# BIONDO PERSPECTIVES

## SECOND QUARTER REVIEW

Scott A. Goginsky

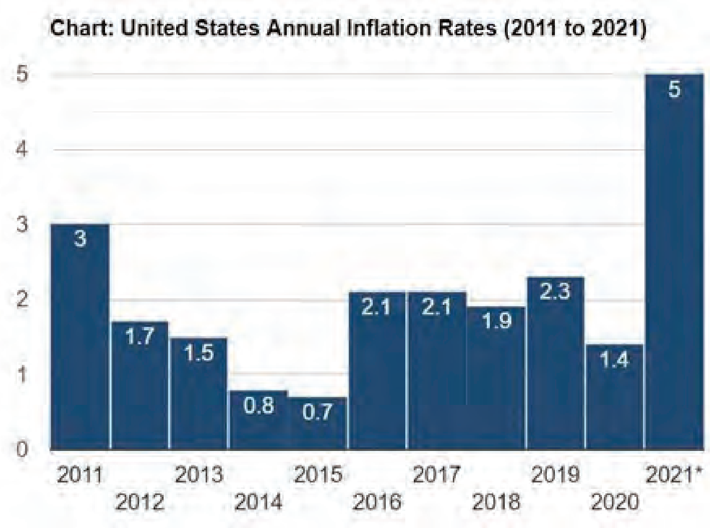
# THE MARKETS CONTINUE TO BENEFIT FROM A RETURN TO NORMALCY.

Happy Summer! I hope that this commentary finds you well and that you are enjoying some time with family and friends. It is much needed for all of us after a tough year and a half.

While virus concerns remain, primarily with the highly contagious variants and under-vaccinated areas around the country, we are less driven by COVID-related data. The new questions for the markets are now more focused on classic economic concerns: economic growth trends, corporate earnings and expectations, interest rate trends and subsequent actions by the Federal Reserve.

The markets continue to benefit from a return to normalcy. As of June 30, the S&P 500 Index is up 15% in the year-to-date period - the second-best first-half performance since 1998, behind only 2019's 17% gain. The Nasdaq has advanced more than 14% this year and is trading near all-time highs.

The quarterly market streak, in particular, is impressive. The S&P 500 has gained more than 5% for five consecutive quarters - only the second time since 1945 that the index has been able to pull off that feat. The last time this happened was in 1954, also a time when the economy was emerging from a period of ultralow interest rates.




SOURCE: US Inflation Calculator

It is indeed interest rates that are currently the key focus of investors, with inflation being the lynchpin for Fed decisions over the next several quarters. There is some fear that hot inflation readings are not going to be as fleeting as central bankers expect, but that rising prices could become a bigger problem for the economy. Stocks can be an inflation hedge if inflation does not cause increases in interest rates. The concern is that recent inflation readings could accelerate the Fed's timeframe on interest rate hikes - currently forecasted by Fed officials to start in 2023.

The Fed still perceives recent inflation as temporary, or "transitory," due to short-lived, supply-related bottlenecks caused by a surge in demand after the broad, post-COVID economic reopening. Restaurants are filled, hotels and flights

*continues on page 2*

## IN THIS ISSUE:

*Q2 COMMENTARY //*
*THE TALK ABOUT ROTH IRAS // REMINDERS*

are packed, cruise ships are back out at sea and workers are returning to the office. All of these factors are causing a big swell in demand for goods and services, while suppliers are finding it difficult to hire workers fast enough to meet the flood of orders.

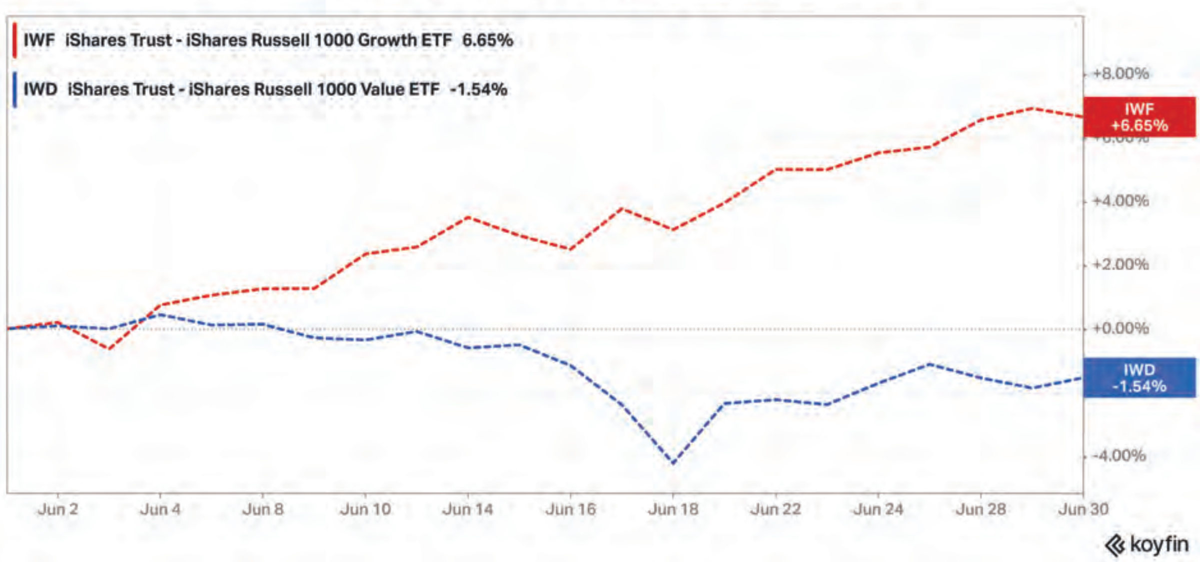
There is some evidence to support this transitory inflation argument.  The precipitous deceleration or drop in headline COVID recovery inflation signals, such as used car and lumber prices, may be an indication that 'core' inflation has already peaked, confirming the adage that "the cure for higher prices is higher prices."  Other items, such as gas prices and many food items, remain stubbornly high. Nonetheless, for inflation to become a problem in the US, it most likely needs to become a problem for the rest of the world as well.  Until we start to see inflation pick up in regions such as Europe and Japan, the threat of sustained inflation, the kind that would keep the Fed up at night, hopefully remains a low probability scenario.

Whether or not inflation remains in check longer term remains to be seen.  What is important to view now is the "reflation trade" that has taken place during the first half of the year. Think of reflation as "normalization." It is a quick bout of inflation to bring prices back up to their long-term trend. The rollout of vaccinations and artificial demand created by the trillions of government stimulus has aided this normalization. The reflation trade has a larger impact on economically sensitive value stocks - particularly commodities, industrials and financials.

These shifting macroeconomic conditions have fueled a dramatic reshuffling in market leadership. Small-cap outperformance earlier in the year was powered by expectations that the accelerating US vaccination rollout and easing lockdown measures would usher in a period of robust economic growth, as activity normalized. This outlook fueled a massive rotation into the beneficiaries of a reflating economy (which make up a bigger share of the small-cap index), at the expense of last year's pandemic outperformers, predominantly large-cap tech stocks.

That calculus has changed more recently with the rally in 10-year Treasuries and unwinding of the reflation trade. Growth-heavy sectors, such as technology and consumer discretionary, have reversed their earlier underperformance since mid-May, while traditional value sectors (most notably, financials) have recently lost favor. The Russell 1000 Value Index fell by about 1.5% in June, trailing its growth counterpart by more than seven percentage points as tech stocks outperformed with bond yields stabilizing.

**Russell 1000 Value/Growth June 2021 Performance**



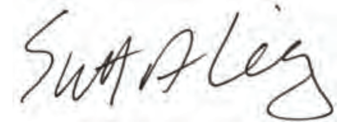

Overall, however, stocks appear to be the most attractive asset class for investors. The main reason behind the rally in equities is that stocks have little competition, given that bond yields remain lackluster and credit spreads have tightened to their lowest levels in over a decade.

This is coupled with a high degree of pent-up demand now that economies are reopening following last year's lockdowns. US money-market fund assets have ballooned to a record $5.5 trillion during the pandemic, showing that there is a lot of cash on the sidelines.  There is still overwhelming liquidity in the system that is looking for a home.

A recovery in earnings growth is key to continuing the equity rally. Globally, profit expectations have bounced back to pre-pandemic levels, and nearly 50% of S&P 500 companies have raised their full-year outlook over the past three months.  Likewise, companies are hiring at an accelerating pace, with the June jobs report handily beating expectations and the unemployment rate trending down to 5.9% from a pandemic high of 14.8% last April.  This kind of hiring is almost always a good sign for accelerating revenue and earnings growth.

Given these ever-changing macro factors, we have and will be trimming position sizes to reflect the elevated risk levels of certain positions and allocate capital to areas of opportunity. As investors, it is important not to over-emphasize individual positions but to focus on your investment portfolios as a whole.

If you have not reviewed your financial goals and investment priorities in the past 6-12 months, this is a great time to do so. Please feel free to contact us at your convenience to discuss your specific situation and how the various strategies that we offer can accommodate your needs. As always, we appreciate the trust and confidence you have placed in us, and we appreciate the opportunity to serve your investment needs.



**Scott A. Goginsky, CFA®**

*Partner, Research Analyst,*
*Portfolio Manager*

Sources: Index returns & statistics – Bloomberg, Barron's, Forbes, Seeking Alpha; Inflation – Seeking Alpha; Money-market fund assets – Yahoo Finance; Unemployment rates – CNBC



## WHY EVERYONE IS TALKING ABOUT ROTH IRAs RIGHT NOW

**Casey Pisano, CFP®**

Prior to June 24, 2021 most people were probably under the impression that Roth IRAs were pretty boring. You may have told your kid or grandkid to set one up when they got their first job. There are income limits to be able to contribute to a Roth IRA and you can't take the money out until you're retired, in most cases.

Then an investigative journalism organization called ProPublica published an article that detailed how Peter Thiel built his Roth IRA to a (take a deep breath) $5 billion balance.

If you're not familiar with Peter Thiel, he's the billionaire entrepreneur and venture capitalist most known for co-founding the company that became PayPal and also for being the first outside investor in Facebook.

What's surprising about this though, is the fact that wealthy people aren't usually thought of as having Roth IRAs, and if someone does have one there's usually not that much money in it. The contribution limits, even in 2021, are only $6,000 a year ($7,000 if you're over the age of 50).

So, how did this guy build a Roth IRA up to $5 billion? Thiel's background and the balance of the account actually reveal the answer.

According to the article,[1] Thiel was advised to deposit his "founders shares" in a Roth IRA instead of a different type of retirement account. Roth IRA contributions are not tax deductible in the year of contribution. The logic was, if his company did well, as long as he reached age 59.5, the money would be able to be withdrawn tax free. This is compared to traditional retirement accounts like a 401(k), that provide the advantage of shielding the contribution from taxes in the year of contribution, but requiring tax on distributions when they come out of the account later.

These are the same Roth IRA rules that are available to everyone.

What's unique about his Roth IRA was the investment itself. He had the private shares of his own company in the account. Just about nobody has access to this type of investment. The value of these shares is what made it possible for his account to grow so quickly and to such a staggering figure. The shares were reportedly bought for $0.001 dollars (that's one tenth of one penny).

*continues on page 4*

This valuing of his shares is what is likely to come under scrutiny from the IRS and will probably get debated for years to come. The logic and execution of the actual location of the stock in his Roth IRA though, is completely above the line legally and something anyone can do.

## What does this mean for the rest of us non-billionaires out there?

Think about how you can use the Roth IRA rules to grow and keep as much of your hard-earned money as possible.

One way to do this is to locate your investments with the highest potential return in a Roth IRA. If you have growth stocks and dividend stocks, think about getting as many of the growth stocks in a Roth account as possible.

If you don't have access to a Roth IRA because you make more than the limit for a full contribution ($125,000 for single filers and $198,000 for joint filers in 2021, assuming no contributions to traditional IRA's), take a good look at the efficacy of completing a Roth conversion. You'll have to pay tax on any money you convert at your income rates, but once the money is in the Roth IRA, you can take it out tax free as long as the account has been open for five years and you're aged 59.5 or older. Roth conversions can look even better if your income is temporarily low in a particular year.

Roth IRAs can also make great assets to leave to the next generation because the distributions, in most cases, come out tax free. Even if the beneficiaries have to liquidate the account in a maximum period of ten years (thanks to the SECURE Act), the account gets liquidated tax free. For example, let's say you convert $50,000 this year, pay income tax on it, and it grows at an 8.00% annual return net of fees; after 20 years that account would be worth $233,048. That's $183,048 of growth that will get distributed tax free.

We may not be building our Roth IRAs to billions of dollars anytime soon. It's all relative though, and if you'd like to grow and keep more of your hard-earned wealth in your family, a Roth IRA can be a great way to do it.

As always, if you'd like to speak in more detail about how this article relates to your own circumstances, goals and intentions, please reach out and schedule a time to speak with me. Everyone's situation is different and Roth IRAs aren't for everybody. For the right person at the right time though, these accounts can be a valuable addition to a comprehensive financial strategy.

1 https://www.propublica.org/article/lord-of-the-roths-how-tech-mogul-peter-thiel-turned-a-retirement-account-for-the-middle-class-into-a-5-billion-dollar-tax-free-piggy-bank



## REMINDERS

### Do you have a "Trusted Contact" form on file with us?

Should there be any questions or concerns about your health or welfare, this form authorizes us and Fidelity to contact the designated trusted contact.

If you would like a form sent to you or have any questions regarding its use, please reach out to us at **team@thebiondogroup.com** or call **570-296-5525**.

### Any new changes in your contact information?

*We would like to know...* so we can keep your contact information up to date.

Please send us your updated email, address or telephone number to **team@thebiondogroup.com** or call **570-296-5525**.

## GET CONNECTED

Find us on: facebook

@TheBiondoGroup

Visit our company page on LinkedIn

Listen to our Podcast the BIONDO exchange