The Light

Winter 2021

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Year End Market Review

By Greg Emmons, CFP® Investment Advisor Rep.

This is how I ended last year's market review for 2019… "It's not likely we'll see the types of returns we saw in 2019 but I'm fairly encouraged that we can still have a good year." It's actually a bit comical how true that statement is and yet so shallow and overall inadequate. Not even the most magical 8-ball in the world could have foretold the events that unfolded in 2020, most notably COVID-19 and the havoc it would wreak on the world. How often did you hear or read the word "unprecedented?" Unfortunately in the English dictionary there aren't many other options and that adjective was never used more and never more true.

The year 2020 provided us all with moments that we will easily recall years from now when people ask us about them. Historians will have a lot to say about this year and regrettably we all had a front row seat. While our parents and grandparents were on lockdown in nursing homes, parents with young kids became full-time teachers. Businesses were forced to shut down, and we watched our investment accounts drop at a very uncomfortable pace. February 20th to March 23rd produced one of the steepest and fastest declines in the stock market's history. In just 22 days of trading the market lost a staggering 36%.

The brightest minds in the field of economics should have just told us the S&P 500 would finish the year up 16%. That could have spared us all a little anxiety. We had never seen the government step in and mandate shutdowns for businesses and schools. Toward the end of July it was reported that the GDP declined 32.9% for the second quarter – the worst quarter we've had since immediately following World War II. So how did we navigate through all of this? The federal government took swift action through fiscal policy. Congress acted as quickly as they could to pass the CARES Act, which included $1,200 stimulus checks to most Americans.

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Should You Pay Off Debt or Invest?

By Chris Bevington, CPA, MTAX, CFP®, Investment Advisor Rep.

Should You Pay Off Debt or Invest?
So you're comfortably covering your monthly expenses and find yourself with "extra" cash on hand. Should you use the windfall to pay down debt, or is it more advantageous to invest the money? Paying off debt reduces stress, lowers risk, and means a greater ability to withstand personal emergencies. Investing is beyond the act of saving funds for future use, but it's money set aside expected to grow and earn a profit. Investing provides peace of mind you will have funds available for future financial milestones, such as retirement or paying for a child's college education. Both are worthwhile pursuits so how do you choose which is best?

As you consider your options, finding a way to "quantify" the benefit of which path is best can greatly help keep things in perspective. In the simplest terms, if you can earn a higher rate of return on your investments than the interest rate you are paying on your debt, you should invest. Conversely, if you're carrying high-interest debt, it likely makes the most sense to pay off the debt. But there are other factors you must consider, including any potential tax benefits on interest being paid, the potential tax costs of investment income, and the unknowns and risks associated with investing, among others.

When choosing between investing and paying down debt, it's important to have a fundamental background on investment returns. The average market return for the last century is roughly 10%. And though 10% is the average return, returns in any given year are far from average. Stocks have historically returned as little as 1% in the 2000s to as high as near 20% in the 1950s. So what is a realistic investment return expectation? Returns are somewhat dependent on the amount of investment risk you are comfortable taking. But if we base expectations on the 10% average, and then assume returns in the 6% to 8% range to somewhat buffer risk, it should be in the ball park of realistic expectations for most risk adjusted returns.

Now let's look at a practical example. You have 10 years

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The bill also contained vital help for businesses with its Paycheck Protection Program. We saw government aid and relief to the American people like we've never seen before. Injecting that much money into the system, no doubt, helped a lot of people and businesses stay afloat that may not have otherwise. The Federal Reserve also did its part and slashed rates to near zero in March, pushing treasury yields to near all-time lows of around 0.50%.

With the lack of yield from treasuries it left investors only one place to turn, the stock market. And on what companies did investors focus their money? Investors shifted toward the tech sector where balance sheets were incredibly strong and their business models were mostly pandemic proof. Companies like Apple, Amazon, Microsoft, Google, and Facebook helped carry the market upward after the March 23rd bottom. The NASDAQ, the stock index heavily weighted toward information technology companies, is up 67% from that point. The stock market experienced a true V-shaped recovery since the huge Spring downturn.

We have come a long way this year. For many of us, this year felt like one of the longest on record. Thankfully as we turn the page to 2021, there are things that bring hope. The science field brought a vaccine to market in record breaking fashion. Congress recently passed a bill to get more money into the hands of people and businesses that need it. Business owners and entrepreneurs have shown tremendous resilience and creativity to navigate this unthinkable situation. I don't expect that to stop anytime soon. 2021 will certainly bring its own challenges, but in terms of investing, let's try to remember the importance of staying invested even when it's really hard to do so. ■

Compliance Documents

Our Part 2 of Form ADV: Firm Brochure, which provides information about the qualifications and business practices of Lighthouse Wealth Management, as well as our ADV Part 3: Client Relationship Summary are both available on our website **www.lightwealth.com**. To request paper copies contact Cheri Smeltzer at: **419-496-0016 or csmeltzer@lightwealth.com**

2020 Lessons on Staying Invested

By Aaron Rowsey, Investment Advisor

2020 has been a very trying year with many lessons learned. One lesson in the investment world this year was the power of staying invested. The concept sounds easy. Buy and hold quality investments during highs and lows. It is an easy concept to understand, but this year brought several occasions that tested the resolve of investors. Between dealing with the unexpected Covid-19 virus to the uncertainty of a Presidential election, 2020 showed it is easy to lose sight of long-term goals when the emotions of "right now" overtake your decision process.

When volatile markets strike, the decision making process for most people is to protect their assets from declining. While some investors choose to ride out the volatility, some choose to get out of the market. In doing so you eliminate the risk of losing more money, but you also choose to lose out on earning more money as well. March was a good example of this. On March 16th 2020 we saw the S&P 500 drop 12% in one day. It was the 3rd largest percentage drop in the S&P 500's history. This was on top of an already beaten down market since the end of February. If you had gotten out of the market then, you would have missed out on what would happen next. Over the next three weeks the S&P 500 would see 4 days of over 6% increases, including a 9.38% up day on March 24th that ranked in the top 10 best days in the S&P 500's history. The S&P 500 ended up declining by 34% in March, but by the end of June the S&P had recovered to finish the quarter down just 4.1%. While market swings like these are uncommon, it's a perfect example of why staying invested during volatile times can be so important.

It is easy to look back now at the end of the year after the market has recovered and say you should have stayed invested all year. The reality is that we don't know what the market is going to do. History has shown that most market recoveries start well before investors feel like the recovery has started, and the downturn will start well before you realize it is happening. The key to long-term investing is to manage the risk you take in order to stay invested and remove the temptation of emotionally timing the market. Whether it is an unexpected national crisis, or an unknown impending decision, history has shown that those that stay invested are rewarded in the end. ■

Pay Off Debt? (continued from page 1)

remaining on a mortgage charging 3.5% interest. You have net cash flow, after covering all expenses, of $1,000 each month. You already have a comfortable emergency fund set aside that would allow you to cover 3 to 6 months of expenses, should the need arise. You see from your last quarterly statement that your investments have averaged an 8% return since inception. Do you invest the $1,000 net cash flow or pay down the mortgage? The "black-and-white" answer would indicate, when times are good, and you expect to meet or exceed the 8% you have been averaging, invest the net cash flow. When markets are struggling, go with the "sure thing" and save the 3.5% by paying down debt sooner. But is it that cut-and-dried?

The best answer is likely somewhere in the middle where you concurrently pay down debt AND invest. How much is allocated to each will depend on market expectations and your comfort level with investment risk. If we quantify it, a common formula I've seen used is to take the debt interest rate x 10 and allocating that portion of your net cash flow towards debt pay down. The remainder is investing. In our example, 3.5% x 10 would equate to allocating 35%, or $350/month towards paying down debt. The remaining $650/month would be allocated towards investing. I'm not sure how "scientific" this formula is, as it likely depends more on your comfort level with investing, etc. But it does provide a general guideline. If we expand the example, and the interest rate on the debt you are paying down is 8% or higher, there's little argument that paying down debt would seem the safer move.

Should you use excess cash to pay off debt or should you use it to invest? The answer is not always black-and-white. Hopefully, this gives you some general guidelines to consider. ■

Market Recap

How the major indices performed in the 4th Quarter 2020

DOW JONES INDUSTRIAL AVERAGE
4th Quarter return 10.4% YTD return 7.3%

S & P 500 COMPOSITE
4th Quarter return 12.2% YTD return 16.1%

RUSSELL 2000
4th Quarter return 28.3% YTD return 18.4%

BARCLAYS AGGREGATE BOND
4th Quarter return 0.3% YTD return 7.5%

*All indices are reported total return which includes dividends.

New limits for 2021

By Chris Bevington, CPA, MTAX, CFP®, Investment Advisor Rep.

The Treasury Department recently announced inflation-adjusted figures for the upcoming tax year. The chart below highlights the updated limits for retirement savings, annual gifting amounts, and additional information you may wish to consider when planning for 2021.

Limitation	2020	2021
HSA Family Contribution limit	$7,100	$7,200
HSA Individual Contribution limit	$3,550	$3,600
HSA Catch up (age 55 and over)	$1,000	$1,000
IRA Contribution limit	$6,000	$6,000
IRA Catch up contribution (age 50 and over)	$1,000	$1,000
401(k) elective deferrals	$19,500	$19,500
401(k) catch-up deferrals (age 50 and over)	$6,500	$6,500
Other information		
Income subject to Social Security tax	$137,700	$142,800
Maximum earned income before SS benefits are reduced for those collecting SS before full retirement	$18,240	$18,960
Annual Gift Exclusion	$15,000	$15,000
Standard Mileage Rate	$0.575 /mile	$0.56 /mile
Social Security Cost of Living Adjustment	1.6%	1.3%

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To learn more about the benefits of working with an independent advisor go to http://www.findyourindependentadvisor.com.

Lighthouse Wealth Management believes in giving back. We give 10% of our profits to charities, including several local charities and CURE, International. www.cure.org

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