the financial planner

GOLDMAN LANCASTER, INC.
REGISTERED INVESTMENT ADVISOR

Winter 2021

The Markets

They say hindsight is 2020. That is surely true, but now we can also say the reverse is true and that fact makes just about everybody very happy.

2020 would have been a good year in which to own a functioning crystal ball. Suppose for a moment you had been given one as a 2019 Christmas gift and on New Year's Day 2020 it told you that the new year would feature (1) the worst global pandemic in a century (2) the near-complete disappearance of household sanitizers and toilet paper (3) the worst US economy since 1946 (as measured by the contraction in GDP) combined with (4) rioting throughout the US and (5) a contested Presidential election that would ultimately lead to an assault breaching the US Capitol, and (6) wait for it…a solid UP year in the stock market. Huh?

Surely, you would have either (a) thrown your crystal ball directly into the garbage, because that's just crazy and everybody knows there's no such thing as a functioning crystal ball or (b) drilled three holes in it and joined a bowling team (imagine the irony when just as your game was coming together, public officials caused the bowling alley to close in an effort to "stop the spread") or (c) "re-gifted" it to that annoying cousin of yours whose birthday is in January.

As we know now, all of that actually happened. There is no denying the tragedy. For many, the cost has been a disruption in daily routines, with children out of school and severe restrictions on social gatherings and travel and entertainment, etc. For many others, the cost has been much greater: lives cut short, the loss of family members, close friends, small business failures and delays in educational and professional progress. Yet for most investors it was a better-than-average year. The stock market recovered from its springtime plunge and was roaring as 2020 came to a close. The numbers are striking and can be seen on the scoreboard below.

For policymakers, the last 20+ years

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What's New?

2021 is the year in which California businesses that employ between 50 and 100 employees and do not already sponsor a qualified retirement plan will be required to register for CalSavers, a new Roth IRA program mandated and administered by the state of California. The requirement will apply to businesses with 5 or more employees in mid 2022. Employers do not contribute to employee accounts, but must facilitate payroll deductions for the program, which automatically enrolls employees at a contribution rate of 5% of pay. Employees must proactively opt out if they don't wish to participate at that level. If you have questions about how this program may affect you or your business, we're here to help.

Interest Rate Update

From Barron's 2/28/21	Now	1 Yr Ago
Prime Rate	3.25%	4.75%
3-Month T-Bill Rate	0.03%	1.56%
5 Year CD - National Avg.	0.33%	1.13%
Fannie Mae 30 Yr. Fixed Conventional Mortgage	2.97%	3.45%

Financial Markets Scoreboard

Index Returns (through 12/31/20)	***3 Months***	***12 Months***
Dow Jones Industrials	***+10.73%***	***+9.72%***
Standard & Poors 500	***+12.15%***	***+18.40%***
M.S. EAFE (Developed Markets Foreign Stocks)	***+16.09%***	***+8.28%***
M.S. EM Free (Emerging Markets Stocks)	***+19.77%***	***18.69%***
Barclay's Capital U.S. Aggregate Bond	***+0.67%***	***+7.51%***
Barclay's Capital US Corporate High Yield Bond	***+6.45%***	***+7.11%***

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THE PERSPECTIVE PAGE
SOUTHERN CALIFORNIA IS STILL GOLDEN!

The pandemic has fostered new trends and accelerated others. Online shopping, working from home, virtual happy hours and moonshining are just a few.

Spurred in part by growing acceptance of the work-from-home model, housing demand continues shifting away from dense, high-cost areas to wherever people can find more space and lower costs—be that a new city, a new state, or a different type of home. Southern California is often an example chosen to illustrate this trend. We have all seen the headlines: the exodus from California is underway. An affordability crisis is pushing families away from the coast to relocate to Arizona, Utah, Texas, and beyond. Businesses and the well-healed are exiting to areas with lower taxes and less regulation.

While these trends are real, the Southern California housing market remains resilient. Builders are selling homes faster than any other time since the mid-2000s housing boom. The work-from-home trend is igniting home sales in locations farther from dense job centers along the coast. Southern California's inland regions offer ample land for builders and attainable pricing for buyers. Similar shifts are underway in Northern California, as people flee the Bay Area for lower prices and less-dense neighborhoods in the Sacramento suburbs. Despite it all, SoCal remains an economic juggernaut and a place where people want to live.

With about 23 million residents, Southern California is an economic engine of enormous scale.

Southern California is projected to add 246K jobs in 2021—which is greater than the combined job growth in Phoenix, Houston, Austin, Denver, and Charlotte (projected at about 227K new jobs in 2021).

Clusters of innovation surround the region's world-class universities and research institutions such as Cal Tech, UC San Diego, and NASA's Jet Propulsion Laboratory.

Southern California is a gateway for international trade with Asia and Mexico, and home to the busiest port (Los Angeles) and land border crossing (San Ysidro) in the Western hemisphere.

The Navy is the largest employer in San Diego. Camp Pendleton Marine Corps base occupies 125K acres of the Southern California coast, and the aerospace industry is booming in the desert around the Mojave Space Port.

The Southern California lifestyle is aspirational. Great weather, a diverse culture, and stunning natural environments make people want to live here.

Although California's population is projected to shrink in the next few years, this will equate to a change of less than 1% over the next 4 years. Many who leave coastal areas may remain in California, simply moving farther inland.

California's brightest days may be behind it for now, but the state still holds significant appeal. Living and owning a home in the Golden State is likely to remain attractive to many who will continue to enjoy all the state has to offer.

Markets *(Continued from page 1)*

served as a dress rehearsal for 2020. Starting in the late 1990's, the Federal Reserve (at that time led by Alan Greenspan), began to take a much more proactive roll in shoring up the "plumbing" of financial markets whenever disruptions occurred. And starting with the Financial Crisis in 2008/09, the federal government became much more willing to spend massively to stabilize the economy in the face of recessions and market crises.

So when realization of the potential scale of disruption and harm the virus might cause set in, markets reacted violently - the US stock market fell by around one-third in just five weeks during February and March – and policymakers reacted by instituting measures never before seen in size and scope.

The Federal Reserve cut short-term interest rates all the way back to zero once again and established a new $700 billion "quantitative easing" bond-buying program. It also established or reestablished a myriad of lending facilities, amounting to trillions in backstop liquidity, to further efforts to shore up markets. And during March and April alone, the federal government enacted four separate COVID relief bills which in the aggregate would pump nearly $3 *trillion* into the economy.

The massive infusion of funds into the economy created some interesting macro-economic anomalies. To quote from the Bureau of Economic Analysis' initial release of 4th quarter 2020 GDP numbers, "Real GDP decreased 3.5 percent in 2020…the decrease in real GDP reflected decreases in personal consumption expenditures, exports, private inventory investment, nonresidential fixed investment, and state and local government spending that were partly offset by increases in federal government spending and residential fixed investment." So basically, the economy shrunk because state and local governments and individuals spent less money and businesses exported less and invested less. But at the same time, people spent much more on their homes and the federal government spent more, much more, on lots of stuff.

As a result of direct payments and unemployment enhancements personal incomes increased by 6.3% YoY, the largest increase since 2006. Contrast that to the 2009 reading of -3.1%, and we get an inkling of how different the COVID Crisis has been to a deep typical recession.

While the crisis dealt huge blows to the service side of the economy (centered on dining and travel but impacting many others), the nature of societal responses to the pandemic and the magnitude of government stimulus helped spending on durable goods increase by a whopping 11% from December '19 to December '20.

In fact, many people found themselves with more money and less to spend it on; the personal savings rate vaulted to 13.7% by December '20, up from an already-healthy 7.6% in December of '19.

All of this helps to explain the strength of financial markets. While job losses have been massive, they have been skewed toward lower-paying jobs, leaving the investor class flush with liquidity and thanks to extremely low interest rates, nowhere to put it. So demand for investments has stayed high, putting upward pressure on asset prices in general.

As we look ahead into 2021, we see an economy crouching on a springboard. While concerns remain about the virus mutating faster than the vaccination effort quashes it, our baseline scenario is that continued vaccine distribution and warming weather slows the spread of the virus palpably, leading to a release of "pent-up" demand for travel and entertainment. As it is, many manufacturers are having difficulty keeping up with demand, still trying to recover from inventory cuts they allowed last year and bottlenecks in the production and shipment of goods. We are likely to see price increases on a variety of goods and services this year, although we still believe the longer-term trend will be one of very low inflation.

In the face of this outlook, we question the wisdom of another $1.9 trillion stimulus bill on the heels of a $900 billion package passed in December and not yet close to fully distributed. A package of this size will double the projected federal budget deficit in 2021 and may contribute to an overheating economy, rising interest rates, and paradoxically, falling stock prices. To wit, early in the new year we're seeing a rapid rise in long-term interest rates (albeit from extremely low levels) which may threaten the stock market rally in the weeks ahead. So we could actually go from bad economy/good market to the opposite!

Never a dull moment, right?

The Personals

When we bought our house in 2000, part of its appeal was the fact that it was turn-key. The previous owner had done quite a bit of decorating work and in the mid-eighties the owners before him had done a top-notch, full remodel of the kitchen, including the installation of a very nice built-in refrigerator.

Heading into 2020, that fridge was still with us. Barely. The last handful of years had seen more frequent and more expensive maintenance calls and deteriorating performance, along with a monthly reminder from SoCal Edison that we use 70-80% more electricity than our neighbors. But the final straw was when the freezer no longer kept my ice cream sufficiently frozen. It was time to go shopping for a replacement.

My overly pragmatic brain said get a new one exactly like the old one. Unfortunately, when we went to the showroom we saw they also have a "Pro" model, which has some real cool bins and a sliding shelf, PLUS, a window on the door…and we had to have it. Ok, so just order the fridge and wait for it to come, easy peasy, right?

Not so fast!

Getting the old fridge out was a bear, and before the new one could go in we had to rehab the walls surrounding the enclosure, to clean up after 35 years of moisture and corrosion. Cha-ching!

Solvable problem, though, and we got it done in 48 hours!

The old fridge was in the dining room during the time required for the remediation and until the scheduled delivery of the new unit. Unfortunately during that time the freezer went completely, causing an unnatural amount of meat to thaw and form a bloody pool of water in the bottom. That was fun to clean up!

A few days later the new fridge arrived, and it fit fine in its space but it is definitely bulkier than the old one. It sticks out a little further from the wall but, wow, it looks good!

The space for the fridge is just to the left of our oven, which is set diagonally in a corner configuration. And Maria asks the question, "do the oven doors still open?" Uh-oh…no, they don't! Cha-ching!

So we had to call the cabinet guy, to rework the cabinet which holds the oven and the cupboards to the right of it.

They arrived within a week and then the oven was in the dining room.

They say time heals all wounds. Two weeks later the cabinet work was complete and the oven was back in its rightful spot.

Don't you just love it when a plan comes together?

Our ice cream is hard as a rock and according to SoCal Edison we are now using only 15% more electricity than our neighbors. So we're already saving money on our utility bill. I wonder whether the new fridge will last long enough to pay for itself?

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…

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&
Mr. P