PETERSON FINANCIAL SERVICES

Limited Liability Company ◆ Registered Investment Advisory Firm

Second Quarter 2021

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A SECURE FINANCIAL FUTURE CAN BE WELL WITHIN GRASP OF VIRTUALLY ANYONE.

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- A disciplined strategy of implementing time-tested savings and investment strategies will allow for financial peace of mind.

QUARTERLY MARKET RECAP

The year's second quarter saw some choppy action, but ended with decent gains. Both the equity and fixed-income markets are still trying to sort out the implications of massive proposed government spending, tight labor markets created by continuing to pay people not to work, coupled with ongoing wrangling over increased taxes and continued Federal Reserve loose monetary policy leading to increased inflation. This is a lot of uncertainty to digest amid strong corporate earnings performance. For the last quarter, the DJIA tacked on 4.61%, the S&P 500 picked up 8.17%, the NASDAQ recovered by gaining 9.49%, and small-caps cooled off adding just 4.05% to the Russell 2000. Value stocks backed off and growth stocks regained some momentum. Foreign equities added 7.31%. The afore-mentioned inflation concerns tempered bonds with the Barclay's Aggregate Bond Index rising only 1.91%.

The markets are in a wait-and-see mode as clarity on these various issues is elusive. The nation continues to normalize activity post pandemic but supply-chain challenges and labor shortages are stunting an otherwise robust economy. Still, full-year GDP gains are expected to come in at 7.2% and data reveals incremental improvements. The question now is how long this will last if policies change.

FOLLOWING SIMPLE RETIREMENT SAVINGS RULES WITH DISCIPLINE WILL YIELD SUBSTANTIAL GAINS

Traditionally, most people have not considered the possibility of becoming a millionaire. Notwithstanding the fact that inflation alone has rendered this target more achievable, for middle-class households simply owning a home and having modest retirement assets, along with controlling debt, will push peoples' net worth over that mark. But how do we get there?

A million dollars isn't what it used to be, and most people will need substantially more than this to maintain their desired lifestyle in retirement. There is a tool for this. The greatest savings vehicle of the modern era has been the deferred-compensation qualified retirement plan.

Recently, Fidelity Investments, one of the largest retirement plan administrators, surveyed their qualified plan client base. They then analyzed various characteristics of accounts with balances in excess of $1 million, for which they had over 233,000. Statistics included that average account holder's age at 59.3 years, their average balance was $1,462,000 and the average salary for these account holders reached $339,600. But these are averages and we would suggest that participants with far more modest incomes can achieve these levels as well.

The most important characteristic in this equation is starting your savings early. The sooner the better. A person entering the workforce should start saving as soon as they draw a paycheck. Many twenty-somethings think retirement is so far off, they can defer it and still be in good shape. But this overlooks a couple key points. First, it is important to ingrain in your habits that saving for the future is essential. And the future comes sooner than you think. If your lifestyle consumes your income, you will never have enough money in the future and altering those habits later in life proves very difficult. You must live below your means and invest excess income. Further, do not confuse income with wealth. Second, the time value of money cannot be overlooked.

A person saving $5,000 annually starting at age 35 and stopping after only 10 years will amass an account balance at age 65 of $1,061,726 at a 12% annual return. The person who waits until age 45 and saves $7,500 annually for 25 years at the same return can only build up $682,269.

The disparity between these two amounts makes all the difference in the quality of your retirement years. Now, just think of the amount accumulated if you invest more and continue that throughout your working career.

This is the top mistake made by those wishing to accumulate wealth – deferring saving. This must be done immediately and continued until retirement. But the second most-impactful mistake is a related one, and that is saving too little. Also revealed in this survey is that these millionaire account owners saved an average of 24.6% of their income, including employer matches, across all of their various savings vehicles. This takes real discipline, but pays huge dividends. This percentage compares with a 13.5% savings rate for all plan participants. Those who have been longtime clients of ours know that we frequently advise participants to save until it hurts, and then squeeze out a little bit more. Your lifestyle today will accommodate this far more easily than the forced shock of not having done it will later. And this speaks nothing to the level of increased peace of mind of being on track.

Another common mistake is not taking advantage of employer matching. This is literally free money. Not participating, for whatever reason, when your employer will give you free money, is shortsighted. We would add that a related mistake to this is only deferring your own money to the limit of getting the maximum employer matching funds. This is an arbitrary limit placed by laws and has no bearing on any individual's need to amass a given amount to achieve his or her retirement goals. We have never, in over three decades in business, heard anyone enter retirement with the complaint that they have too much money saved up. But we often hear the reverse.

The next significant wealth-building mistake is being too cautious with investment allocations. To be sure, ensuring your account behavior doesn't keep you up at night with worry is important – that's why we have clients complete an investment profile – but depending on your circumstances, market volatility can be an advantage during the accumulation years in the form of strategies like dollar cost averaging. And, the younger you are, or the farther you are from needing to deplete your asset base, the more time you have to recover short-term losses. Market history reveals consistently that market declines have shorter lifespans and lose less value than bull market periods last and make gains. This is why the market continually reaches new highs. Biasing your allocation to equities over fixed income, and even into the more aggressive equity classes, will pay a higher long-term return, even if that does come with more of a roller coaster ride.

Finally, don't raid the cookie jar. Removing funds in the form of loans and distributions can have disastrous results. This displaced money does not grow and won't be there for your retirement needs. Even in the case of paid-back loans, value is forever lost in the form of foregone gains, and in the case of distributions that includes the principal and taxes paid, which may even be exacerbated by additional penalties. Keep your balance in your account to maximize success.

"In preparing for battle, I have always found that plans are useless but planning is indispensable."
- General Dwight David Eisenhower

Pursuant to SEC Rule 204-3 (C) of the Investment Advisors Act of 1940, we hereby offer, without cost, a copy of our "Disclosure Statement", Form ADV Part II, which is the document attached to your copy of our Service Agreement. Please e-mail us, or mail us, a written request if you'd like another copy and we'll send it in February after we update our annual filing. Also, in conformance with Regulation S-P of the Gramm-Leach-Bliley Act, we are required to provide annual notice of our Privacy Policy. Our policy is posted to our website, and is mailed to each client.

ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we specialize in portfolio management, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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