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The Advisor

QUARTERLY NEWSLETTER

2021 Q1 REVIEW:

GENERAL MARKET COMMENTARY

What a start to 2021! Much has happened in the first quarter of 2021. The US and world are still dealing with the COVID-19 pandemic.

Fortunately in the U.S. more and more people are getting vaccinated and restrictions are beginning to ease. The light at the end of the proverbial tunnel is getting brighter. The highlight of the quarter, however, had to be the speculation, trading, volatility, and quick money that was made by GameStop Corp. traders. The frenzy around this stock brought to the market numerous new millennial investors and stay at home workers — individuals that now had time on their hands and money in their checking accounts. The result was a record number of new stock brokerage account openings and trading, especially within the Robinhood Financial LLC platform. The high trading volume ultimately led Robinhood to restrict stock trading in order to meet net capital requirements.

Momentum investing and speculation in the market began to recede as the quarter progressed partly due to rising interest rates. This caused the NASDAQ stock average to lag behind the S&P 500 and the Dow Jones Industrial Average. Conversely, value stocks such as banks, energy, utilities, high quality dividend paying securities, and manufacturing stocks did very well. The quarter ended with the Dow Jones Industrial Average, the S&P 500, and the NASDAQ Composite Index having YTD increases of 7.8%, 5.8%, and 2.8%.

Other notable events occurring were long-term interest rates, as measured by the 10-year Treasury note, continued increasing to close the quarter at 1.749%. Short-term rates remain effectively unchanged. These near 0% rates clearly help economic activity but they also contributed to speculation in numerous assets including Bitcoin, commodities, NFTs (non-fungible tokens), and the stock market. A new stimulus bill was passed with many Americans receiving an additional $1,400 in March. With all the money pumped into the economy by these stimulus bills, inflation concerns continue to increase. Fourth quarter earnings reports that were announced from mid-January into February for the most part did not disappoint and were encouraging regarding business and economic activity into 2021. And finally, the IRS extended the tax filing deadline to May 17th, although estimated tax payments still need to be made by April 15th.

OUTLOOK

Looking forward to the remainder of 2021, a degree of caution is warranted. One should continue to invest but judiciously. With many of the momentum stocks such as DocuSign Inc., Peloton Interactive, Inc., Square, Inc., Tesla, Inc., Zoom Video Communications, Inc., and others still

HEMSLEY ADVISORS, LTD.
311 S. Wacker Drive Suite 1525
Chicago, IL 60606

BRANCH
432 N. Hough Street
Barrington, IL 60010

OFFICE (847) 381-7314
FAX (847) 381-2768

expensive given their high valuations, downside market risk is increased. Investments in momentum growth stocks do very well when many individuals are investing in them frequently using margin (borrowed money). However, as sentiment changes and the crowd runs toward the exits, momentum dissipates, leverage is unwound, and significant declines can occur caused by many sellers and few buyers. Remember that continuous investments of accumulated cash in portfolios is important to long-term investment success. We encourage you to keep adding to existing and new positions. With high leverage ratios in certain segments of the market, the focus continuously needs to be on the search for value. This includes reasonable valuations and earnings growth along with an emphasis on cash flow from dividends as well as the potential for annual dividend increases.

This quarter has seen our investments performing well. Banks are benefiting from a steeper yield curve and an improving economy. The energy sector is making a comeback helped by economic improvement and airlines increasing capacity this upcoming summer. The housing and construction sectors are very strong and will drive economic growth throughout the economy. Manufacturing and industrial stocks are other sectors in which we believe one should be invested. In addition, old technology stocks such as Cisco Systems, Inc., IBM, and Intel Corporation look very attractive and still trade at reasonable valuations. Drug and healthcare stocks have been relatively flat the last few quarters but are stable and provide excellent dividends to investors. We suspect that these areas of the market will continue to do well or at least hold their value throughout the year. Remember that no stock is immune to overall market declines.

We continue to take advantage of very attractive dividend yields available today. In many cases, they are close to or exceeding 4%. Recently we have been making additions to companies with attractive fundamentals, reasonable valuations, the potential to appreciate, and pay excellent dividends that generally are increased on an annual basis. Examples and current dividend yields include Dow, Inc. (4.3%), Duke Energy Corporation (4.0%), Enbridge Inc. (7.2%), IBM (4.8%), Pfizer Inc. (4.3%). These yields, coupled with appreciation potential over the next few years, make for the possibility of very attractive total returns. We are also encouraged by the number of dividend increase announcements — many being high single digit and low double digit increases. As we have said before, these increases in a near-zero interest rate environment help to increase one's annual portfolio cash flow — a key objective for everyone! Cash flow allows investors to take advantage of market declines by providing cash to add to attractive investments at a lower price and higher dividend yield as well as provide income for living expenses.

The Federal Reserve Chairman, Jerome Powell, continues to forecast low interest rates through 2023. Even with an increase in longer-term rates, one still needs to invest for 3 ½ years to obtain a 1% yield in investment grade corporate bonds. While frustrating to all regardless of age, one can't look at low rates in isolation but rather should think of the impact to your entire portfolio and net worth. It is these low rates that allow farmers in Brazil or the Midwest to buy John Deere tractors and equipment. It is low rates that help homeowners buy, sell, and improve their homes, commence construction projects, or buy a new automobile. Low rates keep consumer debt payments manageable, drive the stock market higher, and benefit individuals worldwide. Yes, we would love to buy 1-year bonds or a certificate of deposit with a 4% yield, but we are also content to see positive portfolio returns and economic opportunities that benefit consumers at all economic levels worldwide!

> A word of caution regarding speculative trading from George. Speaking from experience — BE CAREFUL! It is so hard to earn money but so easy to lose it.

A COSTLY LEARNING EXPERIENCE

In the early 1980s the hot speculative trade was with index options, a new product from the Chicago Board of Options Exchange (CBOE). These are options on an entire index versus an individual stock and were very volatile. It sure was fun when the trades worked in my favor but the losses were painful — usually wiping out prior positive trades. Around 1983 and in my mid-20s, I ended up losing $10,000, which was most of my liquid net worth at the time. Being single with just my own personal responsibilities, I didn't think too much of it. However, 30 years later, in my fifties and with a family to support, I began to realize that the $10,000 would have grown to $57,000 assuming a reasonable 6% rate of growth. This amount would have made a difference in my lifestyle. That money perhaps could have been used for education, a car, home repairs, etc. It was a costly (yet valuable) lesson that I have never forgotten.

So to our millennial friends and clients, our advice is to be cautious with a focus on safety and long-term growth. We recognize there needs to be an element of entertainment with stock market investing. It is fun to invest in the small growth stock, the biopharmaceutical stock, or the technology stock with the potential for a promising new drug or product. But remember that funds invested in these stocks should be money you have to be prepared to possibly lose. One's goal when investing is to try to minimize portfolio losses. To recoup losses may take a long time and you need a greater gain in the market. A simple example would be: a $10,000 portfolio that suffers a 20% decline is now worth $8,000. It would take a 25% gain (2,000/8,000) and likely a significant amount of time to appreciate back to $10,000. However, if the portfolio had only dropped 10% to $9,000, the gain required to return to $10,000 in value would be 11%. This gain could perhaps be accomplished in less time and certainly be less stressful. There is no easy way to make quick money. To be successful as an investor one needs to focus on value in your investments, diversify, minimize losses, live within your means, save money, add to your portfolio on a regular basis, and focus on consistency. Over the long term you will become a successful investor, with less stress, and a good steward of your hard-earned dollars!

FINANCIAL PLANNING - BITCOIN

Over the past few months we've received calls and questions about Bitcoin and block chain. What is it? Is it useful? And most importantly, should I invest in it, and if so, how?

WHAT IS IT?

The simplest explanation is that Bitcoin is a completely digital currency created in 2009 by Satoshi Nakamoto, a pseudonymous person or possibly a group of people. By having no physical coin or metal behind it nor any sovereign government taxing power, every bitcoin transaction is published on a public ledger. To prevent fraud, each transaction is checked and verified by a massive amount of computing power. The checking and rechecking of all transactions into the public ledger is part of what is known as the block chain.

A block chain is an unchangeable data entry form detailing all transactions that happened to each item, in chronological order. It's called a block chain because the data is stored in blocks. These blocks are then chained together in chronological order once they fill with data and continue to get longer and longer as transactions continue to pile up. The decentralized database allows for it to be trusted by its users. While there have been some instances of people hacking each other's wallets of coins, the block chain itself has remained unhacked.

Bitcoin differs from one of the other popular coins you might have heard about: Doge (pronounced Dough-g) coin. Bitcoin has a built-in maximum number of coins — 21 million — while Doge has an infinite amount. The 21 million coins includes coins held by people who have died or have lost access to their Bitcoin accounts. Once access is lost, the digital coins are gone. So the real number of total available coins is estimated to be significantly less, thereby contributing to Bitcoin's higher price.

IS IT USEFUL?

As the US accelerated into a physical cashless society last year, the thought that Bitcoin might replace the dollar started to be discussed. While an interesting thought, the chances for the United States or other countries of the world moving from their local currency or the United States dollar to Bitcoin in the near term are limited. Even with more people becoming aware of Bitcoin, its price is still based in dollars. Effectively this means the price of a cup of coffee changes by the minute. It becomes easier to convert your coins back into dollars to make that purchase, instead of trying to figure out if you just spent $2.00 or $18.00 for a black coffee.

What Bitcoin is useful for is as a store of value, acting as a hedge against inflation and a declining dollar value. Similar to gold, Bitcoin's perceived scarcity causes its price to appreciate as more and more dollars are printed (something the Federal Reserve nor the federal government have not shown any interest in stopping in the short term). With the current proposed $2 trillion infrastructure bill and possibly another one being announced shortly, Bitcoin might see continued upward movement in price. This is caused by investors searching for new places to store their wealth instead of leaving it in dollar-backed-assets or cash.

SO SHOULD I INVEST IN IT?

Investing in just one asset class is rarely a good idea whether it's equities, real estate, bonds, or physical assets. The best way to think about cryptocurrencies is that they should be considered a competitor to gold as an inflation-protected-asset class, albeit one that is much more volatile than precious metals.

In addition, as mentioned above, Bitcoin does have drawbacks outside of its volatility. With no physical coins, you can easily lose your currency if you don't remember your login and password, or if the virtual place you store it gets hacked. Additionally, if you die without a beneficiary knowing your login information, the coins locked behind that login are effectively gone forever.

With many banks and brokerage firms beginning to offer more and more Bitcoin related products and investment opportunities, adding a small cryptocurrency or Bitcoin exposure to your overall invested assets might be something worth considering. This could done via stocks like PayPal, who has a Bitcoin exchange where the coins can be traded or NVIDIA, who makes components for the computing power needed. It is also possible to own the coin directly or through an exchange or bitcoin ETF.

We're happy to help answer any questions you might have on this topic.

A study in 2019 showed that 6.2% of Americans owned Bitcoin.

FINANCIAL PLANNING – CONTINUING CARE RETIREMENT COMMUNITIES

When the responsibilities of owning a home become burdensome or health issues begin to arise, continuing care retirement communities become an option for retirement living. The focus when choosing a community is usually on cost and “how the facilities look.” But consideration must be given to other factors to make sure you are making the correct choice for your situation. For example, how much of your net worth are you depleting to buy into the community? Or what happens if you want to move out or change communities to be closer to family? Detailed below are some of the more important questions that should be asked when interviewing a community. This list is not exhaustive but meant to be a guide.

1. What is the average age of your residents? This is especially important if you are a young retiree or there is a large difference in age between you and your spouse or partner.

2. What services and amenities are included in the monthly fee? When can family and guests visit? How are dietary restrictions handled?

3. Is transportation provided for doctor visits? This is important if you are no longer able to drive and have no family nearby.

4. What types of programs are offered to residents to attend on a weekly basis and are they well attended?

5. What is the average annual rate of increase in the monthly fee in the past five years?

6. What options are available if I deplete my financial resources while living in the community?

7. What happens should one spouse or partner require a different level of care than the other?

8. What expenses, if any, are covered by my long-term care insurance policy? Will staff assist me in filing the insurance claim?

9. If there is a refundable entrance fee, when is it refunded? During your lifetime or is it refunded to your estate?

10. What are the credentials of your staff members in the health care center as well as the assisted living and memory care facility? What is the turnover rate? These other facilities should be toured as well during your interview.

As always, we are here to help you. Do not hesitate to call with any questions or concerns.

Happy Spring!