The Light

Summer 2021

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Rebalancing 101

By Greg Emmons, CFP® Investment Advisor Rep.

I have often found that the most inconvenient thing to do is the right thing to do. Human nature typically follows the path of least resistance, going the extra mile or finishing the job to completion doesn't always come easily. In fact, it can be very challenging and takes a tremendous amount of discipline. This principle is something we all try to instill in our kids and grandkids because anyone who's been around long enough, understands the value in it.

Investing and life have many similarities. They both include knowing where you are and where you want to be. In life, things rarely go as smoothly as we'd like them to. We have to make tweaks and adjustments along the way to put ourselves in a position to keep on the path leading towards the goals we aim to accomplish. In our investment portfolios we do the same. Recalibrating and making adjustments are necessary to keep us on target and to appropriately manage risk. This is where rebalancing comes into play.

Rebalancing is simply skimming profits from winners and using those proceeds to buy investments that have lagged. Ideally, this process is done systematically and periodically–typically, annually. One easy way to rebalance is by selling a portion of your stock position and buying a more conservative investment such as bonds.

Today, stocks are near all-time highs and, because of the upward run they've been on that portion is larger than it was intended to be. This increases the risk of the portfolio. Someone entering retirement five years ago with a 60% in globally diversified stocks and 40% in bonds, who never rebalanced, would have about 72% in stocks and 28% in bonds today. The concept of rebalancing is counter-intuitive. On the surface, selling something or part of something that has done well to buy an investment that has been underperforming is a bit

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Lighthouse Celebrates 10 Year Anniversary

By Tim Rowsey, CPA, Investment Advisor Rep.

On August 1, 2021, Lighthouse Wealth Management will celebrate ten years of service to the community. From the very beginning the focus of the business has been helping individuals with all their financial questions and helping them reach their financial goals. The firm has seen substantial growth in the last ten years both in clients, assets under management, and our team.

In August of 2011, when Lighthouse was founded, the firm consisted of Tim Rowsey, owner and founder and Cheri Smeltzer, office manager. By the end of 2011 we were helping about 80 clients and managing about $18 million in investments. Over the last ten years we have seen consistent strong growth both in the number of clients we serve and also in the assets we manage for them. Today we are happy to be working with over 330 clients and managing over $160 million in investments.

As our client base has grown through the years, so has our team. Today our team consists of four owners, Tim Rowsey CPA, Investment Advisor and Founder, Greg Emmons Investment Advisor, CFP® and President, Aaron Rowsey Investment Advisor and Vice–President, and Chris Bevington Investment Advisor, CPA, MTAX and CFP®. Cheri Smeltzer serves as our Office Manager and Compliance Specialist.

From the start, Lighthouse believed in giving back to our community. We made a commitment to give at least 10% of the company profits each year to non-profit organizations. Through the years we have supported United Way of Ashland County, Ashland Family YMCA, Brethren Care, Hospice of North Central Ohio, North Central State College Foundation, Safe Haven, CURE, Ashland County Historical Society, Ashland County Community Foundation and many other worthwhile organizations. In total Lighthouse has given away over

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Rebalancing 101 (continued from page 1)

perplexing and inconvenient. As investors, it's very easy to fall into biases that can end up hindering our long term returns. Falling in love with a winner that we've had for a long time is very common. We grow attached to it because of the positive history we have, making it harder to break apart from it.

This is precisely why it's important to make rebalancing systematic. Choosing the same date or dates every year can be helpful because it takes the guesswork out of the equation. Annually or semi-annually are great times to do this. But every now and then market conditions dictate when it's a good time to rebalance. Late last March we saw a slide in the market like we've never seen. The market was down roughly 37% in just a few weeks. As a firm we saw an opportunity in companies that had large cash positions and pandemic-proof business models that could sustain a period of time where consumers were on lock down. Big technology firms such as Microsoft, Amazon, Apple, Google, and Facebook saw a tremendous amount of growth in their stock prices from the lows of March 23, 2020. Because these firms had such a sharp turnaround in a short amount of time, it was a great opportunity to rebalance. We didn't sell completely out of these names. But we did take some profits and put those proceeds into some funds that lagged a bit behind some of the market's top performers: Pepsi, Home Depot, Verizon, Pfizer and Coke are just a few names that we shifted towards. ■

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**

10 Year Anniversary (continued)

$110,000.

In celebration of our 10th anniversary, Lighthouse is creating the Lighthouse Wealth Management Scholarship fund at the Ashland County Community Foundation. This Scholarship fund will begin with a $15,000 contribution. It will be available to provide a scholarship to a finance major that resides in Ashland County (beginning in 2022).

Lighthouse is still taking new clients with investible assets of at least $250,000. ■

The Child Tax Credit Expansion Explained

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

There have been changes to the Child Tax Credit that will help many families receive advance payments starting this summer. The American Rescue Plan Act (ARPA) of 2021 expands the Child Tax Credit (CTC) for this year only. The temporary 2021 changes make the credit a monthly child allowance, far different than the annual tax break that it has historically been. Advocates for the change believe the program will be more effective in helping parents and children have money sooner rather than having to wait to file a tax return to receive it. Payments will be made to an expected 39 million households, covering an estimated 88% of US children. The expected cost of the expanded credit will be just over $100 billion for the year.

The credit amounts will increase for many taxpayers, but how much? For the 2021 tax year, families claiming the CTC will receive up to $3,000 per qualifying child between the ages of 6 and 17, determined by the child's age at the end of 2021. Families will receive up to $3,600 per qualifying child who remains under age 6 at the end of the year. Under prior law, the CTC was limited to up to $2,000 per qualifying child. To qualify, a child had to be *under* the age of 17 at the end of the tax year. The 2021 expanded credit *includes* children who turn 17 in 2021.

The 2021 CTC is fully refundable, meaning taxpayers will benefit even if they have no earned income or owe no income taxes. The prior credit limited low-income households who didn't owe income taxes to $1,400 of the possible $2,000 credit. This year, taxpayers can

Child Tax Credit (continued)

qualify for the full credit even if they have no income.

The expanded portion of the credit is reduced (phased out) for incomes over $150,000 for married taxpayers filing a joint return and qualifying widows or widowers, $112,500 for heads of household, and $75,000 for all other taxpayers. The $2,000 base credit for higher-income households remains, and phases out once income reaches $400,000 for married couples and $200,000 for individuals.

So when are monthly payments scheduled to begin? The Internal Revenue Service will make the first advance payments of the 2021 Child Tax Credit on July 15. Each month, households will receive one-twelfth of the annual credit. The payments will continue each 15th monthly for the rest of the year unless the 15th falls on a holiday or weekend. Generally, taxpayers can expect to collect half the credit (6 months) by the end of 2021 and get credit for the rest when they file their 2021 tax return in early 2022. Advance payments will be estimated based on information included in eligible taxpayers' 2020 tax returns (or their 2019 returns if the 2020 returns are not filed and processed yet).

Eligible taxpayers need not take any action now beyond filing their 2020 tax return if they have not already done so. Nearly 80% of expected recipients have banking information on file with the IRS and will receive their payments through direct deposit automatically. Others will receive paper checks or debit cards.

For taxpayers who prefer to claim the entire credit on their 2021 tax return, the IRS will have an online system that will allow eligible taxpayers to opt out of monthly payments. Taxpayers will also have the opportunity to update information about changes in their bank account, address, income, filing status, or the number of qualifying children. More details on how to take these steps will be announced soon. An online system will also be created for non-filers (typically very low-income households) to allow them to provide their information, similar to the online tool created for the stimulus payments.

So what happens to the credit after these temporary 2021 changes? If Congress does nothing, the monthly advance payments stop and the credit returns to $2,000 per child under age 17. President Biden hopes to extend the current credit through 2025. Many congressional Democrats wish to make it permanent. Republicans have supported child tax credit expansion in the past, but have been wary of the change to fully refundable that breaks the credit's link to earned income. Stay tuned…..■

Market Recap

How the major indices performed in the 2nd Quarter 2021

DOW JONES INDUSTRIAL AVERAGE
2nd Quarter return 4.3% YTD return 12.7%

S & P 500 COMPOSITE
2nd Quarter return 7.1% YTD return 14.4%

RUSSELL 2000
2nd Quarter return 2.5% YTD return 17.0%

BARCLAYS AGGREGATE BOND
2nd Quarter return 1.1% YTD return -2.4%

NASDAQ COMPOSITE
2nd Quarter return 7.6% YTD return 12.5%

*All indices are reported Total Return which includes Dividends

Market Update

By Greg Emmons, CFP® Investment Advisor Rep.

Strong quarter for equities
The equity market had a great 2nd quarter with the S&P 500 finishing up 7.1% and the NASDAQ up 7.6%. As the world continues to open up consumers have shifted their spending towards the restaurant, leisure, and entertainment sector that was hit the hardest last spring. High frequency data that we track shows that TSA checkpoint data is up 17% month over month and OpenTable State of the restaurant industry is up 15%. Comparing this data to pre-covid there's still significant room for growth as there are plenty parts of the world that aren't fully reopened.

Bonds inch forward
The Barclays Aggregate Bond Index was up 1.1% for the previous three months. The yield for the US 10 Year Treasury Note started the quarter at 1.7% and ended down at 1.5%. News came out a couple weeks ago that the Federal Reserve may begin to raise rates toward the latter half of 2023. It appears that an easy money policy and cheap borrowing rates are here for a while longer. With the expectation for an increasing interest rate environment we do expect bond returns to be more muted than their historical average. We are focusing on owning bonds with short maturity dates as they are much less affected by increasing rates. ■

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Lighthouse Wealth Management is an independent, fee-only, investment advisory firm. We partner with you to help you navigate all the financial challenges of life. We can answer your financial questions, help with tax planning and preparation, and guide you with your investments to help you reach your financial goals. Call for a free investment review!

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

Our Services

- Investments
- Retirement Planning
- 401(k) Rollovers
- Individual tax planning
- Financial guidance in all areas

Helping individuals navigate their financial lives.