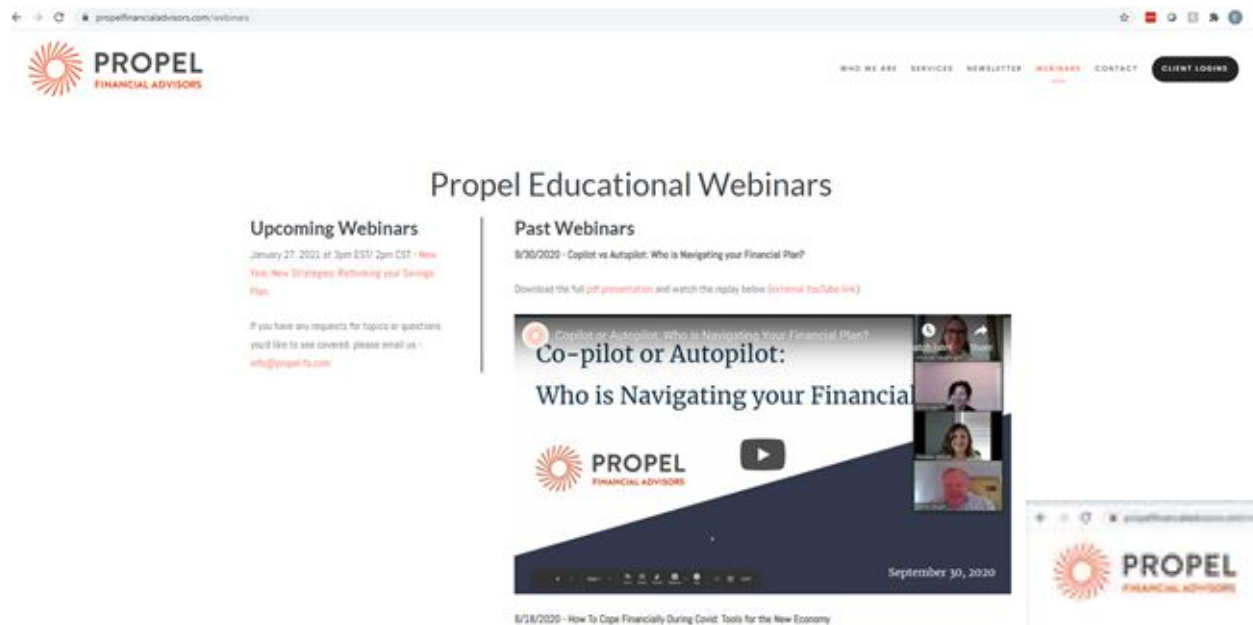


Don't Call It a Comeback: A Discussion About Investing in our “Reopened” Economy



PROPEL
FINANCIAL ADVISORS

June 24, 2021



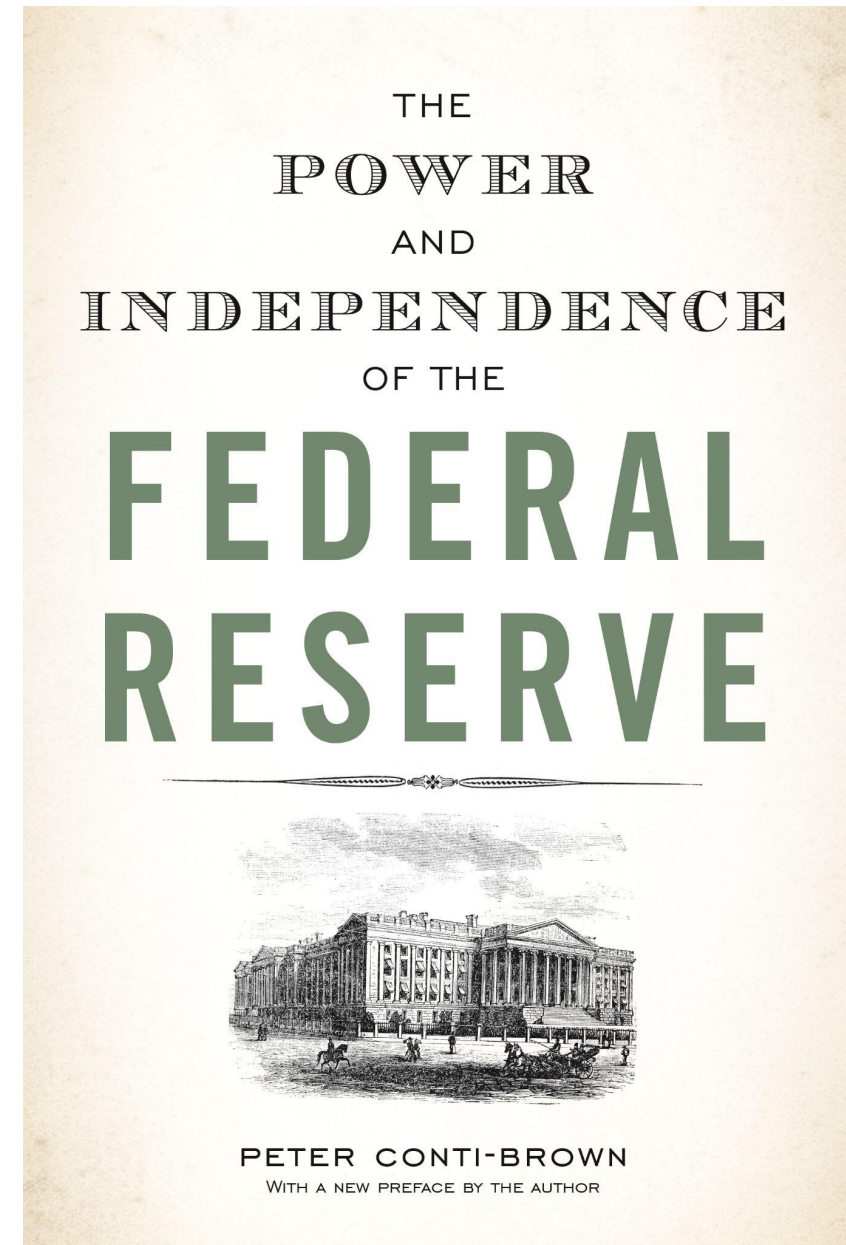
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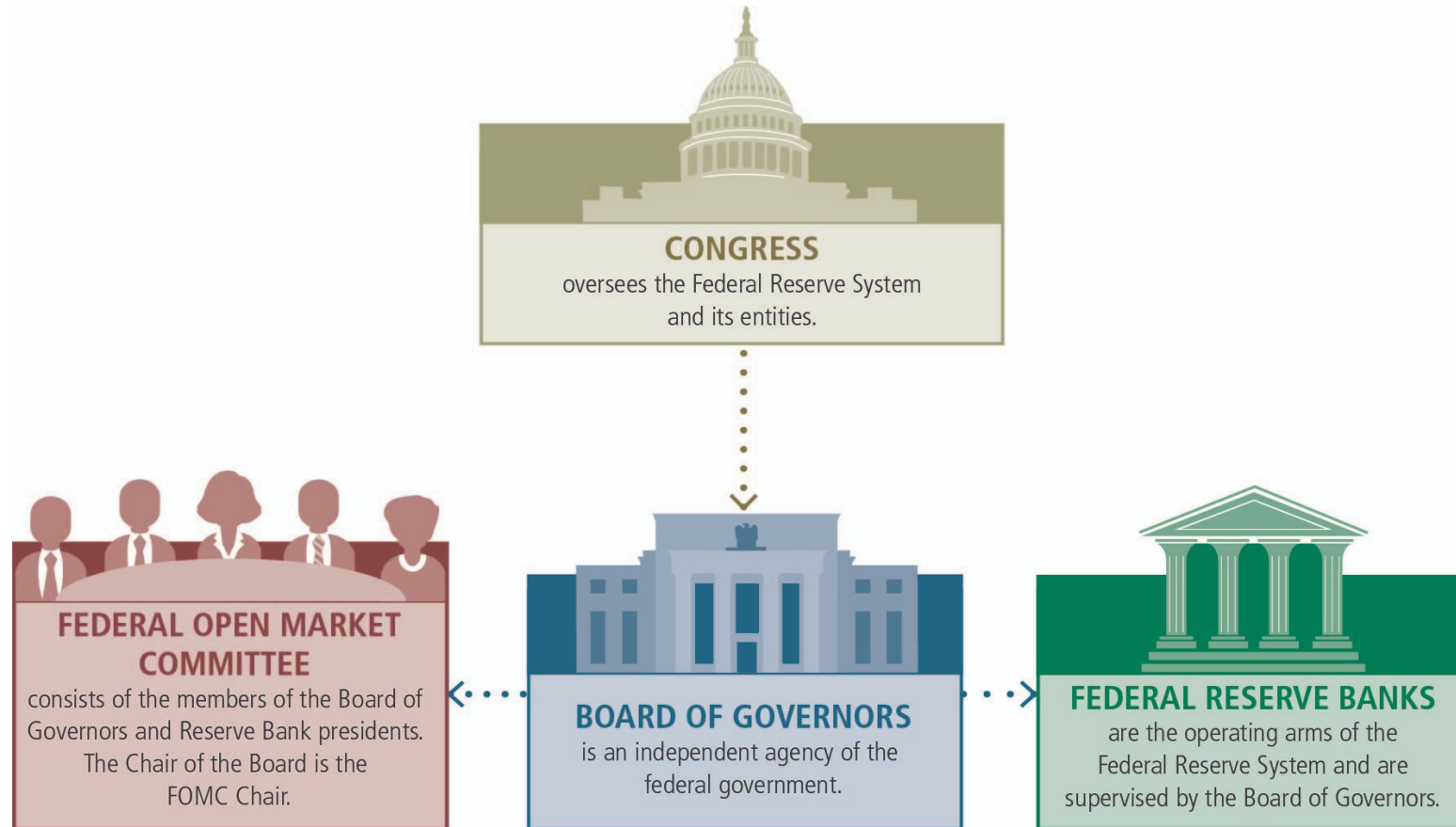
Agenda

- The Fed and Its Approach to Interest Rates:
David Vaught, CFA
- Inflation – Will it Stay or Will it Go?: Emily Agosto, CPA
- Cryptocurrencies – What You Need to Know:
Amanda Vaught, Attorney
- The Labor Market – Shortages vs Shifts:
Danielle Woods, Attorney

David's Recent Read



The Fed and Its Approach to Interest Rates – Fed Structure



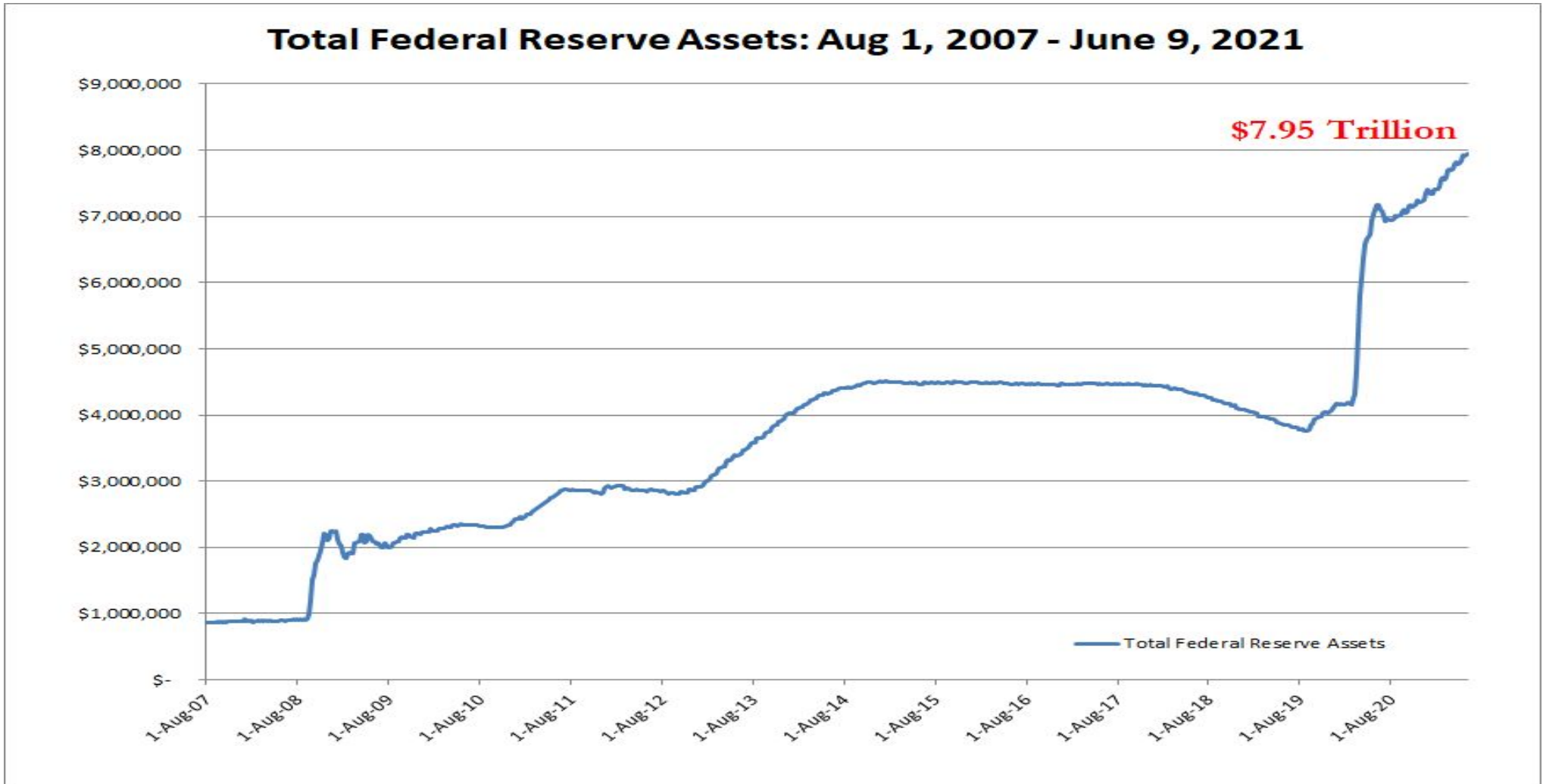
The Fed and Its Approach to Interest Rates– Statutory Mandates



In 1977, Congress amended the [Federal Reserve Act](#), directing the Board of Governors of the Federal Reserve System and the Federal Open Market Committee to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates."

Source: www.chicagofed.org

The Fed and Its Approach to Interest Rates – The Growing Federal Reserve Balance Sheet



The Fed and Its Approach to Interest Rates – History of Fed Funds Rate 1955–present



Inflation – Will it Stay or Will it Go?:

Economic Terms



Inflation is the rate at which the the value of a currency is falling and consequently the general level of prices for goods and services is rising.

The **Consumer Price Index** (CPI) is a measure that examines the [weighted average](#) of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined [basket of goods](#) and averaging them. Changes in the CPI are used to assess price changes associated with the [cost of living](#). The CPI is one of the most frequently used statistics for identifying periods of [inflation or deflation](#).

Deflation is a general decline in prices for goods and services, typically associated with a contraction in the supply of money and credit in the economy. During deflation, the purchasing power of currency rises over time.

Stagflation is characterized by slow [economic growth](#) and relatively high unemployment—or economic [stagnation](#)—which is at the same time accompanied by rising prices (i.e. inflation). Stagflation can also be alternatively defined as a period of inflation combined with a decline in gross domestic product (GDP).

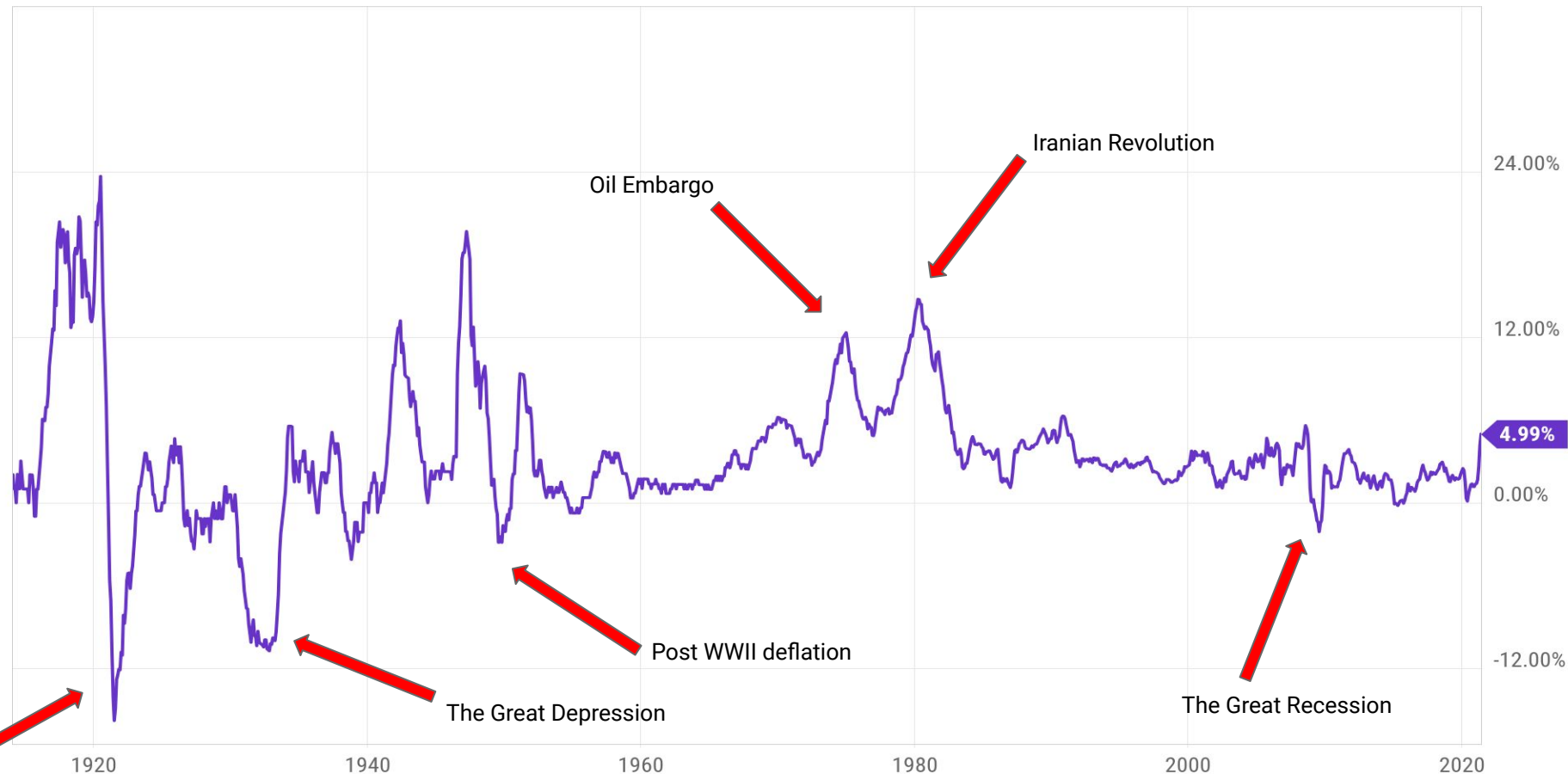
Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

Inflation – Will it Stay or Will it Go?:

Historical Inflation



US Inflation Rate



Inflation – Will it Stay or Will it Go?:

Historical Inflation



Annual U.S. Inflation Since 2000

Change in Consumer Price Index over previous 12 months

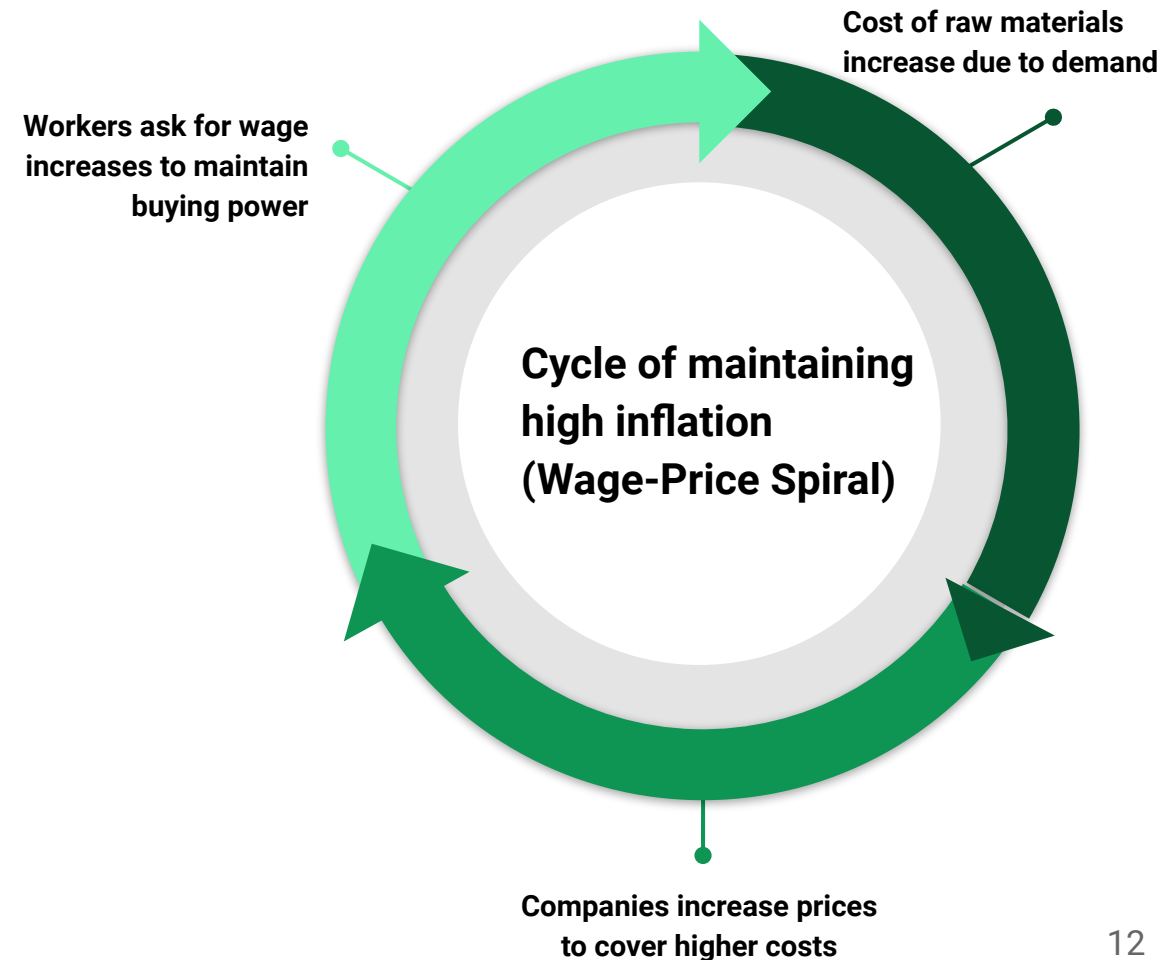


- High point: July 2008, 5.6%
- Low point: July 2009, -2.10%

Inflation – Will it Stay or Will it Go?: High Inflation Scenario



- Low labor supply may lead to wage increases – currently more vacant jobs than workers
- Americans have money to spend – personal savings rate was well over 15% during the height of the pandemic. Typically it is around 5%.
- Supply cannot keep up with demand – “Too much money chasing too few goods” – Milton Friedman, economist
- Wage-price spiral



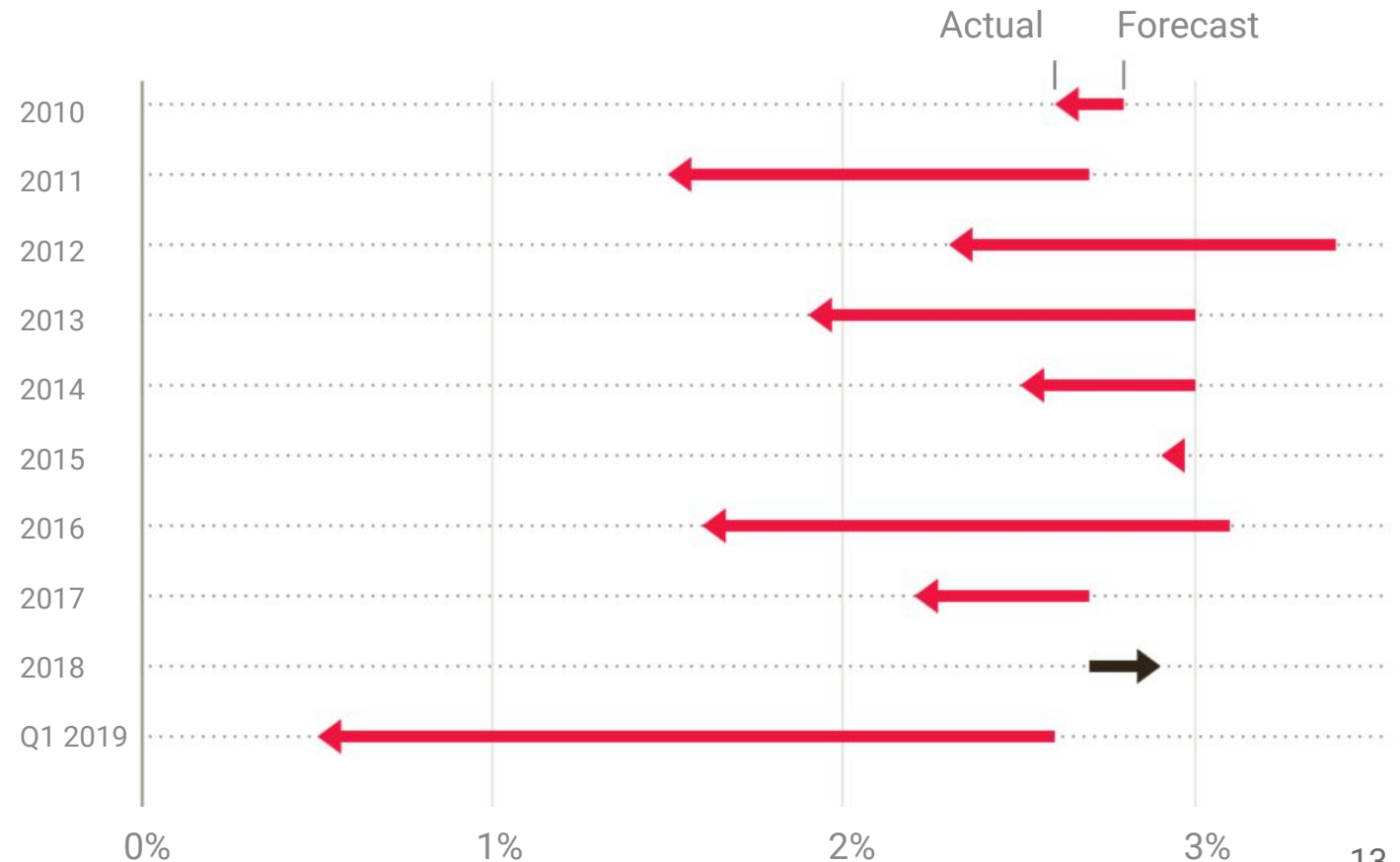
Inflation – Will it Stay or Will it Go?:

Low Inflation Scenario



- Global Competition – US companies will source cheaper raw materials overseas
- American workers low bargaining power – US Companies tend to wait out periods of inflation without increasing wages
- End of Federal Stimulus – Government spending will decrease
- Economists tend to overestimate inflation, CPI and GDP

Real GDP Growth, in percent compared with the consensus forecast 2 years in advance



Source: Federal Reserve

Inflation – Will it Stay or Will it Go?: We don't know yet...



The best scenario for most Americans is a growing economy in which wages are increasing at a faster pace than prices of goods and services.

Stable inflation + Growing economy = :)

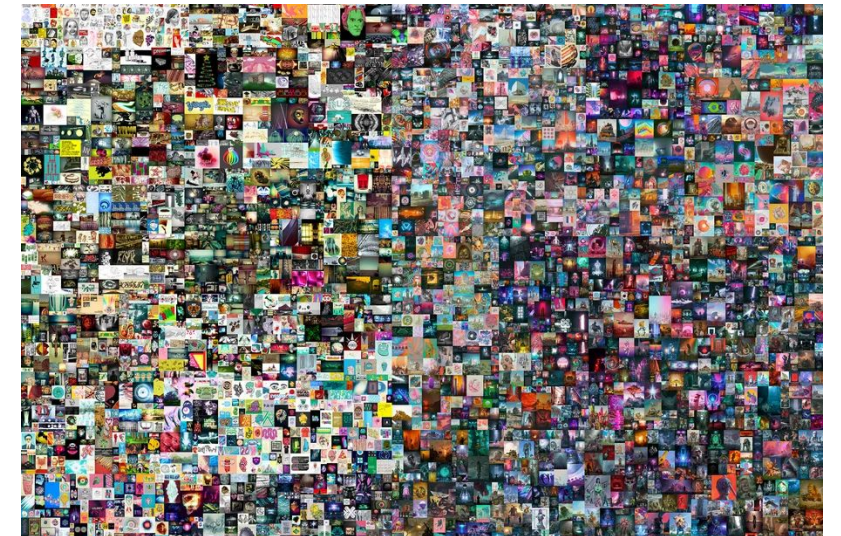
What can we do as investors? Hedge?

Tulip mania was a period during the [Dutch Golden Age](#) when contract prices for some [bulbs](#) of the recently introduced and fashionable [tulip](#) reached extraordinarily high levels, and then dramatically collapsed in February 1637.^[2] It is generally considered to have been the first recorded [speculative bubble](#) or asset bubble in history.

[wikipedia.org](https://en.wikipedia.org/wiki/Tulip_mania)



Crypto, Meme Stocks, and other Shiny Objects



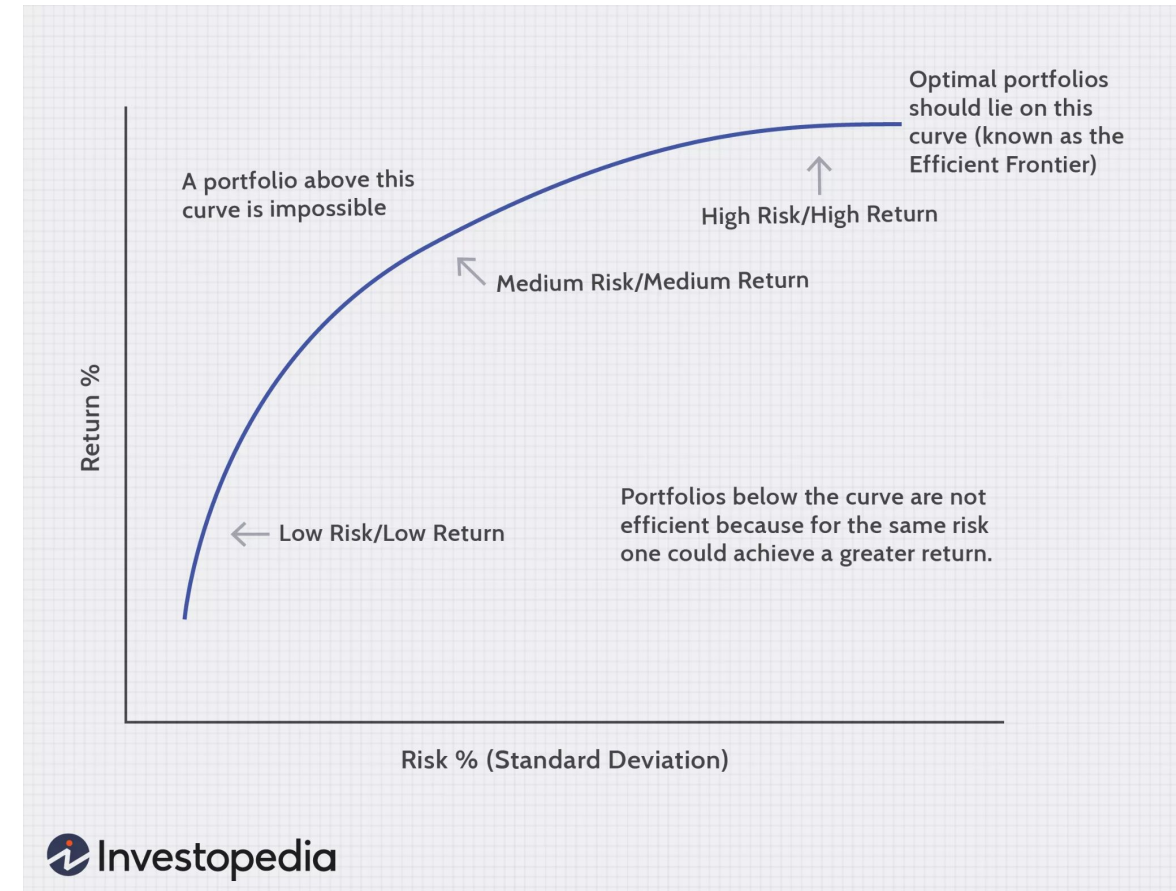
Efficient Markets & Behavioral Finance



The Efficient Markets Hypothesis - Stocks trade at their fair value on an exchange.

- Fundamental Analysis - Examine financial factors to determine a company's value
- Technical Analysis - Determine trading opportunities by analyzing trends, e.g. price movements or fund flows

Behavioral Finance - Investors make decisions based on emotions, e.g. FOMO.



Factors

Factor	Description	1-week return	1-month return	Year-to-date Return	12-month return
Dividend Yield	Most recently announced net dividend (annualized) divided by the current market price.	0.2%	0.2%	2.5%	2.7%
Growth	Captures difference between high and low growers by using historical fundamental and forward-looking analyst data.	0.2%	0.4%	-2.3%	-0.2%
Leverage	Looks at firms' level of leverage using book and market leverage, along with debt to total assets.	0.2%	0.3%	2.3%	4.4%
Momentum	Separates stocks that have outperformed over the past year vs those that have underperformed.	-0.3%	0.7%	-1.0%	-2.0%
Profitability	Studies firms' profit margins using return on equity, return on assets, return on capital employed, and EBITDA margin	0.0%	-0.4%	-1.4%	-7.0%
Size	Distinguishes between small and large stocks using market capitalization, sales and total assets	-0.7%	-0.9%	-0.8%	-1.4%
Trade Activity	A turnover-based measure that looks at trading volume normalized by shares outstanding	0.9%	2.3%	4.3%	9.3%
Value	Differentiates between "cheap" and "rich" stocks using valuation metrics such as earnings/price and book/price	-0.9%	-1.5%	8.4%	8.4%
Variability	Gauges how consistent earnings, cash flows, and sales have been in recent years.	0.1%	1.0%	1.1%	3.6%
Volatility	Differentiates between more and less volatile stocks by looking at various aspects such as return volatility over latest 252 trading days.	0.6%	1.8%	3.6%	11.0%

Source: Charles Schwab, Bloomberg, as of 6/11/2021. Past performance is no guarantee of future results.



Cryptocurrencies: Fad or Here to Stay?



Pros

- Privacy - there is no digital cash
- Technology - still developing and could give rise to new business models
- \$2T market cap in spring 2021
- Speculative siphon



via <https://memed.io/laser-eyes-meme-maker>

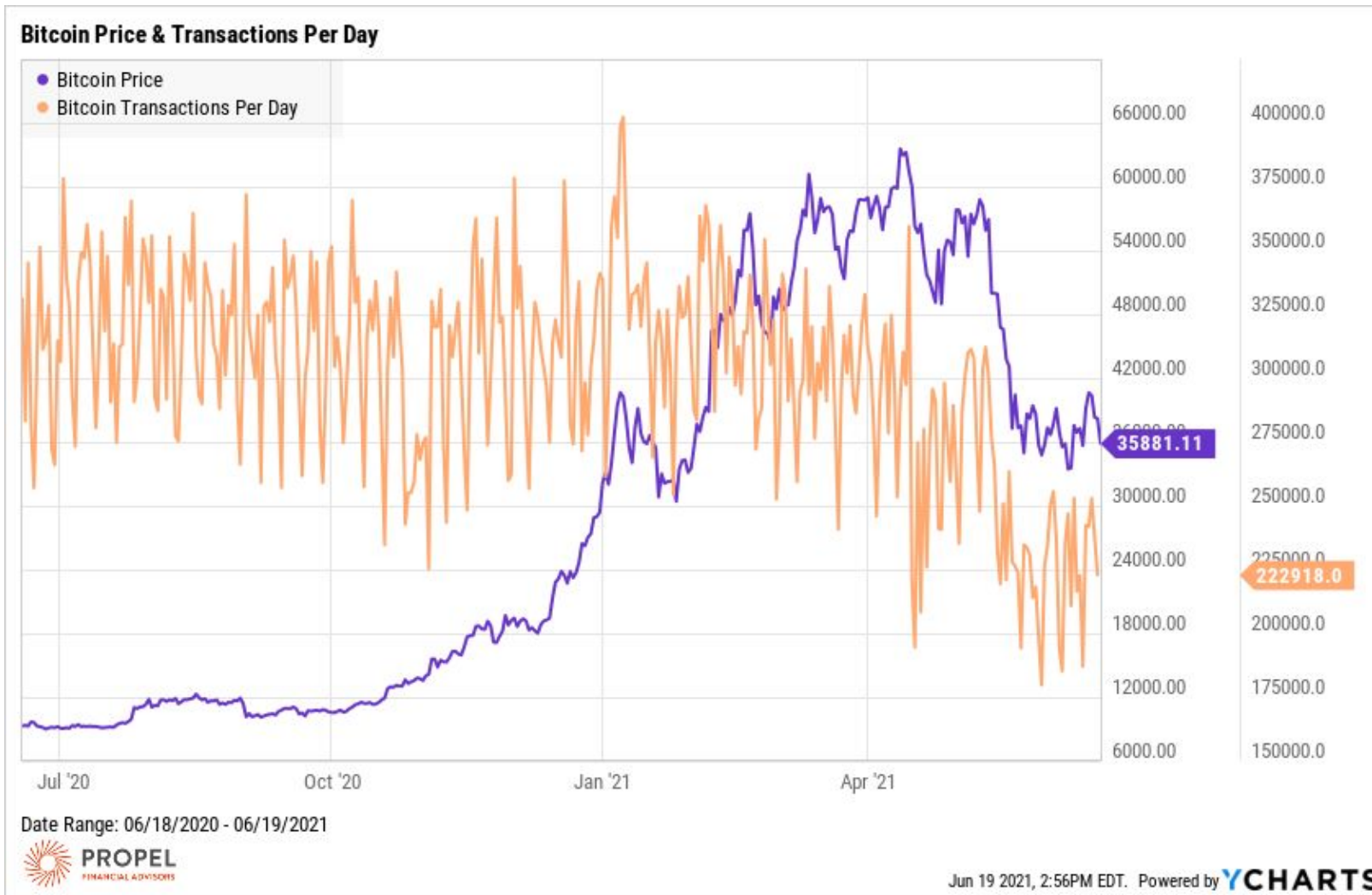
Cons

- Most volatile asset - not a store of value
- Speculative - difficult to value
- High regulatory risk - SEC alludes to doing something
- Fraud abounds - currently more than 6000 coins

Bitcoin Price vs Transactions Per Day



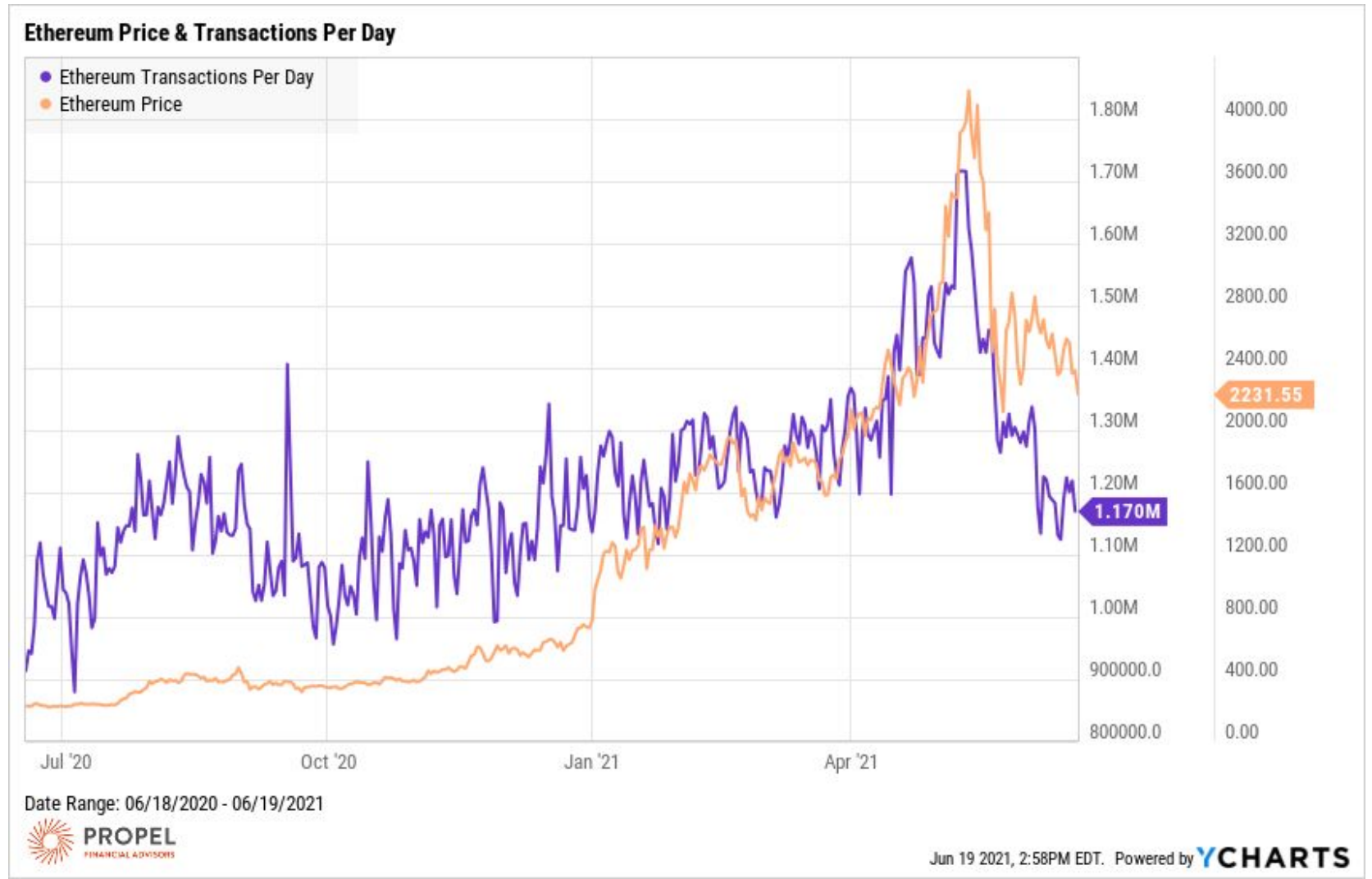
Price and activity
falls off by late May



Ethereum Price vs Transactions Per Day



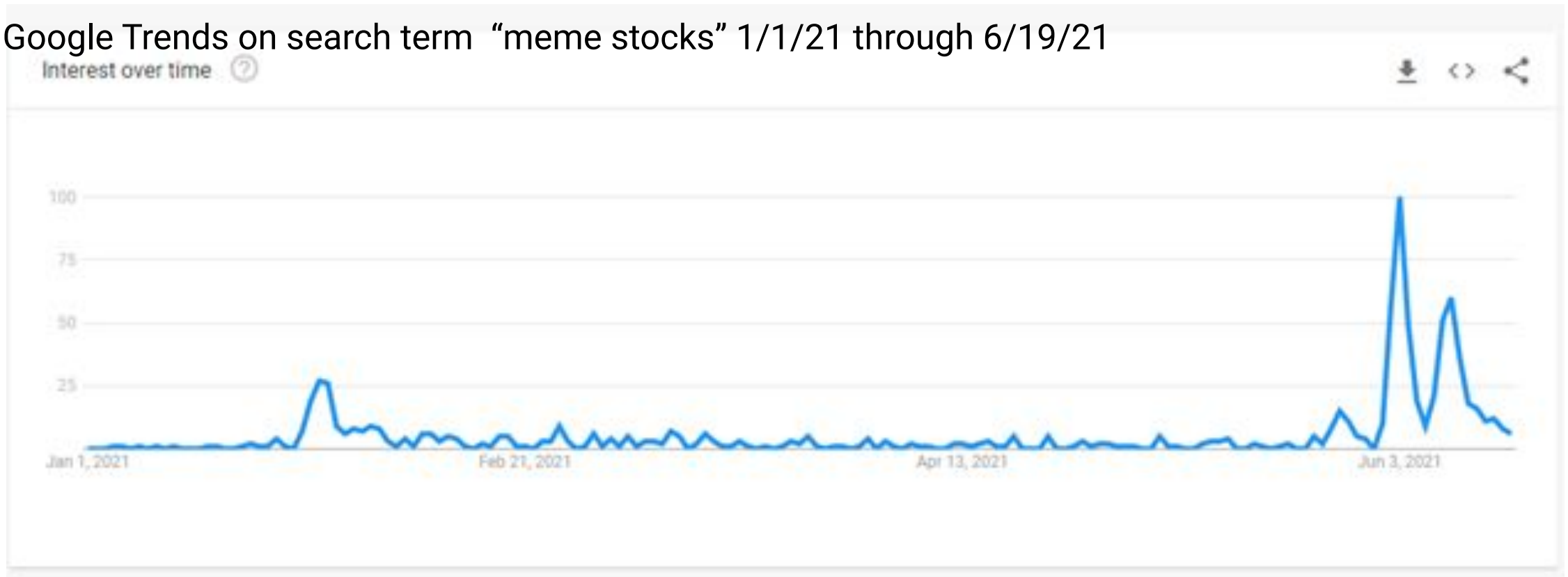
Price and activity
falls off by late May



Meme Stocks are Back



Google Trends on search term “meme stocks” 1/1/21 through 6/19/21

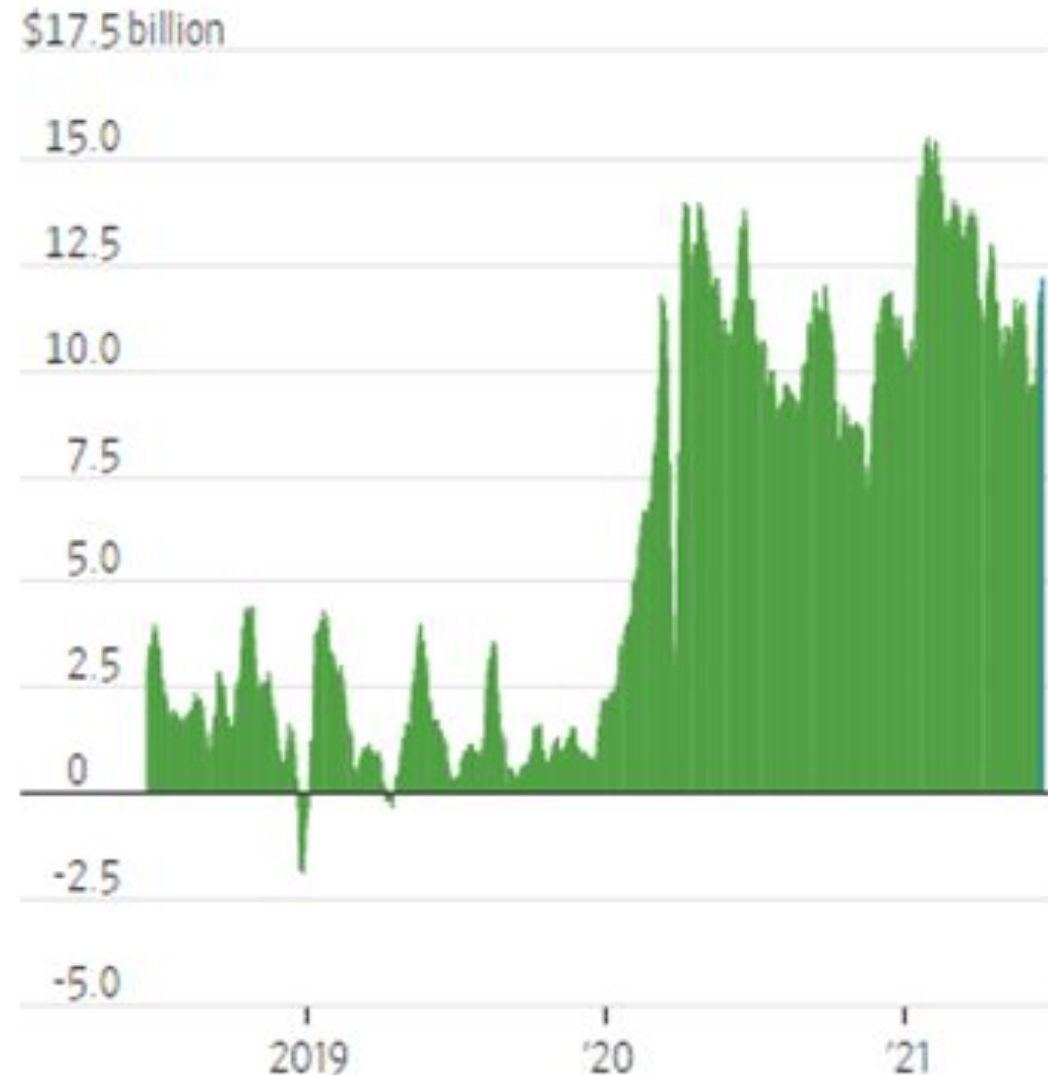


Retail investors
account for an
increasing share
of trading in the
stock market.



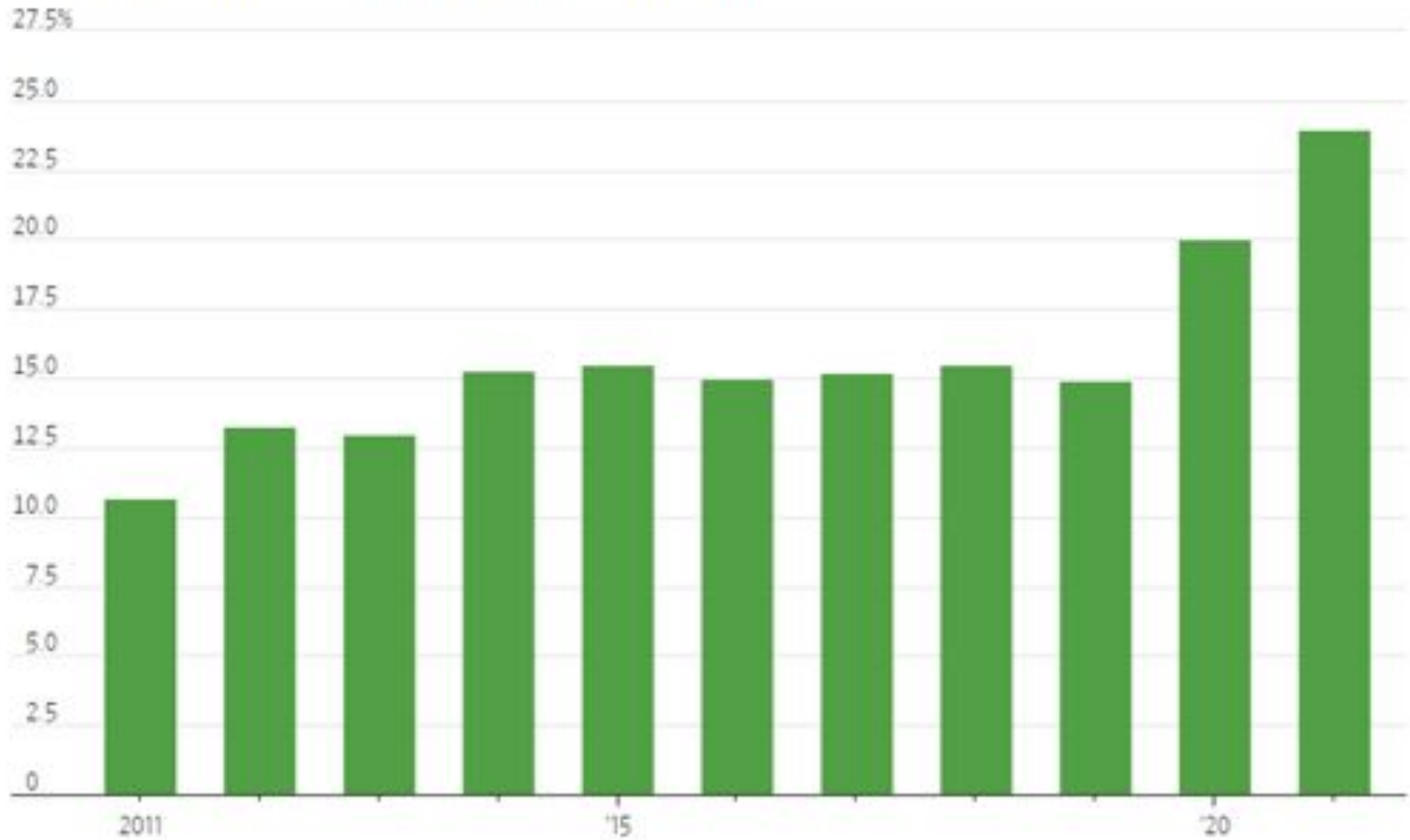
Image via
<https://www.wsj.com/articles/it-isnt-just-amc-retail-traders-increase-pull-on-the-stock-market-11624008602>

10-day rolling net purchases of U.S. equities
by individual investors



Source: VandaTrack

Individual investors' share of U.S. equities trading volume



Note: Figures are annual, except for 2021, which represents first-quarter activity.

Source: Bloomberg Intelligence

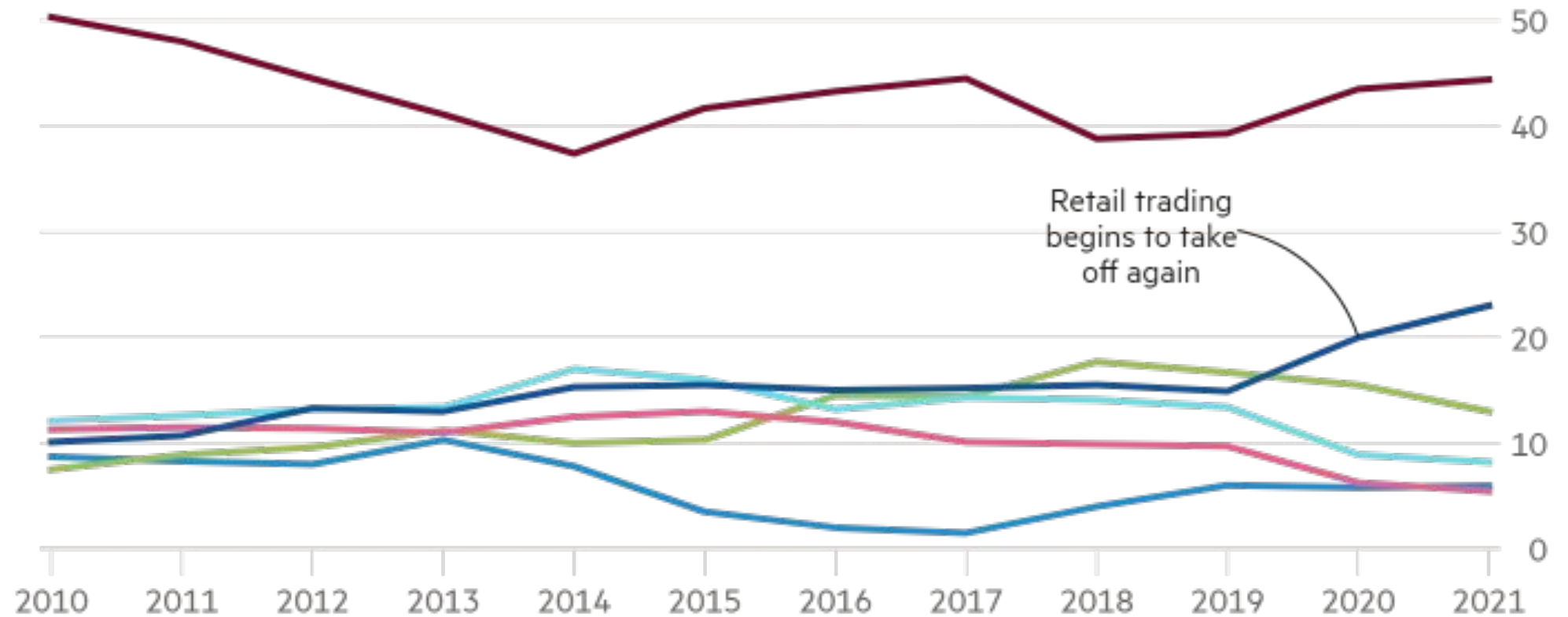
Image via <https://www.wsj.com/articles/it-isnt-just-amc-retail-traders-increase-pull-on-the-stock-market-11624008602>



Retail trading now accounts for almost as much volume as mutual funds and hedge funds combined

Market share of overall US equity trading volumes (%)

■ Retail ■ Mutual funds ■ Traditional hedge funds ■ Quant hedge funds
■ Bank trading ■ High-frequency market-makers



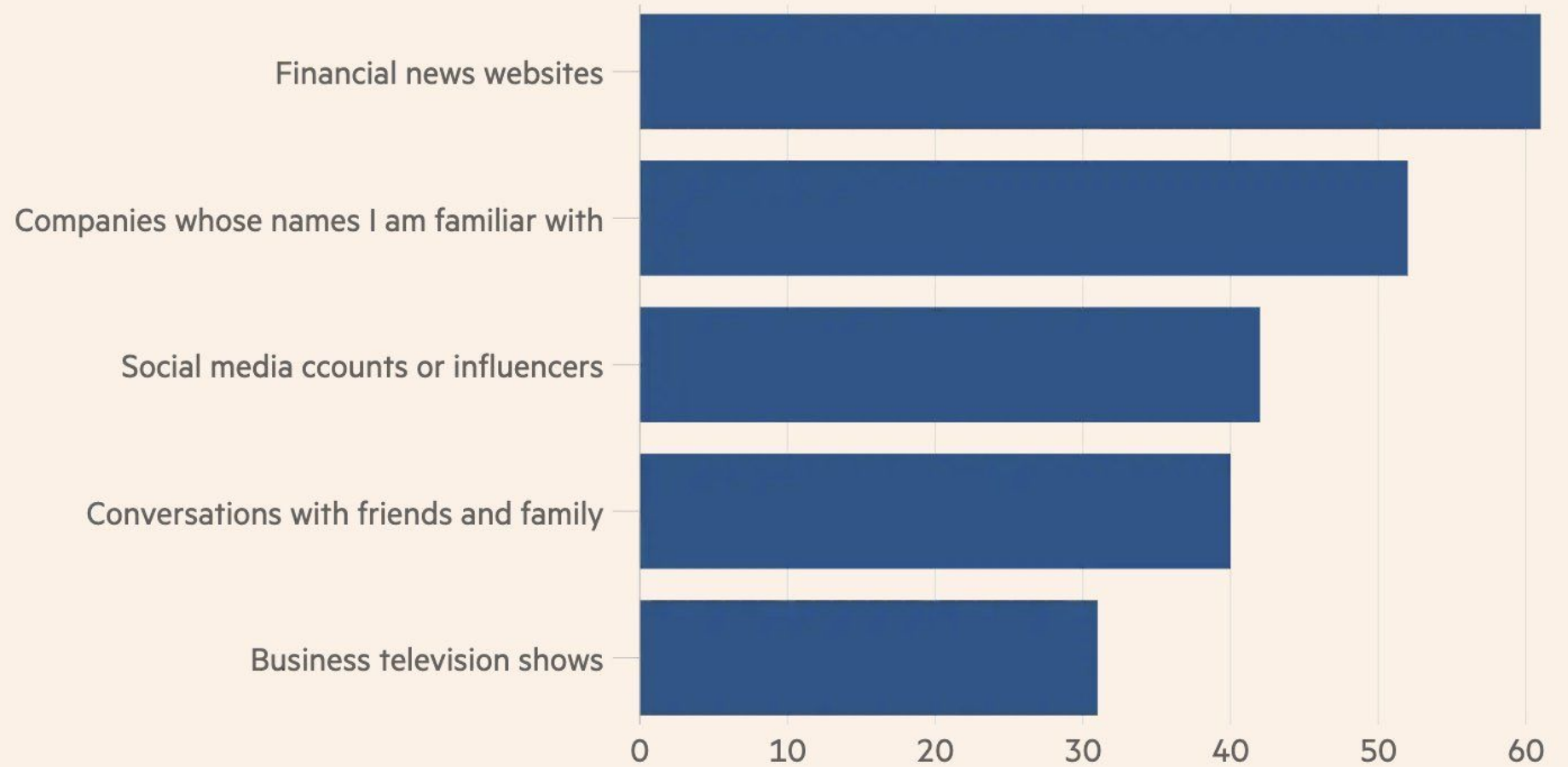
Retail trading
begins to take
off again

Source: Bloomberg Intelligence
© FT

Image via <https://www.ft.com/content/7a91e3ea-b9ec-4611-9a03-a8dd3b8bddb5>

"How do you decide what stocks to actively invest in?"

Respondents in Betterment survey (%)



Source: Betterment
© FT



Effect on Stock Market?



“Powerful waves of passive and systematic investment long made retail investors largely irrelevant when framing market forecasts . . . until now,” says Alain Bokobza, head of global asset allocation at Société Générale. “Rather than criticising retail investors and their behavioural patterns, it is better to slot them into the money equation.”

Image via <https://www.ft.com/content/7a91e3ea-b9ec-4611-9a03-a8dd3b8bddb5>

The Labor Market – Shortages vs Shifts

Danielle Woods, Attorney

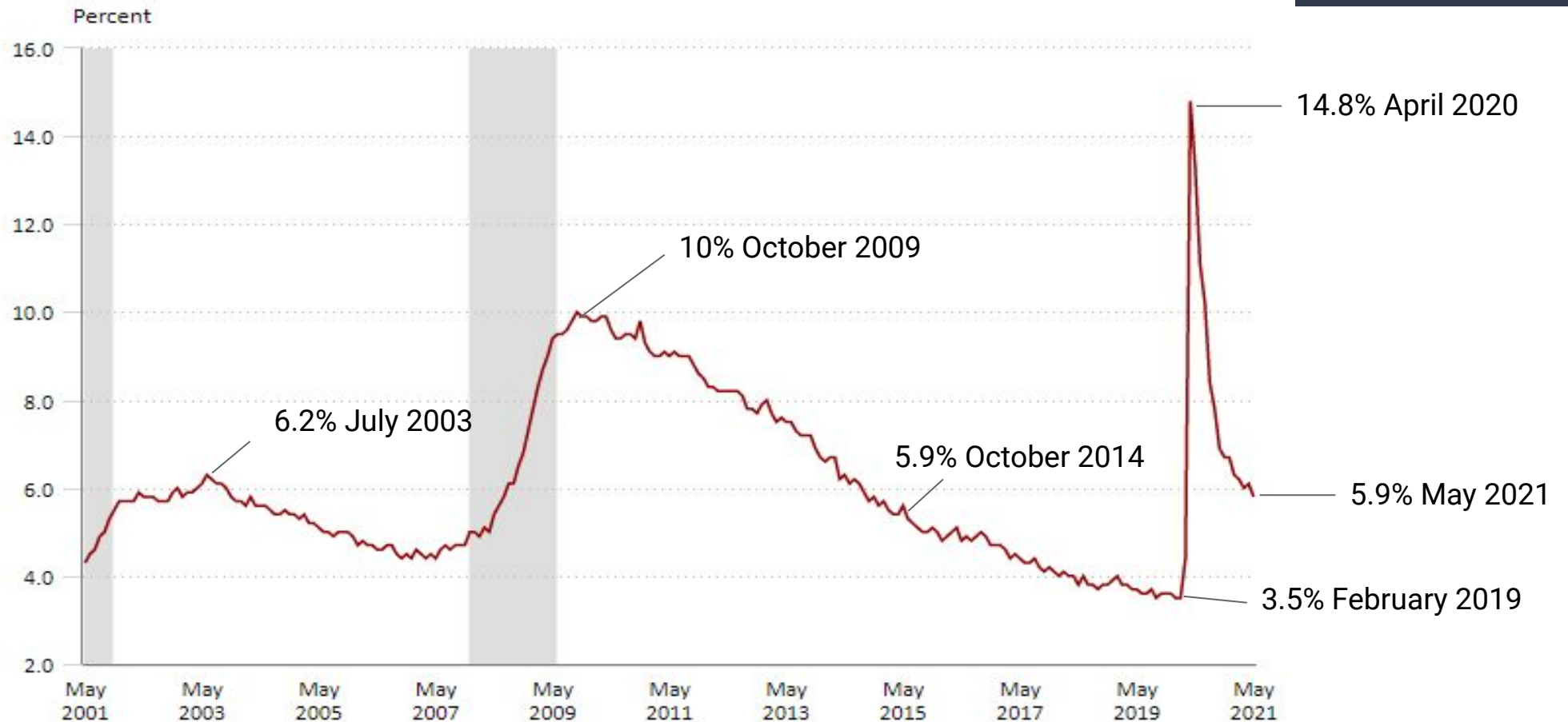


THE LABOR MARKETS: SHORTAGES vs SHIFTS

VISUAL HISTORY 5/2001 – 5/2021



Civilian unemployment rate (bls.gov)



Hover over chart to view data.

Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.

Persons whose ethnicity is identified as Hispanic or Latino may be of any race.

Source: U.S. Bureau of Labor Statistics.

THE LABOR MARKETS: SHORTAGES vs SHIFTS

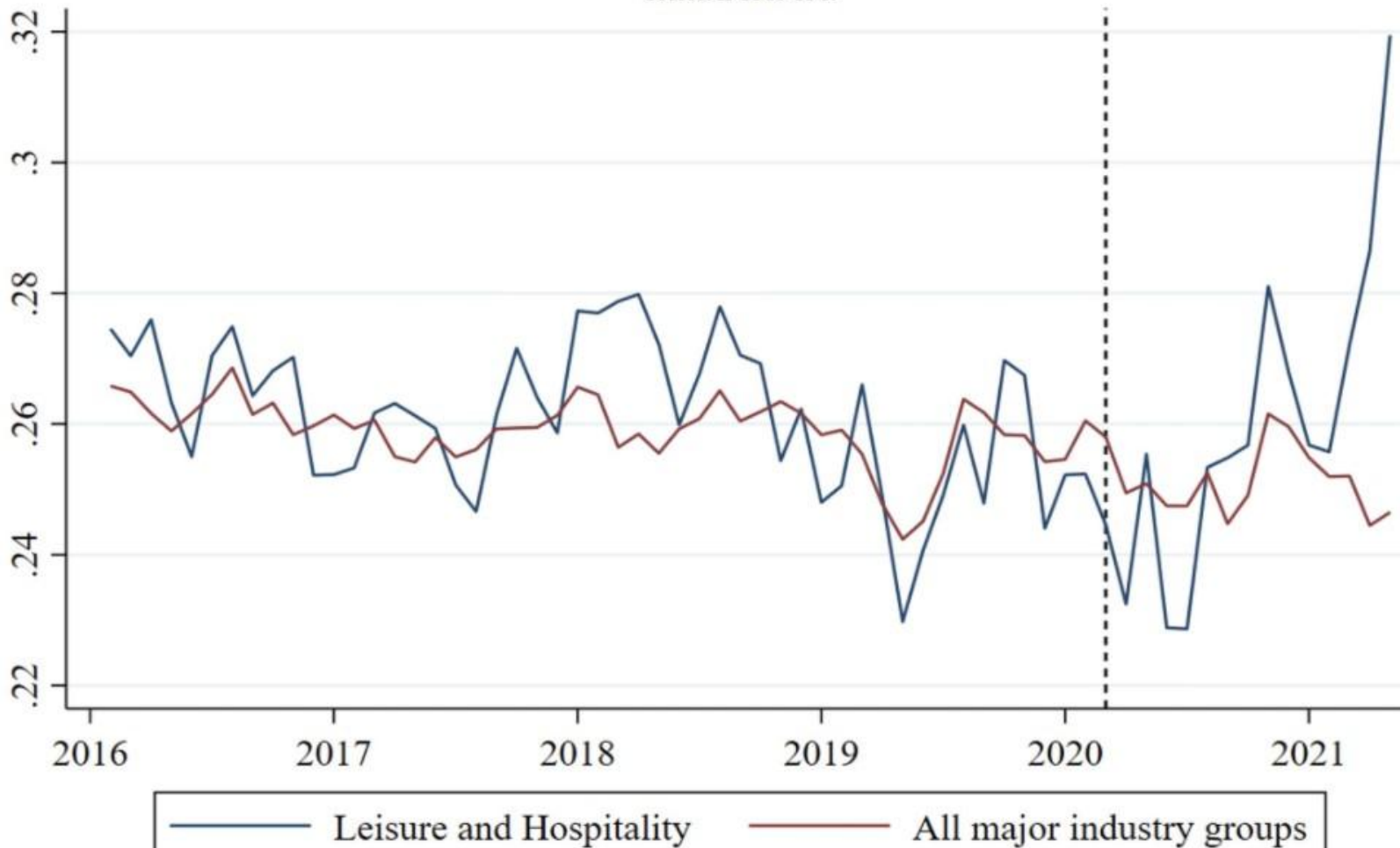
RESTAURANTS AND HOTELS



[Civilian unemployment rate \(bls.gov\)](https://www.bls.gov)

Share of workers who switched industries in the past 12 months

Share of workers who change from a major industry group to a different one between two observations one year apart, by initial industry.
Source: IPUMS CPS.



Why? (theories on this graph's Twitter feed)

- Low wages
- Nights/weekends
- Daycare needs
- Not enough hours
- No benefits
- No opportunity for advancement
- Not knowing your schedule more than 1 week in advance
- Better opportunities during COVID in shipping and manufacturing
- Potential shift from service to production in US
- Low immigrant pool
- Fear of COVID infection
- Abusive customers

Poll Question:



Have you ever worked in the restaurant or hotel industry for minimum wage?

- ☐ Yes, but I was very young.
- ☐ Yes, recently or still do
- ☐ No, I specifically avoided it.
- ☐ No, but I'd like to!

THE LABOR MARKETS: SHORTAGES vs SHIFTS

FEDERAL MINIMUM WAGE



\$4.25

1991-1995

\$5.85

2007

\$7.25

2009-PRESENT

David - 1963 \$1.25/hour (Busboy, no tips) Local Restaurant, southern IL
Danielle - 1992 \$4.25/hour, White Castle, Midlothian, IL
Amanda - 1993 \$3.75/hour, Dairy Queen, Naperville, IL
Emily - 2003 \$7.25/hour, Ace Hardware, Chicago, IL

INCREASING AUTOMATION



Millions of Americans Have
Lost Jobs in the
Pandemic—And Robots and AI
Are Replacing Them Faster
Than Ever

Time Magazine - August 2020

[Machines and AI Are Taking Over Jobs Lost to Coronavirus | Time](#)

INCREASING AUTOMATION



“In theory, automation and **artificial intelligence** should free humans from dangerous or boring tasks ... **in the past, technology was deployed piecemeal,** giving employees time to transition into new roles. Those who lost jobs could seek retraining... **This time the change was abrupt** as employers, worried about COVID-19 or under sudden lockdown orders, rushed to replace workers with machines or software. ... Companies worried about their bottom line cut workers loose instead, and these **workers were left on their own to find ways of mastering new skills.**”

time.com/5876604/machines-jobs-coronavirus/
BY ALANA SEMUELS AUGUST 6, 2020 6:22 AM EDT



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INCREASING AUTOMATION



“That doesn’t mean [robots/AI] are taking everyone’s jobs. For centuries, humans from weavers to mill **workers have worried that advances in technology would create a world without work, and that’s never proved true**...Without technological advancement, much of the American workforce would be toiling away on farms, which accounted for 31% of U.S. jobs in 1910 and now account for less than 1%.”

time.com/5876604/machines-jobs-coronavirus/
BY ALANA SEMUELS AUGUST 6, 2020 6:22 AM EDT



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INCREASING AUTOMATION



“In the past, the U.S. responded to technological change by investing in education. When automation fundamentally changed farm jobs in the late 1800s and the 1900s, states expanded access to public schools. Access to college expanded after World War II with the GI Bill, which sent 7.8 million veterans to school from 1944 to 1956. But since then, U.S. investment in education has stalled, putting the burden on workers to pay for it themselves. And the idea of education in the U.S. still focuses on college for young workers rather than on retraining employees. The country spends 0.1% of GDP to help workers navigate job transitions, less than half what it spent 30 years ago.”

time.com/5876604/machines-jobs-coronavirus/
BY ALANA SEMUELS AUGUST 6, 2020 6:22 AM EDT

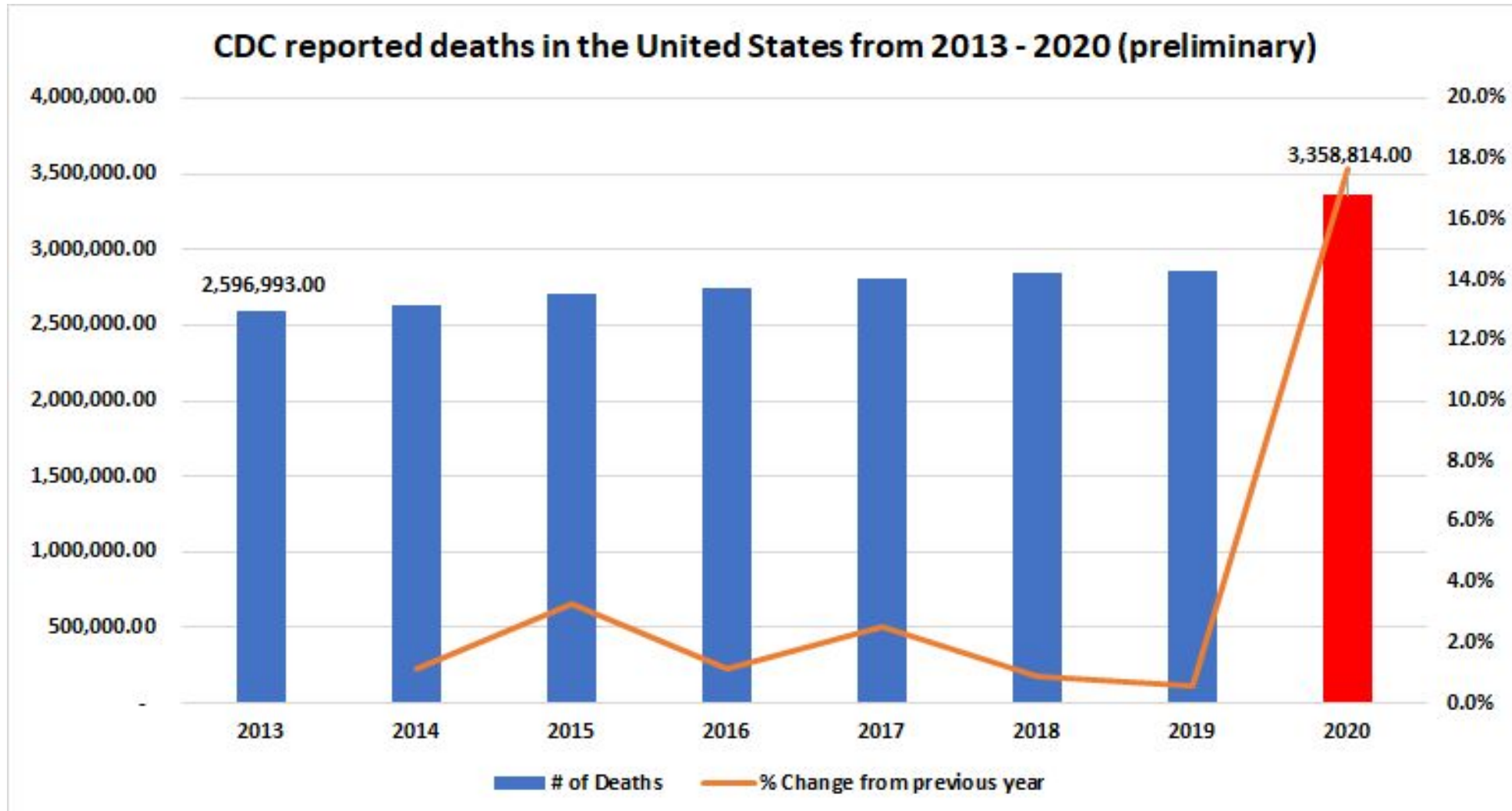


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THE LABOR MARKETS: SHORTAGES vs SHIFTS

IMPACT OF DEATHS ON PSYCHE?



Poll Question:

How has COVID changed the way you think about or plan your finances?

- ☐ It hasn't.
- ☐ I'm saving more money and thinking more about my future.
- ☐ I'm spending more money and living more in the moment.
- ☐ I'm planning to work longer.
- ☐ I'm planning to retire sooner.
- ☐ I have or am planning to make a career change.
- ☐ I'm working harder to maintain a balance in all aspects of my life.



Final Thoughts: Propel's Take

- Don't have a financial plan?
Make one.
- Changing your plans?
Tell your advisor.
- Nervous about the market?
Actively work with your advisor on your portfolio.
- Work too much?
Create a plan to cut back. Your advisor can help.
- Rarely vacation?
Vacation is essential for mental and physical recovery. Get away from your daily responsibilities to refresh.

Poll Question:

What topics are you interested in for future webinars or in-person events?

- ☐ Current Financial Events and Market Trends
- ☐ Saving for Retirement
- ☐ Estate Planning
- ☐ Tax Planning
- ☐ Behavioral Finance
- ☐ General Investing Strategies
- ☐ Personal Finance – Budgeting
- ☐ Saving for College
- ☐ Something Else – Please either send it to us in the chat box or email us!

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Experienced Team that understands the relationship between taxes and investments.

Personalized Advice to help you meet your financial goals, no cookie cutter models.

Competitive Fees for investment management and financial planning. Also, we don't believe in account minimums and prefer working with a variety of clients.

Frequent Communication between you and the team about investing, general market concerns and important tax updates.

Accountability - You always have access to our team to help you navigate financial decisions and answer questions.



We'd love to hear from you!

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Thank you for attending!

Danielle Woods

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(865)271-9439

Danielle is an attorney and advisor in her 23rd year of working with individuals, families and small businesses on their tax and financial planning needs.



She wants her clients to enjoy their lives and retire when they want to. She lives near the Great Smoky Mountains National Park in East Tennessee with her family.



Amanda Vaught

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(917)514-5135

Amanda Vaught loves helping young families work towards achieving their unique financial goals.



Before working as a financial advisor, Amanda was a chemist and practiced law. She lives in Brooklyn, NY, with her husband and two small children.



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As a CPA and financial advisor, Emily enjoys helping families and small business owners stay organized and focused on saving for retirement and tax planning.

Emily lives in the Irving Park neighborhood of Chicago with her husband and Bruce the cat.



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David Vaught, CFA

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David likes working with Danielle, Amanda, & Emily to help our clients achieve their goals.



When he is not working on the computer in Naperville, IL, or Fort Myers, FL, he likes flying the new flying club Cessna 182, traveling in his Pleasure Way Lexor RV out West, or visiting with his eight grandkids.