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ACHIEVE MORE.

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Second Quarter 2021

Birthday Parties

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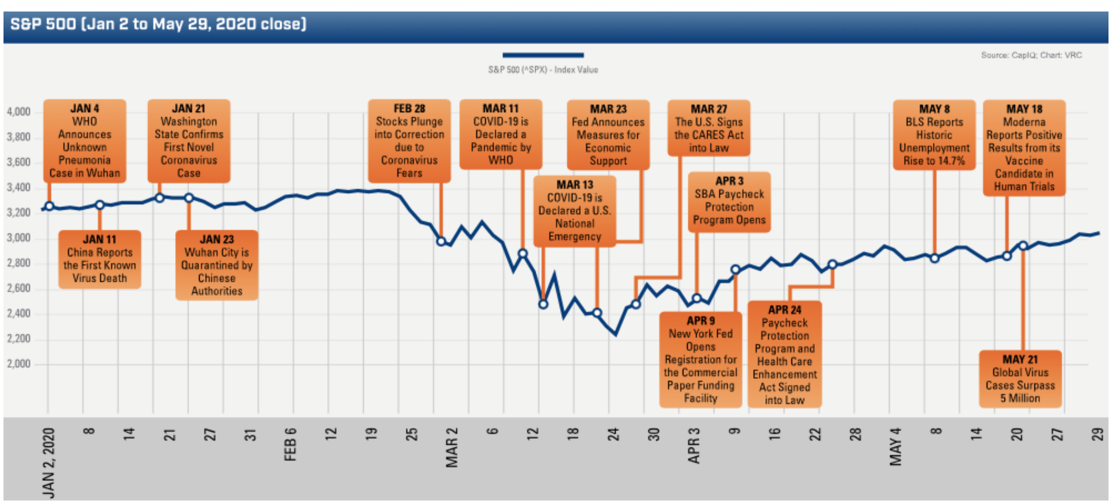
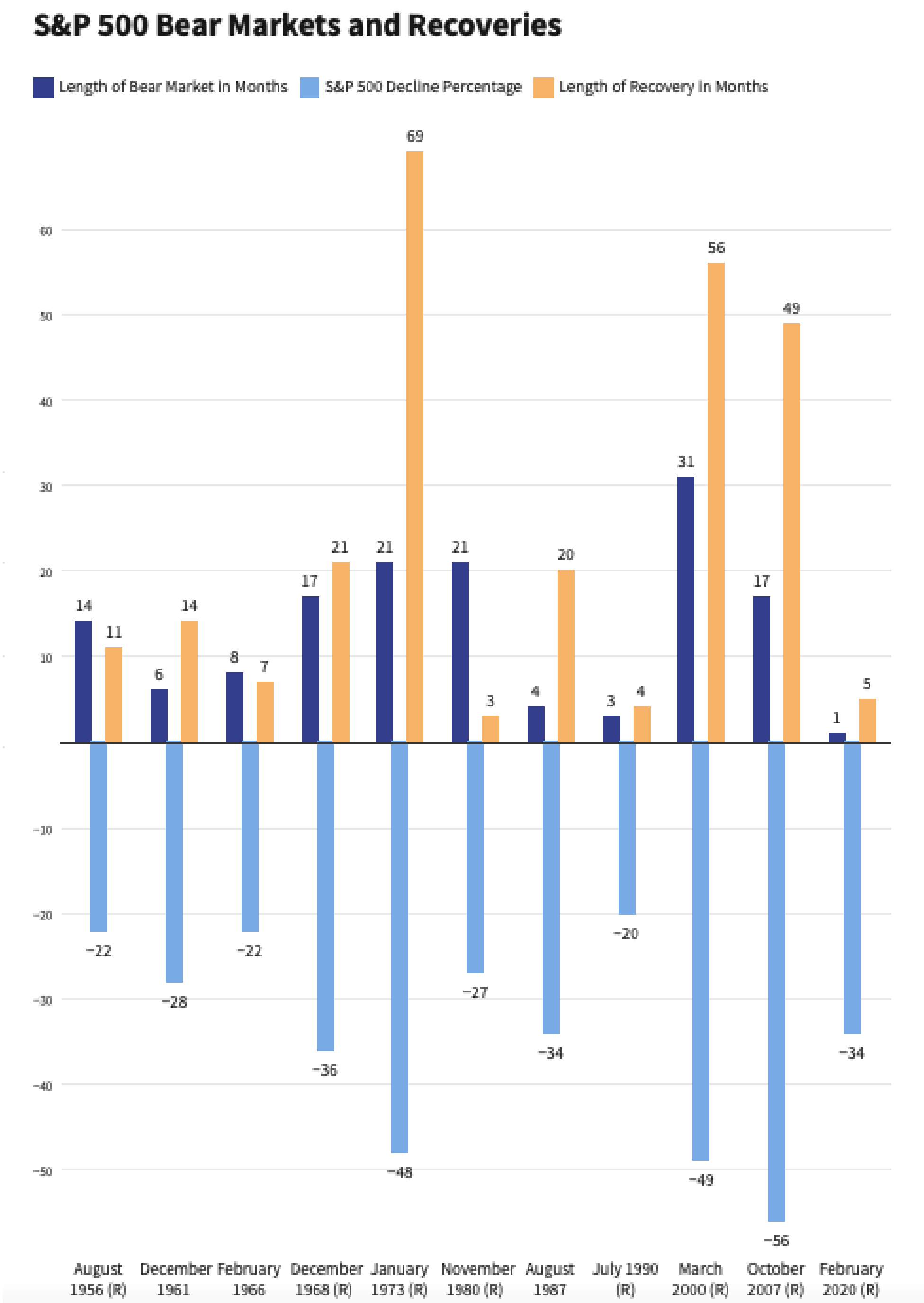
One of the many secondary casualties of Covid has been birthday celebrations. It may seem trivial, and we suppose it is, but it's very sad. We suspect most everyone has pictures of their child's first birthday. It's a big deal. A chubby-cheeked baby with frosting all over their face smiling at a recently destroyed cake. A candle in the shape of a "1" lays crooked on top as a reminder of this momentous occasion. What brings a tear to our eye years later is not always the cute 1-year old in the picture, rather it's our fond memories of who was holding the 1-year old, and that's not trivial. We'd like to welcome all of our vaccinated grandparents back to these wonderful celebrations. We greatly missed you.

Our opening paragraph turned into an unexpectedly emotional segue to our lighthearted celebration of the current Bull Market turning 1-year old on March 23rd. We accidentally drifted. Thank you for allowing us a moment.

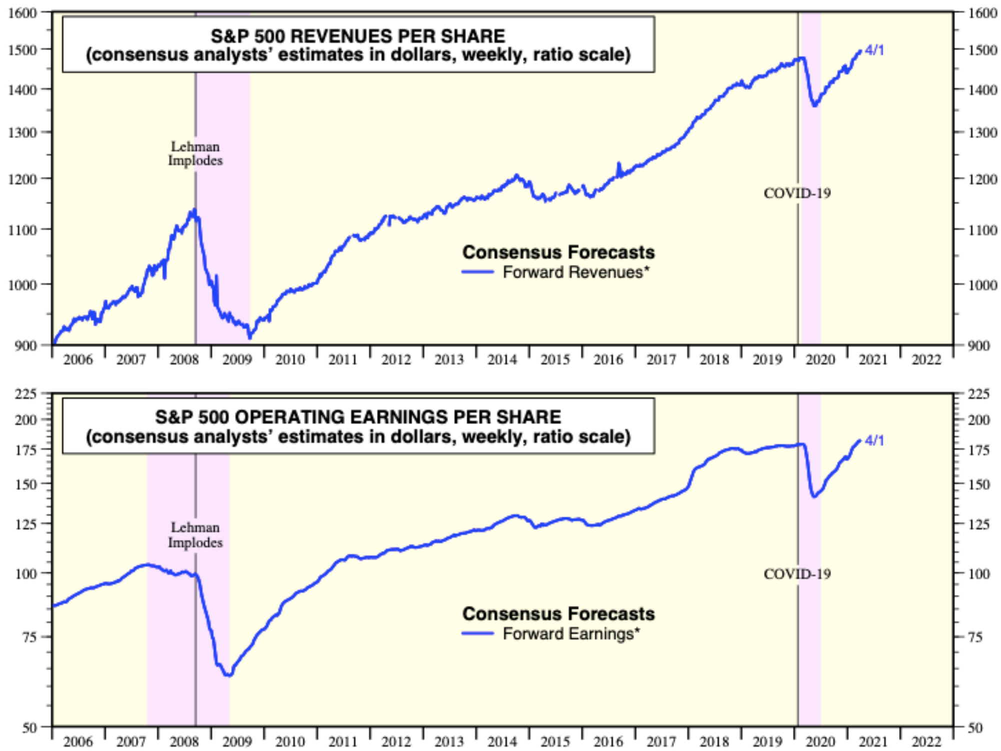
The previous Bull Market ran from February 2009 to February 2020. Entering 2020 our Bull was old but still very healthy. In January 2020, rumors started to swirl about an unknown new virus. Markets peaked on February 19th. The WHO declared COVID-19 a pandemic on March 11th and the sell-off in stocks accelerated. The S&P 500 sold off 34% before bottoming on March 23rd, 2020.



Our belief was that we were likely to experience a "V" shaped economic and stock market pattern. A rapid drop followed by a rapid recovery. Regression analysis told us that the faster (slower) a stock market collapsed, the faster (slower) it recovered. This made sense to us. Rapid market declines were generally associated with external shocks, not structural issues within the economy. When the external shock passes, economic growth quickly returns.

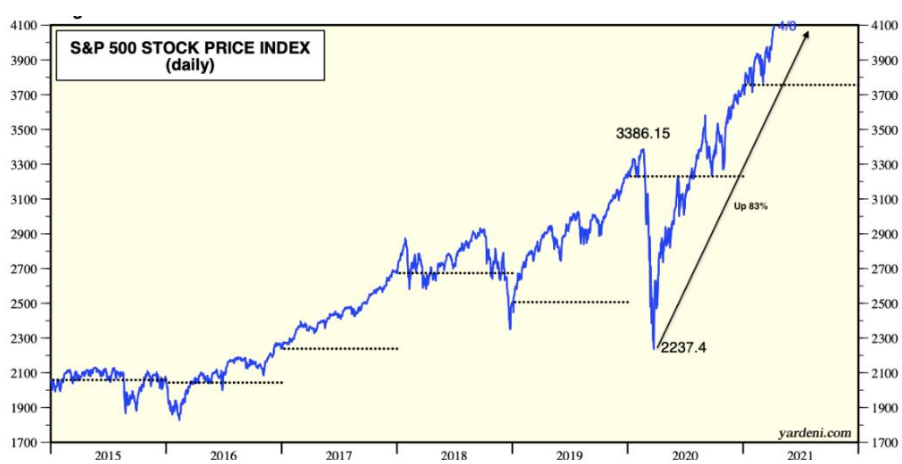


We've also written about our belief that current monetary and fiscal policies are overly stimulative. We understand the need to help out those directly impacted by COVID-19, our service industry workers have been particularly hard hit. That said, we would have preferred a more targeted approach than simply sending 250,000,000 Americans money. The American Consumer consumes, it's what they do. This consumption flows through to corporate revenues and in turn to corporate earnings. Increased earnings drive stock market prices higher.



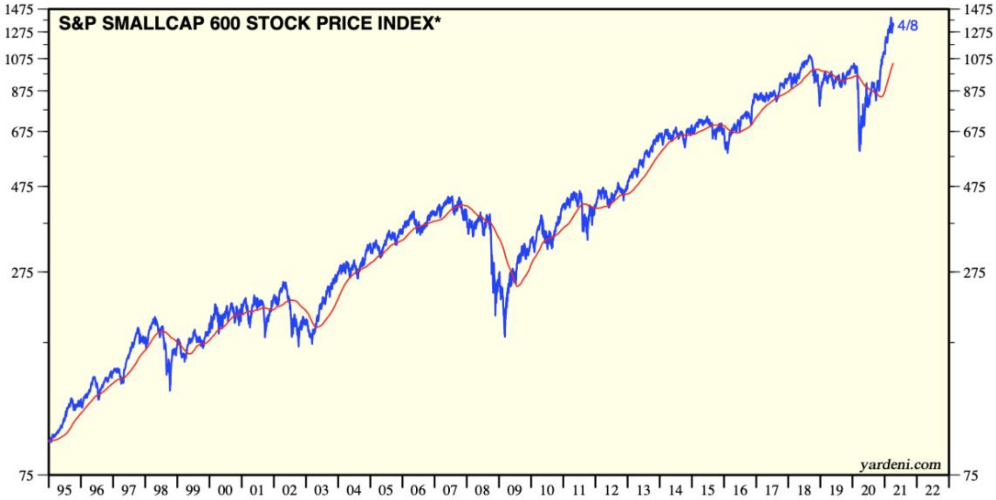
Let's pause to recognize just how remarkable this revenue and earnings recovery has been. Both are forecasted to make all-time highs in Q2, only one year after this pandemic started. That was certainly not the consensus one year ago.

Our society's newest power couple, the Federal Reserve and U.S. Treasury, have vaccinated El Toro Bebe (the baby bull) with fiscal and monetary steroids. Look how big ETB has grown in only one year.



Every true power couple earns a portmanteau. Think Brangelina (Brad Pitt and Angelina Jolie) or Kimye (Kim Kardashian and Kanye West). We are currently taking suggestions on what we should call the budding romance between the Federal Reserve and U.S. Treasury.

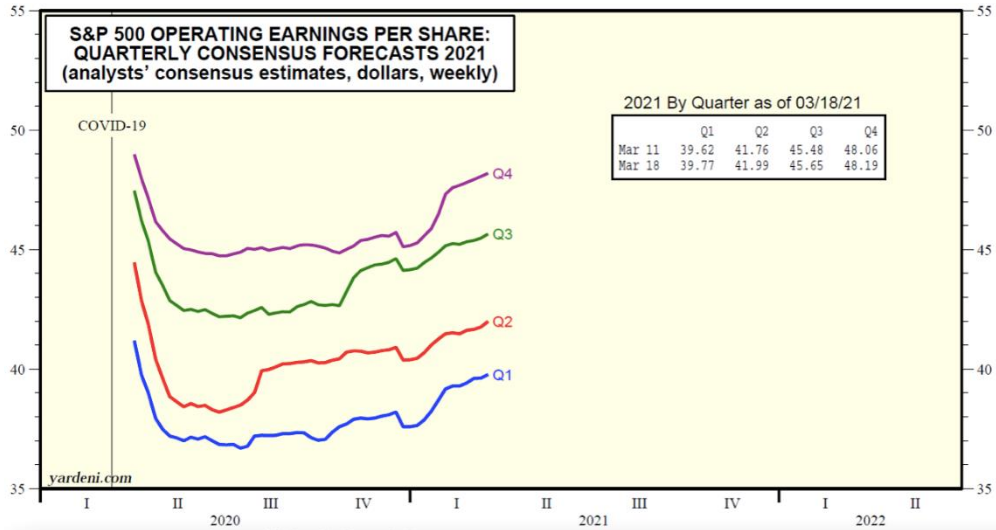
We continue to be extremely concerned about the long-term health effects of ETB's steroid injections. However, the shorter-term effects are clear. ETB looks like Arnold Schwarzenegger circa 1979. We are not ideologues. We disagree with the magnitude of current monetary and fiscal policy, but we also aren't foolish enough to fight the Fed or the Treasury. We continue to overweight stocks in your portfolio, in particular Small-Cap Value stocks. This sector was the most negatively impacted by lockdowns but also the sector that is benefitting the most from the stimulus and reopening of the economy. Small-Cap Value stocks are up 120% since bottoming last March.



We continue to monitor the health of El Toro Bebe and we fully anticipate some longer-term health issues, specifically the current proposals to partially finance deficit spending with higher corporate tax rates and taxing stock dividends as income. We are not making a statement of what is or isn't fair in the tax code, we are simply observing that both proposals would lower the theoretical value of stocks. A higher corporate tax rate decreases after-tax corporate earnings and a higher dividend tax rate decreases the value of stock dividends. As of now, ETB does not seem concerned, but that can change quickly.

We remain uncomfortably comfortable with our portfolio positioning. We are reminded of the axiom regarding *Bulls, Bears, and Pigs*. "Bulls and Bears make money, but Pigs get slaughtered". Here's our conundrum; it's hard to pull back on equity exposure when consensus earnings forecasts keep rising. Wall

Street analysts historically have been slow to adjust their earnings forecasts lower during bad times and even slower adjusting them higher during economic recoveries. The chart below shows analysts consistently adjusting their quarterly forward earnings estimates higher during 2020. The forecast for 2021 Q1 operating earnings rose 25% from $38 a share in Q1 2020 to $48 a share in Q4 2020. This trend is continuing in 2021.



Another Wall Street axiom is "sell in May and go away". ETB may be young but is still very capable of goring investors. If this bull keeps charging during April, it may be wise to adhere to this axiom. For now, we are holding our ground against this charging bull.

Olé

The Mommaerts Mahaney Financial Team

Jon C Mommaerts, CFP®: Jon is a Principal of Mommaerts Mahaney Financial Services, Inc. He has over 30 years of experience working with professionals and those about to retire. He is a member of the Financial Planning Association, as well as a member of the Preferred Financial Advisors.

J. Matthew Tuccini, CFP®: Matt has over 17 years of experience working in the financial services industry with vast experience in retirement planning, tax strategies, and financial planning.

Robert Kea, CFA: Bob has over 30 years of experience in portfolio management. He was a founding member and Co-Head on Putnam's Asset Allocation Group, which managed $12Bn in both retail and institutional assets.

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Mommaerts Mahaney Financial Services, Inc. provides advisory services through ERTS Wealth Advisors, LLC, a registered investment advisor.
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