. The combination of these three themes - a reopening economy, fiscal largesse directed largely at consumers and ultra-easy money – does not exist in a vacuum and is surely having distortive effects on the economy and markets.

Reflective of both growing optimism about the prospects for growth and an abundance of cash in the system, the first quarter was another positive one

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What's New?

One of the centerpieces of the $1.9 trillion American Rescue Plan Act recently signed by President Joe Biden was the establishment of a third round of coronavirus-related stimulus checks, officially a tax credit known as the 2021 'Recovery Rebates'. The maximum amount of a family's 2021 Recovery Rebate is equal to $1,400 times the number of eligible individuals, which includes the taxpayer(s) themselves as well as any dependents. However, those credits phase out quickly over extremely narrow income ranges.

The law allows taxpayers to qualify based on their income in '19, '20 or '21 and for some, managing their '21 income level may become very important. If you'd like to discuss, call us!

Interest Rate Update

From Barron's 5/17/21	Now	1 Yr Ago
Prime Rate	3.25%	3.25%
3-Month T-Bill Rate	0.02%	0.13%
5 Year CD - National Avg.	0.32%	0.66%
Fannie Mae 30 Yr. Fixed Conventional Mortgage	2.42%	2.20%

Financial Markets Scoreboard

Index Returns (through 3/31/21)	***Last 3 Months***	***Last 12 Months***
Dow Jones Industrials	*+8.29%*	*+53.78%*
Standard & Poors 500	*+6.17%*	*+56.35%*
M.S. EAFE (Developed Markets Foreign Stocks)	*+3.60%*	*+45.15%*
M.S. EM Free (Emerging Markets Stocks)	*+2.34%*	*+58.92%*
Barclay's Capital U.S. Aggregate Bond	*-3.37%*	*+0.71%*
Barclay's Capital US Corporate High Yield Bond	*+0.85%*	*+23.72%*

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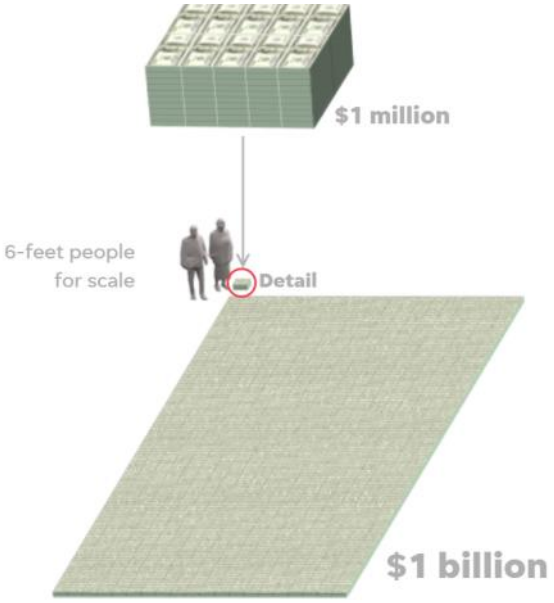
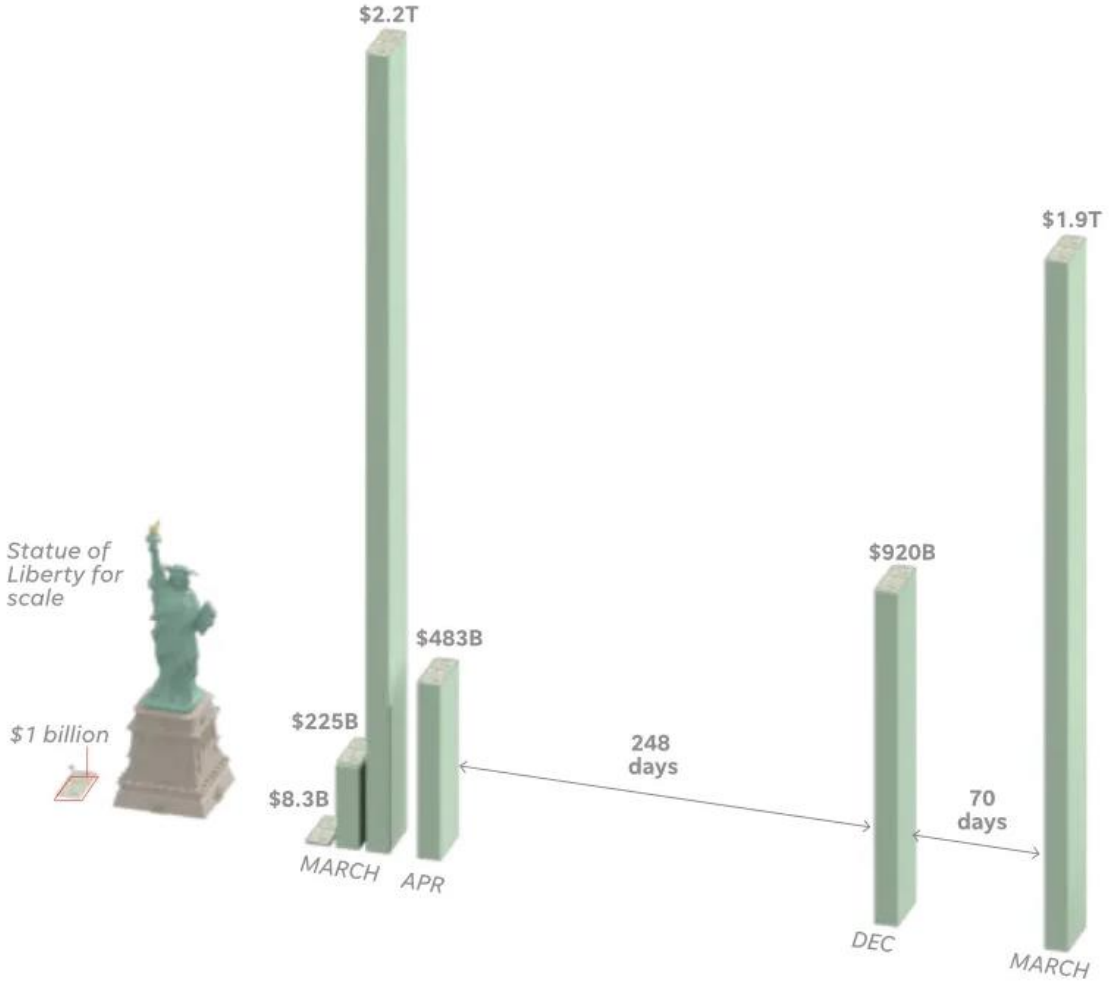
THE PERSPECTIVE PAGE
IT'S ONLY MONEY, RIGHT?

In the USA Today we found a fun visualization of the enormous figures being spent by the Federal government through the different pandemic relief bills.

The image to the right puts $1 million into perspective. Imagine a block of 10,000 $100 bills, which fits into a large suitcase. 1,000 blocks would give us a billion dollars, the size of a small swimming pool.

Here's the first package, passed last March. Finally, the large image below shows Lady Liberty and everything so far.





Markets *(Continued from page 1)*

for equity investors. US stock market indices led the way, but foreign markets were generally positive as well. Masked under the surface was a notable shift in market leadership, as the mega-cap growth names which powered the market ahead the last 5+ years took a pause while the stocks of smaller and more cyclically geared "value" companies outperformed.

But for bond investors it was a difficult start to the year. Interest rates rose markedly during the first quarter, albeit off extremely low levels. The yield on the 10-year Treasury Note rose from 0.93% to 1.74%. As a result, the Bloomberg Barclays U.S. Aggregate Bond Index was down -3.37% in Q1; its largest quarterly decline since 1981.

The quarter also saw a sharp rise in the prices of many commodities. Standouts included crude oil (+22%), lumber (+16%) and copper (+14%). And the Baltic Dry Index, a measure of the cost of shipping goods by sea, rose by 47%!

Shifting stock market leadership and the rise in interest rates and commodity prices reflect the confluence of themes described above:

⇒ Economic activity is certain to pick up as people feel more comfortable returning to the lives they were living before COVID.
⇒ Large direct payments from the federal government into the pockets of the citizenry while the Fed keeps interest rates at rock bottom spurs demand for everything from electronic gadgets, furniture and appliances, to houses, stocks and digital assets.
⇒ Expanded unemployment benefits and the slow and uneven reopening of schools creates conditions which make it difficult for many employers to find workers to fill newly opening positions.
⇒ Supply chain bottlenecks and the continued spread of COVID around the globe create shortages and higher input prices.

All of this leads us to the biggest debate on the floor for market observers. Inflation indicators have flashed bright red the last couple months. Federal Reserve officials are steadfast in their view that the current jump in inflation will be transitory, reflecting a recovery from the economic collapse of one year ago, that by late 2021 an equilibrium will be regained, and that inflation will settle back near the 2% or-so average they consider optimal. But many economists fear that shortages of goods and labor will create a reinforcing cycle in which consumers and job seekers anticipate rising prices and wages and change their behavior in ways that cause the rate of inflation to vault higher. In this event, the Federal Reserve would have no choice but to discontinue its bond-buying and raise short-term borrowing rates to stem the tide.

The latter outcome is a worst-case-scenario in our view, because as we have discussed repeatedly in this space, the financial system has a tremendous stock of debt and we question whether the economy has the capacity to continue growing in the face of even moderately higher interest rates. We saw this in stark terms as recently as 2019, when a sputtering economy caused the Fed to reverse course on its rate-raising cycle at a peak short-term rate of under 2.5%. Since then, we've seen dramatically more debt added.

Recently we have witnessed fresh signs of excess and imbalances in financial markets:

⇒ The value of crypto currencies surpassed $2 trillion in early April, doubling in just two months.
⇒ We've heard numerous anecdotal reports of homeowners receiving upwards of 50 competing offers within days of listing their homes for sale.
⇒ Speculative buying of small, troubled companies (such as GameStop and AMC Theatre Group) by small investors reached a crescendo early in the year, putting these companies on the front page of the news.
⇒ The month of March saw the collapse of a personal hedge fund called Archegos Capital Management, which saddled several large banks with losses exceeding $10 billion. The fund used derivatives to concentrate bets on a handful of stocks and effectively managed to borrow multiple times from different banks against the same collateral. Massive liquidations in a handful of big-name stocks and big capital hits to banks were absorbed by markets with nary a ripple in the financial system.

The takeaway is that we may very well be witnessing an inflection point in the investment cycle. What has worked the last ten years may not work in the next 5-10 years, and vice versa. As a result, we continue to favor shorter-term exposures in fixed income, and broad diversification in equity exposures.

The Personals

In mid-April I got on an airplane for the first time in 15 months. The occasion was a long-weekend visit with my daughter Ashley in Cleveland, OH.

I received my first vaccine shot in late March, so my immunity cake was still in the oven when I travelled. I took comfort knowing I was meaningfully protected, even if not all the way there yet.

There is only one option for those that wish to fly direct from Los Angeles to Cleveland: Spirit Airlines. They call it Spirit because that's what flying with them sucks right out of you. So I opted for American, even with a longer itinerary due to connecting flights.

I've been fortunate that throughout the last year my work and living environment, whether at home or in the office, has been conducive to going "maskless" most of the time, save for the occasional 30-minute stretch at the market, etc. So the eight or so hours required to make it from point A to point B and back were the longest continuous stretches of mask-wearing I've experienced. And I didn't like it!

The whole flying thing now comes with complications and new responsibilities. First, I have to wipe down my surroundings. Then my face itches. And there's the issue with fogging eyeglasses. I found wearing two masks alleviates that problem, but then, do I worry about using the outer mask on its own afterward? Regardless, that much time with same mask(s), and I can barely stand myself.

Despite the hassle, the trip was well worth it. Ashley and her boyfriend Shakeer were great hosts. Two wonderful home cooked meals, a game night with a couple of Ashley's dental schoolmates, a nice morning at an arboretum and out for brunch, a long walk in the neighborhood for another meal out, and too-quickly, it was over.

A week after my return, I received injection number two and now, the cake is fully baked.

With immunity comes impunity! And now like many others, we're heading out and about worry free. This past weekend we attended a birthday party at friends'; 15 people gathered with no need for protocols.

Now I'm looking forward to the opportunity to reconnect, in person, with many of you.

This is not what is happening in most of the world.

No question, we're fortunate. Progress feels good!

THANK YOU!

...to the following clients and colleagues for showing your confidence in us by referring your friends, family members, associates and clients during the last three months…

Yvonne Carranza, Nirav Gandhi,
Debbie Rodriguez, Connie Sziebl
Mike Taylor, Steve Dragovich
&
Mike Miller