TONKINSON FINANCIAL
Specializing in Your Retirement

QUARTERLY NEWSLETTER 4Q 2020

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MARKET HIGHLIGHTS:

- Manufacturing was robust, and finished at its highest level since August 2018.
- The Fed remained exceptionally accommodative, with the fed funds rate projected to stay at its 0.00%–0.25% range through at least 2023.
- Treasuries bonds posted their first quarterly loss of 2020. Rates at the front end remained pinned at record-low levels by the Fed.
- Corporates bonds capped an extraordinary rebound from March by closing with all-time low yields.
- U.S. equity markets soared higher in Q4, with the S&P 500 Index gaining +12.2%, driven by the approval and rollout of two COVID-19 vaccines, massive monetary and fiscal stimulus, and better-than-expected corporate earnings results.
- Small cap stocks staged a remarkable comeback from early March, notching their best quarter ever (Russell 2000, +31.4%) and outpacing large caps by an eye-popping 19.2% during the period.

NEWSLETTER HIGHLIGHTS:

Thank You! Happy New Year!

Our heats are full from the messages in your beautiful cards and family newsletters while our bellies are happy from all the tasty treats that were send to our office! From all of us at Tonkinson Financial, thank you so much!

INDEX PERFORMANCE 12/31/2020

	Q	YTD	1 Year
Aggressive Allocation	12.27%	13.97%	13.97%
Balanced Allocation	9.18%	12.13%	12.13%
Conservative Allocation	6.06%	10.46%	10.46%
S&P 500 TR	12.62%	18.40%	18.40%
Russell 2000 TR	28.66%	19.96%	19.96%
Barclays U.S. Agg Bond TR	0.72%	7.51%	7.51%
MSCI EAFE NR USD	16.07%	8.28%	8.28%

	As of 12/31/2020	As of 12/31/2019
10 year Treasury	0.93%	1.92%
Barclays 1-3m Treasury/Cash	0.10%	2.20%
Price of oil	$48.52	$61.06
Real GDP YoY % charge	-2.8%	2.1%
U.S. Unemployment Rate	6.7%	3.5%

The aggressive allocation is made up of 50% S&P 500 TR, 8% Russell 2000 TR, 18% Barclays U.S. Agg Bond TR, 22% MSCI EAFE NR USD and 2% cash. The balanced allocation is made up of 39% S&P 500 TR, 5% Russell 2000 TR, 35% Barclays U.S. Agg Bond TR, 16% MSCI EAFE NR USD and 5% cash. The conservative allocation is made up of 29% S&P 500 TR, 2% Russell 2000 TR, 53% Barclays U.S. Agg Bond TR, 9% MSCI EAFE NR USD and 7% cash. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.

MARKET REVIEW
— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

The fourth quarter ended positive despite the concern that it would decline around the election. In fact, we had the best November one-month performance since 1987 for the stock market. The S&P 500 Index posted a 16.3% gain with the technology sector +42.2% and the consumer discretionary sector +32.1%.

In the 4th quarter investor sentiment shifted from the growth asset classes of Technology +11.8% and Consumer Discretionary +8.0% compared to value asset classes Financials +23.2% and Industrials +15.7%. Of the two different investment approaches, value (fundamental current value) and growth (future value), the growth style was the clear winner for 2020 but value outperformed in the 4th quarter.

Holiday shopping was up 3.6% from 2019 which is an increasing trend the past five years according to the National Retail Federation. The rise in the stock market, rising home values, and increased savings were due to not spending on travel and restaurants gave people a desire to shop. Several of our clients did major house improvement projects and bought SUV's with their gains.

Back in March, investors ran to the bond markets for safety which turned out to be a pleasant bonus for the 2020 overall performance. Fixed income posted 7% gain. The Federal Reserve came to the rescue by doing the heavy lifting to keep the US economy from completely falling apart. It would continue to be proactive with interest rates at virtually zero which is expected to continue as is in 2021.

Unemployment ended the year at 6.7% which means 10.6 million people do not have a job. To give perspective this number is equal to the entire population of Georgia. Depending on the job sector, there has been a partial recovery. Hospitality regained 59% and construction regained 74%.

The Federal Government budget is currently out of control with the net debt now topping 100% of Gross Domestic Product. The Federal Government has borrowed 36% of the 2020 total budget. Since the start of the pandemic there have been five bail out plans that totals $2.59 trillion. This excessive borrowing behavior by the Federal Government for individuals and business due to the economic hardship in 2020 will eventually have to pay it back. This will most likely impact taxes in the future. I am confident that taxes may not change for the middle class, but I do think that the top 1% will have to pay more.

With the distribution of vaccines, the COVID-19 virus head count will eventually decline and perhaps by July 1st, the unemployment will be lower, and businesses shift back to a pre-virus normal. If that happens, I expect the second half of the year to be better.

Do You Remember the Polio Vaccine Sugar Cube?

With the two COVID-19 vaccines now available for distribution, you may remember taking the sugar cube for the polio vaccine. If you do then you are old enough to retire.

INTERSTING STATS
– By Steven Tonkinson, CFP®, AIF®, CFS®

Since 2011, when the oldest baby boomers (born between 1946 and 1964) turned 65, about two million boomers have retired each year. In the past 12 months, though, about 3.2 million boomers have retired from the workforce (voluntarily or involuntarily) according to a study publish in November by the Pew Research Center.

The average rate on a 15-year fixed rate mortgage is about 2.50%, compared to 2.81% in early July and 3.20% at the beginning of the year, according to Bankrate.

SOUND ADVICE: How COVID-19 will Change Aging and Retirement
– By Steven Tonkinson, CFP®, AIF®, CFS®

Back in November the Wall Street Journal put out a special report about COVID-19 and the effects it will have on Americans facing retirement and old age in the years to come. Here are a few ways the pandemic may reshape our later years:

More boomers will age at home. About 40% of COVID-related deaths in the U.S. occurred in long-term facilities. The disease exposed how essential access to home health care is to those who need assistance. This should lead to more resources and expansions of community-based programs as well as state and federal programs, to help people age at home.

Older people will benefit from a technology boom. The most dramatic change under way is the growth in telemedicine, facilitated in part by Medicare's decision since March to expand reimbursement to doctors for virtual visits. Wearable devices and diagnostic tests for home use will provide doctors with key information and pave the way for better remote patient monitoring.

We will embrace healthier lifestyles. With the potential threat of the virus, many people decide to get healthy and improve their immune systems. As wearable devices become more prevalent, more of us will track measures of underlying health.

We will have a better handle on what we want to do with our time. Working from home gave a sense for what retirement might look like. For many retirees, the virus interrupted plans to travel and see family. Both situations freed up time to assess plans, values and even the kind of legacies they want to leave.

We will plan for death. The virus made end-of-life care planning, something many of us put off, a more pressing item, even for younger people. As difficult as it is to plan for death, experts say it is crucial that people prepare. It can improve how we live our last days and help our loved ones deal with our deaths.

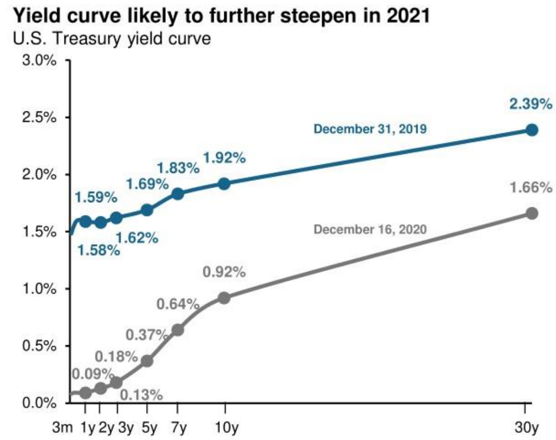
The 401(k) will morph into a multipurpose account. The economic crisis that came with the pandemic showed many people to prioritize building an emergency fund. If they don't have one already, they will start putting aside funds before putting more money into a 401(k), where savings can be hard to access before retirement. Already some employers are offering a new kind of flexible savings account that allows workers funnel salary deferrals to more than one goal.

We will work longer. With bond yields low, stock values high and Social Security in precarious shape, the percentage of people 55 and older in the labor force will accelerate. With companies embracing remote work and flexible hours, it's easier for older people to remain employed.

Fed Facts
— By Steven Tonkinson, CFP®, AIF®, CFS®

In December, the Federal Open Market Committee (FOMC) held its final meeting of 2020, and maintained the federal funds target rate in a range of 0.00%–0.25%. It also explicitly committed to purchasing U.S. Treasuries and agency mortgage-backed securities of at least $80bn and $40bn (net) per month, respectively, until the committee feels "substantial further progress" has been made toward its inflation and employment goals. Although its "dot plot" of fed funds rate estimates still implies no rate adjustment through 2023, the Fed is likely to taper its asset purchases before making rate adjustments as the economy improves.

In its quarterly economic projections, the Fed's growth forecasts were revised up for 2020-2022, reflecting prospects for a robust recovery. With upward revisions to its PCE inflation forecasts in 2021 and 2022, and the unemployment rate projected to reach 4.2% in 2022, conditions to taper could come much sooner than 2023. As the expectation for tapering increases, the yield curve will likely steepen further in 2021.



As shown in the chart, from JPMorgan's December 21st 2020 Weekly Market Recap, the yield curve has steepened meaningfully this year as a result of lower short-term rates. Next year, it will likely steepen as a result of higher long-term rates. In that environment, we will want to manage the duration carefully in fixed income, and for equity positions, these conditions could propel value stocks that benefit from a steeper yield curve and an improving growth an inflation outlook.

Estate Planning in the Middle of a Pandemic
— By Kristina Shamonina, CFP®

2020 is finally over but its lessons are likely to haunt us for years to come. For many, both young and old, it was an eye-opener in terms of how precious and fragile life is, and how fast even simple everyday tasks, like going shopping or visiting a friend, could be taken away from us. While 2020 certainly had a lot of the bad and the ugly, it was not completely without the good, either. We learned to cope, to adjust, to follow discipline. We learned to allow the possibility of our possible demise from the virus and we became aware – some of us for the first time in our lives – that we need to put a real plan in place just in case. Who will make decisions for us in case of incapacitation? Who will inherit our assets?

Not having a will or an estate plan means, by default, letting the laws of the state of residence control how we are cared for and how our assets are distributed after death. Unfortunately, state law doesn't really consider the depths of one's religious beliefs or the intricacies of non-traditional family relationships. That's why we've got to fend for ourselves and make a plan that works for us and our loved ones.

Keep in mind that while telling your spouse or child, for example, "If I'm in a coma and there's no chance of recovery, pull the plug", or "If I die, I want you to take my car but give my jewelry to my sister", is certainly an expression of your wishes; but expressing wishes orally does not make them legal. The following legal documents or tools are available for adults who want to pass on a legacy in a legally binding manner:

- Financial and health care directives:
  - Power of attorney for financial and medical decisions
  - Revocable living trusts
  - Irrevocable living trusts (can be useful for Medicaid qualification and reducing potential estate taxes)
- Legal documents to determine distribution of assets after death:
  - Wills (including tangible personal property memorandum)
  - Property titles (in particular those with a right of survivorship)
  - Trusts (family, special needs, marital, irrevocable, ILITs and testamentary trusts)
  - Beneficiary designations

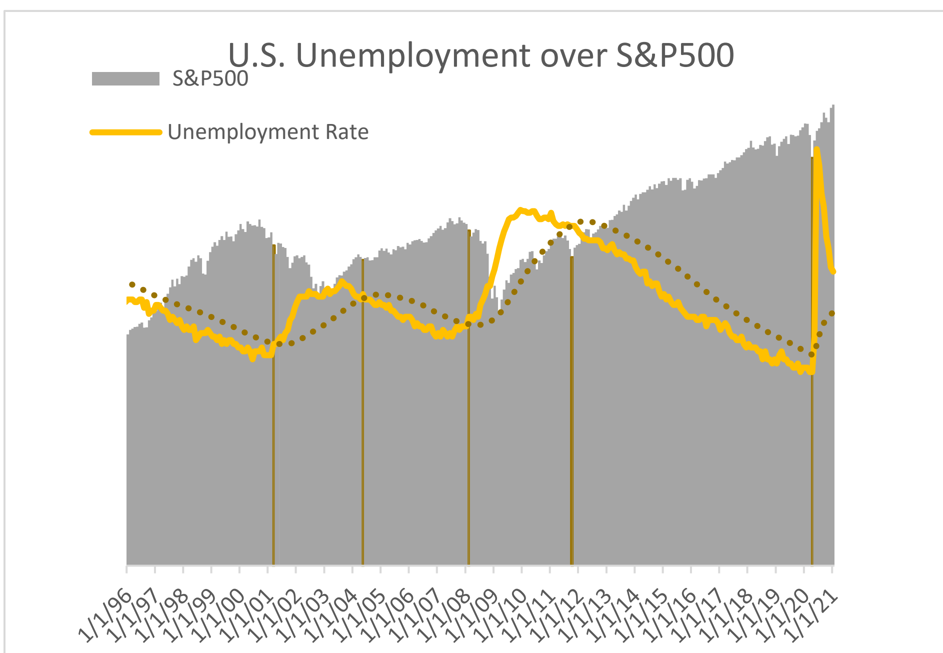
Importantly, please remember your digital assets in your estate plan. Email, Facebook, online banking and online investment accounts sure do make life more convenient but these assets are challenging to access and retrieve information from upon incapacity and death. The Revised Uniform Fiduciary Access to Digital Assets Act provides a means for agents under a power of attorney, executors of an estate and trustees of a trust to access a user's digital assets without being subject to the online company's restrictive terms of service agreement; however, you must take a proactive step and grant this authorization your estate planning document (POA, will or trust).

Where should you keep your estate planning documents? In a secure place, but which could be accessed easily should the need arise. Perhaps you can keep a copy in a safe place in your house, or at your attorney's office; however, do inform your loved ones where they will need to look.

IN THIS NEWSLETTER, ENCLOSED YOU'LL FIND A "USEFUL *CONTACT INFORMATION FOR YOUR CARETAKERS AND BENEFICIARIES*" SHEET THAT CAN BE USEFUL IN YOUR ESTATE PLANNING PROCESS. PLEASE LET US KNOW IF WE CAN HELP YOU PLAN.

Graphing the Markets – By Tom Saul, Analyst and Co-Portfolio Manager

As we start the new year, let's take a look at the long-term macro trends and review happened over the last 12 months through the following 4 graphs.



U.S. Unemployment over S&P500

What is it?

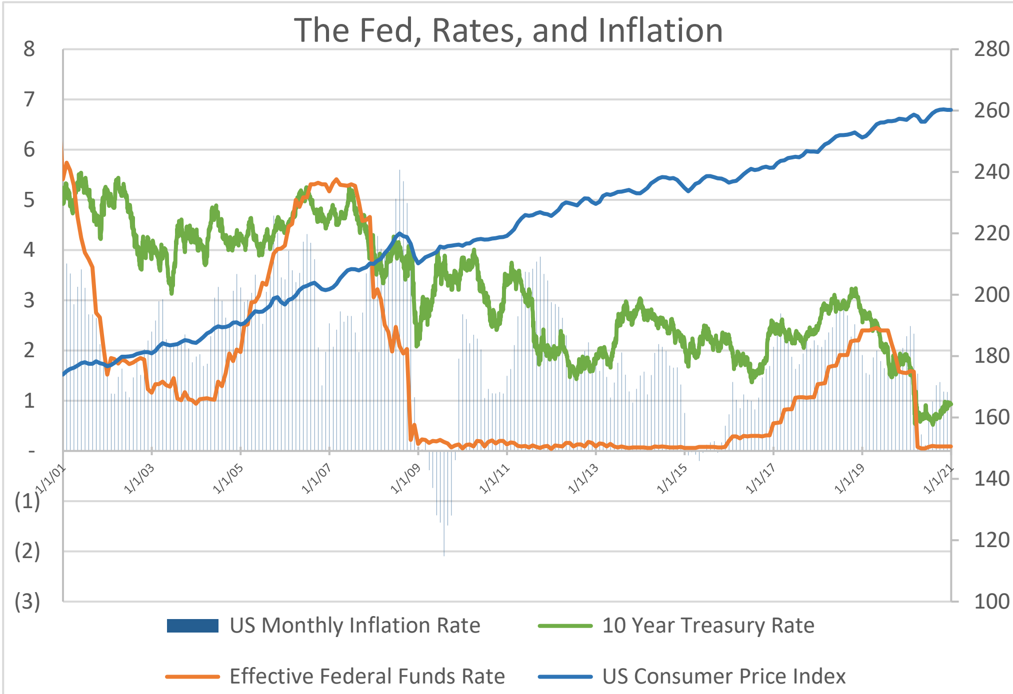
It is a graph of the US Unemployment rate with its 36-month moving average, laid over the S&P 500 equity index.

Why look at it?

There is an inverse relationship between level of unemployment and forward stock market returns. The best returns historically have come after periods of high unemployment. Unemployment rates below their 36-period moving average coincide with stable economic conditions.

What happened over the last 12 months?

2020 started off with the unemployment rate at 3.5% but as the country locked down it sharply rose to a high of 14.7% in just two months. Then it immediately started to recover and finished the year at 6.7%, cutting its rise from the pandemic by more than half.



The Fed, Rates, and Inflation

What is it?

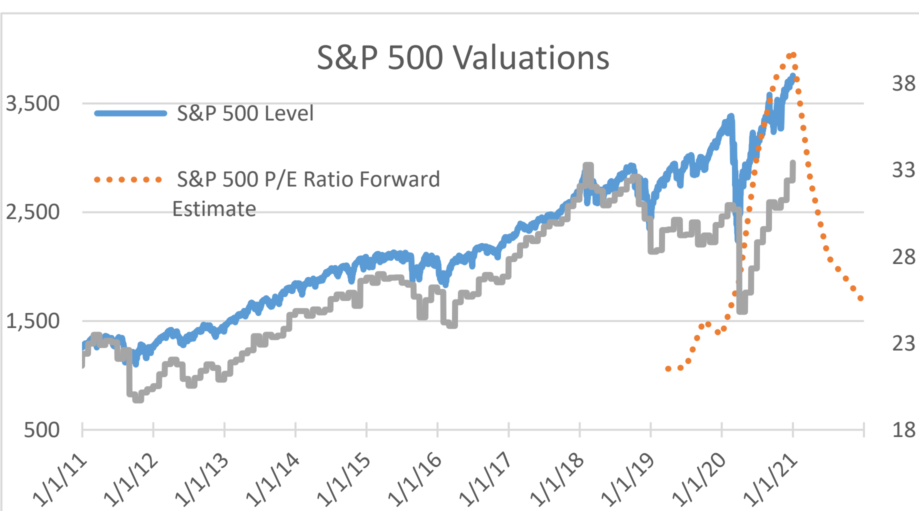
This is a graph of the fed funds rate and the 10-year treasury, with monthly inflation and long-term CPI consumer price index.

Why look at it?

The Fed funds rate determines the short-term interest rates in the market. Inflation expectations, on the other hand, drive long-term interest rates. There is also an inverse relationship between the rate of unemployment and inflation. The Treasury yield curve is a graph that plots interest rates at different maturities. So, when short-term rates rise following a rise in the Fed funds rate, the Treasury yield curve flattens, as the shorter end would rise more compared to the farther end. In general, when interest rates are low, the economy grows and inflation increases. Conversely, when interest rates are high, the economy slows and inflation decreases. Changes in interest rates have a direct effect on fixed income investment returns.

What happened over the last 12 months?

On March 3, 2020 in the first unscheduled emergency FMOC meeting since the financial crisis of 2007-08, rates were cut by 0.50% in response to the Coronavirus pandemic in the United States. Just two weeks later, on March 15, 2020 in a second unscheduled emergency FMOC meeting rates were cut by an additional 1.00% and brought the fed funds rate to 0.25% as the US economy stalled. The FMOC is committed to keeping rates low until unemployment improves and long-run inflation is above its target of 2%, as well as to continuing to increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning.



S&P 500 Valuations

What is it?

This is a look at the S&P 500 and its P/E Ratios. The CAPE ratio is a Cyclically Adjusted Price-Earnings ratio. The P/E Ratio Forward Estimate is uses estimated net earnings over next 12 months.

Why look at it?

The CAPE Ratio smooths out and show a more accurate representation of the ratio between current price and earnings. Whenever the CAPE ratio of the market is high, it means stocks are overvalued, and in contrast, whenever the ratio is low, it means the stocks are undervalued. The P/E Ratio forward estimate tells what the market expects will happen to valuations.

What happened over the last 12 months?

In 2020 P/E expanded and prices accelerated while earnings dropped. The down move in the P/E Ratio Forward Estimate (orange line) suggests that the market is expecting multiple contraction in the coming year and a quicker than originally thought recovery from the pandemic. The market rallied higher driven by massive stimulus bills and accommodative monetary policy, Covid-19 vaccine hopes and better than expected corporate earnings results.

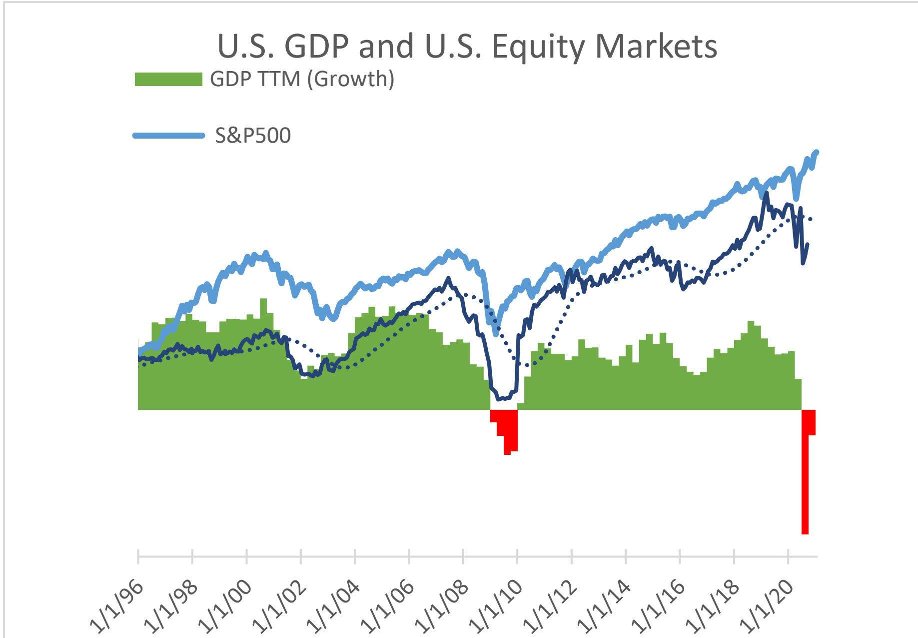
U.S. GDP and U.S. Equity Markets

What is it?

This graph looks at the relationship between earnings, U.S. GDP and prices.

Why look at it?

Stock portfolio will do better during periods of increasing prosperity in the country. The linkage between GDP, Corporate Earnings & Equity Prices can provide a long-term view of valuations and give basis for adjustments in equity allocations. We want heavier equity exposure when GDP, profitability, and sentiment measures look to be at historical low points.



What happened over the last 12 months?

2020 GDP fell more and at a faster rate than in the financial crisis of 2007-08. However, 2007 was caused by a structural problem, while 2020 was caused by a pandemic, making the recovery from 2020 likely to be faster and stronger.

S&P 500 Earnings also fell but not as much as anticipated. GDP for Q1 was -5.0%, Q2 -31.4%, Q3 33.4% and the Atlanta Fed estimates 8.9% for Q4. The S&P 500 has diverged from the two and has not only recovered but made new all-time highs.

***All graphs in this article are sourced from YCharts.com*

Welcome to eSignature
— By Lucy Foerster, Client Relations Coordinator

Did you know that approximately 1 billion trees worth of paper are thrown away every year in the United States? According to a study done by the University of Sothern Indiana that boils down to about 680 pounds per person. Traditional "wet" signatures have a part of business since the beginning of time. Those signatures came in many different forms, including stamps, marks, signs, and seals. Today's world welcomes the eSignature, it is quickly reshaping how businesses are utilizing technology to be more efficient for you, our clients.

This past September Tonkinson Financial said "Hello" to electronic signatures for the first time and we are happy to announce it has been welcomed with open arms. Let us just think about how great it will be to say "Goodbye" to the tedious 'print, sign, scan, mail' process that used to take so much time. Our office is using a software called DocuSign which is a reliable way to electronically sign forms on any device from practically any where you are in the world. You can rest easy knowing that all information stays secure. Many forms from Commonwealth are available now and insurance companies have been adding to the list of approved forms ever since the global shut down last March.

The largest benefit for e-signing is time saved. The number of hours that e-signatures can cut from document turnaround times is truly staggering. We can send you a form, get it signed and submit the request the very same day compared to a wet signature that has an average of 5 days for turn around.

Don't be surprised the next time you talk with one of our team members at the office and they ask if you are open to e-signing. We will make sure you have adequate directions and are ready to walk you through the process any time.

Book Review
– Margarita Tonkinson, Associate

Kindness is what brings true pleasure in life.
-Jeff Guinn

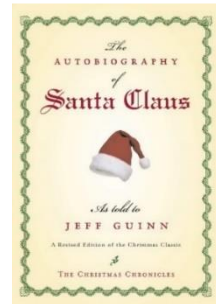
For many years in December, I read a book related to Christmas and this year I chose The Autobiography of Santa Claus As Told to Jeff Guinn, written in 2003.

Guinn tells Santa Claus's life history from his childhood, in Lycia, a Middle Eastern Country, to today, covering 1700 years. Through this narration we learn the history of Christmas as well as many other worldwide events. The author combines actual historical events with the fictional story of Santa Claus.

In this tale we learn things like why Santa wears red; when he met and married Mrs. Claus; when the tradition of stockings hanging from the fireplace mantel began; why December 25th is the celebration day in some countries and January 6th in other countries; when and where the Christmas tree began as a tradition; why Santa's headquarters is in the North Pole; why the use of sled and reindeer, and so many more that make this story so interesting.

One of the most entertaining aspects is how Santa Claus finds his "helpers" throughout the years. He stumbles upon famous people who happen to have the skills he needs in order to fulfill his mission of providing gifts to children all around the world. Some famous figures who become Santa's Helpers are: King Arthur, St. Patrick, Charlemagne, Francis of Assisi, Marco Polo, Benjamin Franklin, among many others.

The story also includes hard times such as wars and religious persecution. Of special importance is when the Christmas holiday was completely outlawed in England in the mid 1600's. This book brings an important message of love, compassion, and kindness for our dear ones, for the poor and especially for the children of the world regardless of religious differences, which is the true meaning of Christmas.



Regardless of how we call him, Saint Nicholas, Santa Claus, or Father Christmas, his legacy continues.

Illusion is when something happens that seems impossible but eventually can be figured out. Magic is when something happens that can't be understood.
-Jeff Guinn

Do You Prefer House Calls or Video Calls?

Throughout this time for social distancing practices Tonkinson Financial is still committed continue to take the necessary steps to stay healthy. We also want to make sure we are meeting you, our client, where you are most comfortable.

We know with social distancing with a priority there is an overwhelming concern for some being isolated for several months now to the point that we really would like to talk to someone.

Our office is here to talk to you in the way that you feel comfortable. We are happy to utilize all forms of video calls whether it be a Zoom or Facetime for those who want to keep the distance. You don't have to worry; we are still committed to the good old fashion phone. Office visits and house calls with the mask are available if you like to have the in-person experience as well.

COMMUNITY EVENTS

Challenge Coins

The 200 Club of Greater Miami has provided significant financial support for families of law enforcement officers and fire fighters who lost their lives in the line of duty. The Club supports police at the local, state and federal levels.

To create awareness for their mission, the Club created their own challenge coin to be given out to service men and women. "This is our way to say 'thank you' for their service to the community." Said Eric Lang, a Fire Chief and Past President of the organization who led the charge for the coin's project. Several of our clients have already received this coin and have given coins to their family and friends who are military, police or fight fighters. Those who have received the coins are grateful for this recognition.

At this time, we invite you to let us know if you have family and friends that are military, police, and fire fighters both retired and active that would enjoy receiving this coin. Rick has had the opportunity to visit a few local police departments in the past few months to present coins to many of the officers.

Woodystock

In early December The Woody Foundation safely celebrated the 8th edition of Woodystock. It has been said that "Music Heals the Soul," and there is no doubt that the songs from the night are still echoing in hearts. The event was a smash hit and the organization was able to raise just over $31,000. These funds will help with the roll out of new book program to highlight inclusiveness for those living in wheelchairs.

DJ Industrial Average (DJIA): Computed by summing the prices of the stocks of 30 companies and then dividing that total by an adjusted value—one that has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are invested to reflect the actual performance of the underlying securities. NASDAQ Composite Index: Measures the performance of all issues listed on the NASDAQ Stock Market, except for the rights, warrants, units and convertible debentures. Barclays Capital Global Aggregate Bond: This index provides a broad-based measure of the global investment-grade, fixed-rate debt markets. Citigroup 3-month T-Bill: Measures monthly return equivalents of yield averages that are not marked to market. The 3-month Treasury Bill Indexes consist of the last three 3-month T-Bill issues. MSCI China: This free-float adjusted capitalization-weighted index is designed to measure the performance of China-based equities. MSCI EAFE (Morgan Stanley Capital International Europe, Australia, Far East): This index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East. MSCI Emerging Markets EMEA: This index captures large and mid-cap representation across 8 Emerging Markets (EM) countries in Europe, the Middle East and Africa (EMEA). With 139 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Russell 2000: This index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. Standard and Poor's (S&P) 500: This index tracks the performance of 500 widely held, large-capitalization U.S. stocks. S&P Consumer Discretionary: A market capitalization weighted index that tracks the performance of consumer discretionary companies. S&P Consumer Staples: A market capitalization weighted index that tracks the performance of consumer staples companies. S&P Energy: A market capitalization weighted index that tracks the performance of energy companies. S&P Health Care: A market capitalization weighted index that tracks the performance of health care companies. S&P Materials: A market capitalization weighted index that tracks the performance of materials companies. S&P Technology: A market capitalization weighted index that tracks the performance of technology companies. S&P Utilities: A market capitalization weighted index that tracks the performance of utility companies.