Aaron Graham • agraham@agfweb.com

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AG FINANCIAL

2825 East Cottonwood Parkway • Suite 500 • Salt Lake City, Utah 84121 • 801.990.3470

What's The Risk Of A Market Melt-Up?

The Standard & Poor's 500 stock index repeatedly broke records for months and the risk of a market melt-up should be considered. Are stocks fairly priced? For the answer, we turn to Jerome Powell, the U.S. Federal Reserve Bank chairman.

Fed chairmen generally avoid talking the stock market up or down. However, at a press conference in December 2020, Mr. Powell was asked specifically about the fact that stocks are highly priced by traditional valuation standards, like price-to-earnings (P/E) ratios. Mr. Powell's answer is important to investors, though it did not get much press.

That day, the East Coast faced the worst winter storm in years and a lot of things were going on, as always. But here's what Mr. Powell said: "Admittedly, P/Es (price/earnings ratios) are high, but maybe that's not as relevant in a world where we think the 10-year Treasury is going to be lower than it's been historically."

The Fed chair is saying stocks are not overpriced compared to bond yields, which are going to be low for a sustained period. The Fed is saying, pay no attention to the market's P/E ratio; it's more relevant in the current conditions to value the market's P/E ratio relative to bond yields. On that basis, stocks aren't expensive.

Mr. Powell was saying that the traditional valuation measures, including P/E ratios, may not be so relevant right now because of the low-interest rate situation worldwide. He's saying that what's most important in the current financial economic conditions, is the comparison of the P/E ratio to bond yields.

Just as you would not use a sledgehammer to drive a nail, the valuation method commonly used to measure current stock prices – P/E ratios – is the best tool for this situation. The current situation is uncommon, and it makes sense to use a tool to measure

(Continued on page 4)

Your Financial Psychology Under Current Conditions

Are you a risk taker? Will you follow through on a long-term plan? Or maybe your natural tendencies make you prone to spend impulsively and let short-term emotions control your budget and investing decisions. These are financial personality traits that behavioral economics helps you identify and manage.

The psychological dimension of financial planning is part of the knowledge learned from the burgeoning social science of behavioral economics, a field recognized for its contribution in helping to improve society through knowledge in 2002 with the award of a Nobel Prize in Economics to Daniel Kahneman, and again in 2017 with the Economics Prize awarded to Richard Thaler.

A practical benefit of behavioral economics is that investors can take assessments to understand their personal financial personality traits.

With traditional stock market price-to-earnings valuation benchmarks broken and growing concerns about a bubbly market, it is important to keep the speculative nature of excitement-seekers in check. Meanwhile, risk-averse individuals cannot allow their natural tendencies to make them so fearful that they avoid stocks and risk assets, or for retirees to worry excessively about outliving their savings.

The current economic boom, unprecedented government stimulus, inflation scare, and record-breaking stock prices make this a good time to assess your unique investor personality traits. Understanding your financial personality can help you make better decisions.

Do The Top 1% In Income Pay Enough Income Tax?

Do the top 1% in income in America pay enough income tax? Here are the facts to decide.

In 2018, the latest data from the Internal Revenue Service show 153.6 million individual income tax returns were filed. Of those returns, 1.6 million reported adjusted gross income of $500,000 or more. Thus, almost exactly 1% of individual returns filed in 2018 reported income of $500,000 or more. Using income as a gauge of wealth, rather than net worth, these are the "one-percenters."

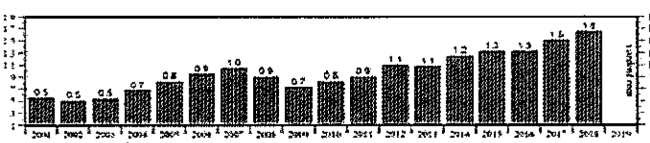
The one-percenters – taxpayers earning $500,000 or more in adjusted gross income – accounted for 21.7% of total adjusted gross income reported on all 153.6 million individual tax returns filed.

The one-percenters accounted for 41.5% of total income taxes paid and they paid 25.3% of their adjusted gross income in taxes 2018, which was less than they paid before the tax cut of signed into law in December 2017.

Was that enough? We will leave it to you to decide, but those are facts. No matter your answer, tax hikes on income and wealth are almost certain to be enacted in 2021. You can count on us for advice as well as the facts in dealing with your personal situation. ●

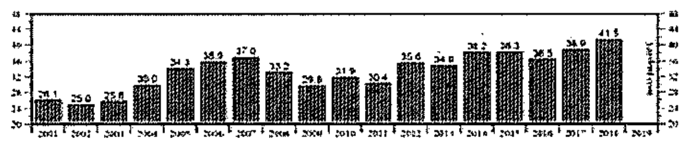
DO THE TOP 1% INCOME EARNERS PAY ENOUGH IN TAXES?

% Of Individual Federal Income Tax Returns Filed Reporting $500,000 Or More Of Income



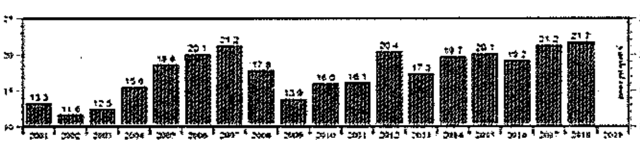
Of 153.6 million individual income tax returns filed in 2018, 1.6 million reported adjusted gross income of $500,000 or more – almost exactly 1%.

Income Taxes Paid By Taxpayers Earning $500,000 Or More As A % Of All AGI Reported



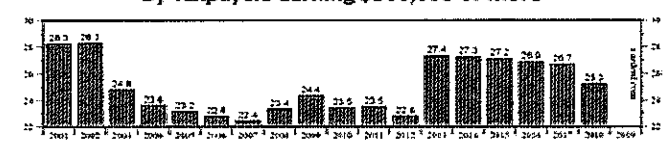
The one-percenters – taxpayers earning $500,000 or more accounted for 41.5% of total income taxes paid.

AGI Reported By Taxpayers Earning $500,000 Or More As A % Of All AGI



The top one-percent in AGI accounted for 21.7% of all total adjusted gross income reported on all 153.6 million individual income tax returns filed in 2018.

Income Taxes Paid As A % Of All AGI Reported By Taxpayers Earning $500,000 or more



The one-percenters – taxpayers earning $500,000 or more -- paid 25.3% of their AGI in taxes.

Source: Yardeni Research, Inc. with permission; Internal Revenue Service

John Oliver's Economic Analysis Is No Joke

Comedian John Oliver's analysis of the impact of the mushrooming federal debt is no joke.

Mr. Oliver, a pioneer of the satirical TV news genre, was senior British correspondent at The Daily Show from 2006 to 2013. Since 2014, his Sunday, 11 p.m HBO show, Last Week Tonight With John Oliver, has won 13 Emmy Awards.

Moreover, the Peabody Awards, which recognizes distinguished achievement and meritorious public service in mass media, was awarded twice to Last Week Tonight in the past six years. That's serious!

Mr. Oliver has taken satirical news to a sublime level. In keeping with today's confusing times, he's making fake news really serious but funny. With more than four million viewers weekly, it is a sign of the times that "fake news" has become a source of real news about economics.

The exploding government debt is not funny. The long-term debt of the United States, in the 12 months after Covid hit, soared from $21 trillion to $28 trillion. Larding debt on generations to come is obviously nothing to laugh about, but it's also not so grim, which was Mr. Oliver's main point.

There is some really great news about the government's soaring debt: the expected cost of servicing the interest on the debt is not growing as fast as the economy overall. According to Secretary of the Treasury, Janet Yellen's Congressional testimony on March 24th, when the cost of debt results in growth to the economy, debt is a good investment.

This is incredibly unfunny. The U.S. debt is boring and complicated. Moreover, given the human proclivity for avoiding bad news – and debt is most definitely bad news – Mr. Oliver, despite sometimes outlandish political views, is no joke.

Last Week Tonight is not as funny as it used to be, but it is hilarious for a serious news show. ●

Going Out On Your Own Terms: Six Key Documents In An Estate Plan

Everyone's estate plan is unique, but these six documents are key in ensuring your final wishes are carried out and you end life on terms you have set out.

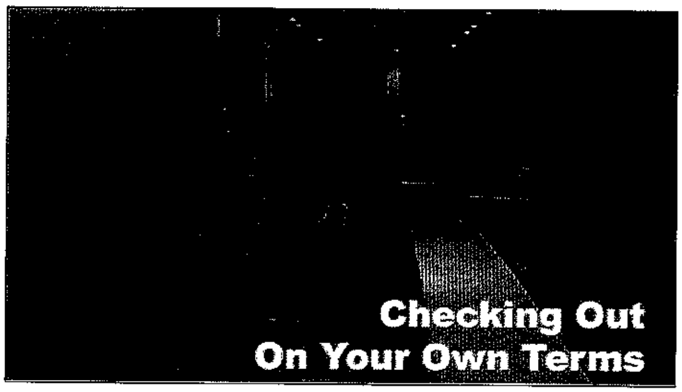
1. Financial power of attorney. This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers. They may be enabled to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

2. Health-care power of attorney. This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

3. Living Will. While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.



4. Trusts. There are many reasons for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will. Because assets in a living trust don't go through probate court proceedings, it keeps the disposition of your final affairs private and asset transfers through a trust are harder to contest than assets that go through the public probate process. The probate process can also be lengthy.

Though there are a myriad of variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. While that's not the case with an irrevocable trust, it can protect assets from creditors and remove them from your taxable estate.

5. Final Letter. A final letter can be used to write down a plan for your funeral arrangements, who is to inherit precious family heirlooms, works of art, personal items, and to bestow final blessings and salutations to the people who matter most to you.

6. Will. Your will establishes how your assets will be distributed after you die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you can't be without.

Drawing up documents is left to legal professionals but coordinating the drafting of these documents with your attorney to ensure your final objectives in life are met after your death is often the province of a trusted financial advice professional, as is assuming powers over your financial affairs should you ever become incapacitated and quarterbacking a team of professionals.

How to best invest your final assets in the people and beliefs you hold most dear requires your most careful consideration and planning and is not a responsibility we take on lightly. If you have questions about going out on your own terms that you set out, please don't hesitate to contact us. ●

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2825 East Cottonwood Parkway • Suite 500
Salt Lake City, Utah 84121

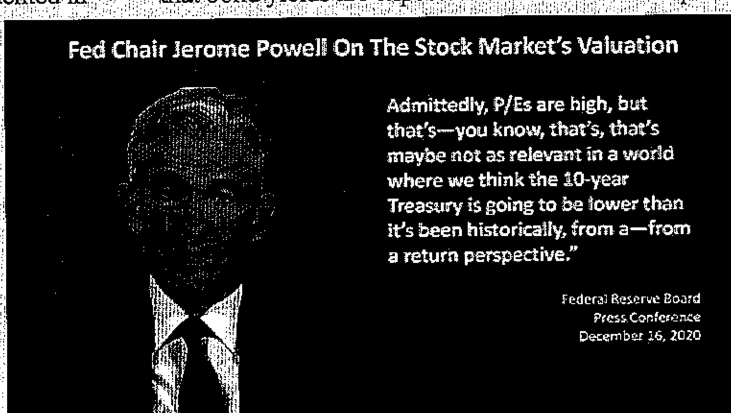
The Risk Of A Market Melt-Up?

(Continued from page 1)

valuations in the context of the currently low interest rates.

It's important because, to the extent that the Fed chair believes that current conditions, which are unprecedented in history, then he's going to remain accommodative and keep aiding and abetting the Treasury in creating money. This would continue to support stocks, as well as the economy, for the foreseeable future.

In contrast to former Fed chair Alan Greenspan, who warned stock investors were growing irrationally exuberant in 1996 – four years before the peak of the great bull market, remembered in history as the tech stock boom – Chairman Powell is saying: pay no attention to P/E ratios, the traditional valuation benchmark of stocks; what matters more is the P/E ratio compared to the 10-year bond yield, and, that bond yields are expected to remain low for the foreseeable future because of population trends in developed and developing nations, improvements in technology, and other fundamentals.



If the Fed thinks high price-to-earnings ratios are less relevant and that bond yields relative to stock prices are the important measuring instrument under current economic conditions, then that leaves leeway for stocks to rise without Fed action to quell an exuberant stock market. Thus, the risk of a market melt-up is a real thing.

If you fear missing out on a market melt-up or worry about being overexposed to stock risk, the right tool is a core portfolio diversified across low expense assets and professionally managed. ●