SEELEY HOWARD

# FINANCIAL STRATEGIES FOR SUCCESS

## QUARTERLY OVERVIEW

# QUARTERLY OVERVIEW

US stocks posted their fifth consecutive quarter of gains, buoyed by initial vaccination rollout and a broad-based economic recovery. Recent trading appeared to have a different tone than the first part of the year, however, as investors try to decipher what lies ahead on the growth and inflation front, not to mention COVID. This has manifested in a tug-of-war between the technology and growth stock darlings of the past decade (and especially the quarantine) and the "reopening" trade, replete with financials, energy, industrials, and commodities.

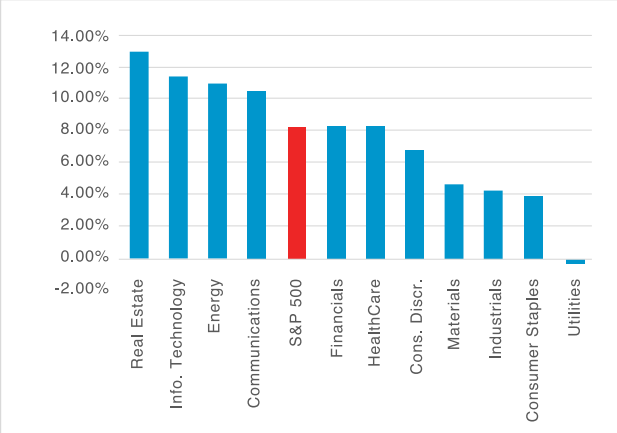
On several fronts, we are in uncharted territory, as the economy will undoubtedly slow considerably over the next few quarters, albeit to historically high levels. This backdrop of decelerating growth, coupled with the bounce in COVID cases globally, has many investors concerned that further gains in the market could prove elusive. We continue to see recent market action as a relatively normal development for this stage of the cycle; indeed, the one-sided gains seen over much of the past 18-months are the anomaly.

*On several fronts, we are in uncharted territory*

For the first six months of the year, the broad-based S&P 500 climbed 14.41%, outperforming the 12.93% gain for the technology-laden Nasdaq 100. The bluechip Dow Jones Industrial Average climbed 13.74% for the period. For the quarter, the S&P 500 climbed 8.17% on a total return basis and was bested by the Nasdaq 100, which jumped 11.18% during the period. Growth stocks played catch-up during the quarter, handily outperforming Value. The Russell 1000 Value climbed 5.05%, while the Russell 1000 Growth climbed 11.83%. Cyclical sectors generally continued to lead in the second quarter as the economic recovery gained momentum, though technology surged after a weak start to the year. Ten out of eleven S&P 500 sectors posted gains, with Utilities posting the only negative return.

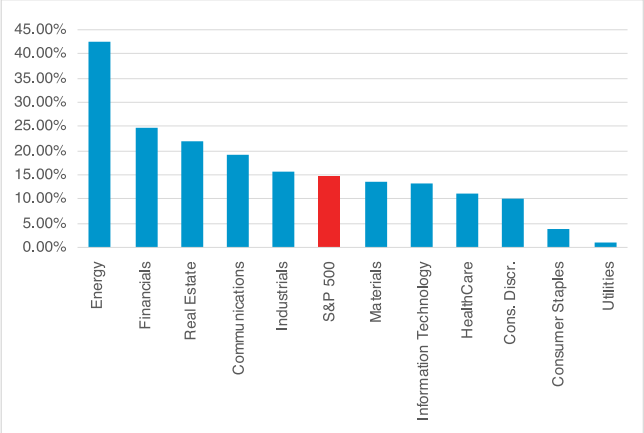
Interest rates stabilized during the quarter, helping long-term Treasuries recover nearly half of their year-to-date losses. The iShares 20+ Year Treasury Bond ETF remains down more than 3.7% year-to-date and has lost more than 10% year over year.

**SECOND QUARTER S&P SECTOR PERFORMANCE**




**Source:** Koyfin.com

**S&P 500 SECTOR RETURN (YTD THROUGH JUNE 30, 2021)**



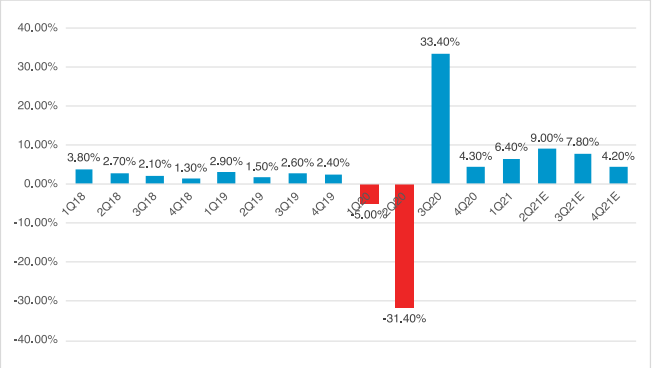

**Source:** Koyfin.com

## THE ECONOMY: IS THE BOND MARKET THERMOSTAT BROKEN?

*Growth has likely peaked, but inflation may prove more stubborn.*

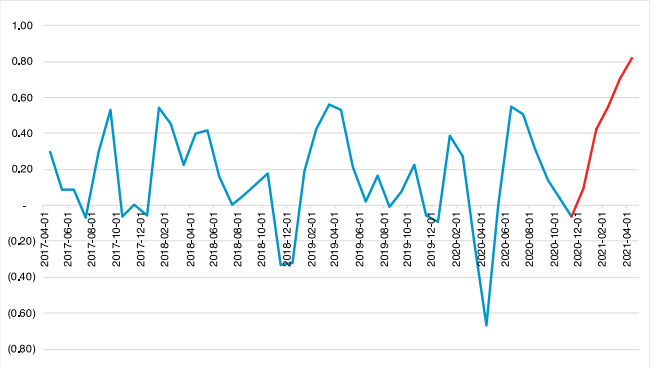
The rally since March in Treasury bonds has sent yields near their lows for the year. Typically, this behavior serves as an indicator that growth may be poised to slow meaningfully. However, other indicators, such as tight labor markets, rising wages, and other high frequency data point to an economy growing well ahead of trend rates. Some point to the highly contagious Delta variant as having the potential to throw cold water on the strong growth outlook. We remain in the strong growth camp, as recent high frequency data is supporting continued above-trend growth for the balance of this year into 2022. We do acknowledge that the rate of growth has likely peaked, with tougher year-over-year comparisons and other data, including recent capital expenditure surveys, showing a deceleration to still strong numbers. In our view, the reopening is likely to continue in the US, driving higher spending from flush consumers. Businesses remain well positioned (with strong cash balances and access to funding), which should drive continued strength in hiring and propel further growth in capital spending. Strong demand and tight labor markets will likely drive wage costs higher and drive unemployment rate back to pre-Covid levels sooner than some expect. We are likely to see more sustained inflation pressures, even as growth slows. Our work points to an acceleration in inflation over the next few quarters.

**US REAL GDP QOQ SAAR**




**Source:** FederalReserve.gov

**CPI TOTAL ALL ITEMS FOR UNITED STATES**




**Source:** FederalReserve.gov

## BOTTLENECKS AND LABOR SHORTAGES

A reasonably successful vaccination effort in many regions has allowed the domestic economy to accelerate the reopening process; however, restarting the economy is far more complicated a process than the shutdown was. To complicate matters, the highly-contagious delta variant, coupled with low vaccine rates in many parts of the country, means that case counts this summer are considerably higher than they were last year at this time. Corporations are also dealing with supply chain issues (i.e., semi-conductors, air cargo, lumber) and significant reports of labor shortages. There is heightened focus on the role supplemental unemployment benefits might be playing on filling job vacancies. More than two dozen states have already ended supplemental benefits, and overall, those states have seen a slightly faster decline in continuing claims. If the pace of the strong June employment report can be extended for another four months, the U.S. will have dealt with half of the job loss from Covid-19. There are FOMC participants who would view this labor market improvement as a reason to begin a gradual tapering of the Fed's longer-term assets purchases, reducing the economy's reliance on Quantitative Easing over time.

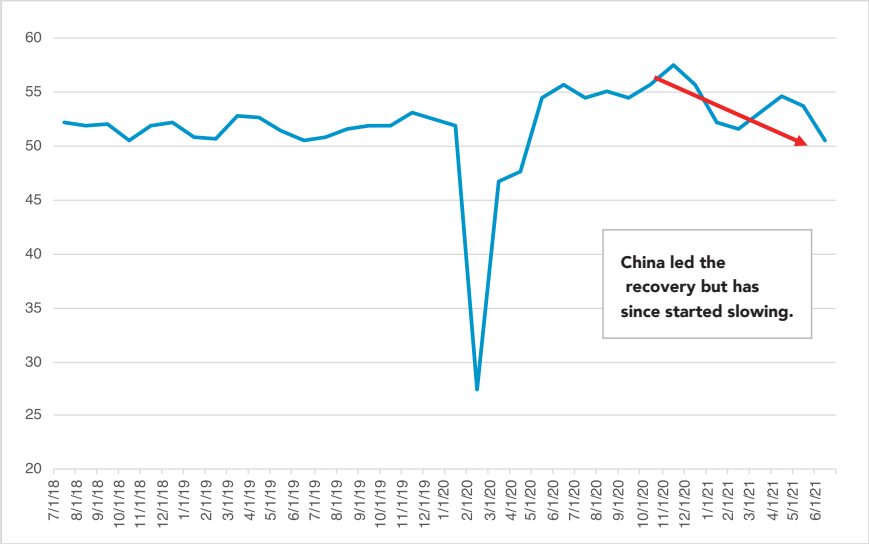
*Restarting the ecomony is much more complicated than shutting it down.*

At their June and July meetings, the Fed indicated that short-term interest rate hikes could begin sooner than many anticipated, leaving some investors unsettled. What's important to remember is that rate hikes are a normal part of any economic cycle. No one can predict with certainty when the Fed will begin tightening, but a well-timed Fed rate hike would not prevent further gains for the market, particularly if the economic recovery is on track and the consumer remains strong.

# BEYOND OUR SHORES

After several quarters of accelerating economic and earnings growth around the world, we have begun to see more heterogeneity in global markets. China, which led the globe into and out of the pandemic, now faces tougher comparisons and slowing growth. Europe, which surged out of the pandemic now looks more bifurcated with countries like Spain expected to show slowing growth, while Germany and Switzerland look better positioned. During the second quarter, Emerging Markets faced a more challenging environment, with resurgent COVID cases, a stronger dollar, and mixed economic data dampening sentiment. We continue to believe that individual opportunities will continue to exist beyond our shores and utilize a combination of macroeconomic research and strong, experienced fund managers to identify them.

**CHINA COMPOSITE PURCHASING MANAGERS INDEX**




**Source:** Koyfin.com

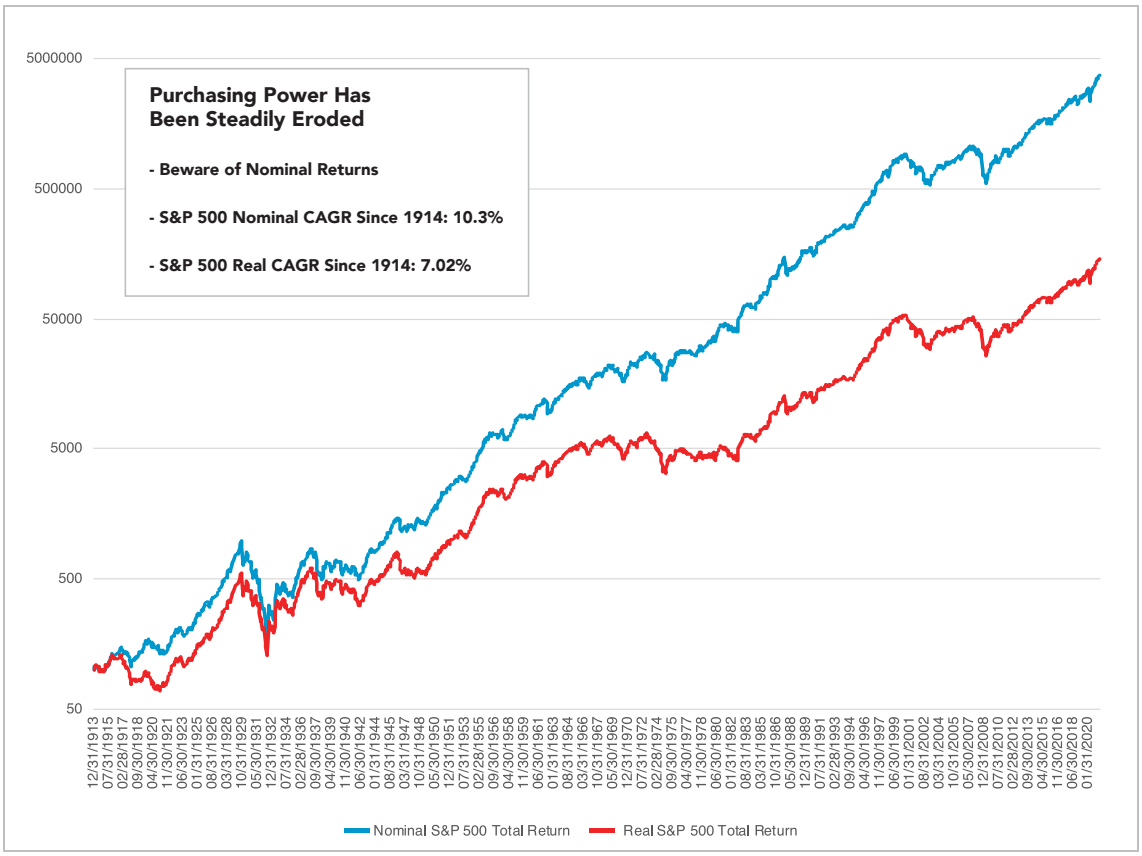
## CHRIS SEELEY

Christopher J. Seeley has been advising private and corporate clients since 2002 with a single purpose–to help them reach their financial goals by providing an unparalleled level of service, advice and accessibility. Chris has grown his practice by listening to clients and focusing on their unique needs. This approach has helped them grow their assets, address any challenges, and secure their legacies. Chris specializes in inter-generational wealth transfers, estate planning, and preparing clients for retirement.

Chris began his career as a Financial Advisor at UBS Paine Webber in Boston and Smith Barney in Springfield. Chris graduated with B.A. in Philosophy from George Washington University. He holds the Series 7 and 66 licenses and is registered in 44 states. He has offices in Washington, D.C., Boston, and Springfield.

*what you see is not always what you get.*

**S&P NOMINAL VS. REAL TOTAL RETURN**




**Source:** Standard & Poors

## STEVE HOWARD

Steven T. Howard joined the firm following a 20-year career creating and managing client portfolios at Morgan Stanley and predecessor companies. As a Managing Director based in New York, he focused his attention on helping high net worth individuals build and preserve wealth using a disciplined, process-based approach to investing. Steve has also held various strategy and research positions within Citigroup.

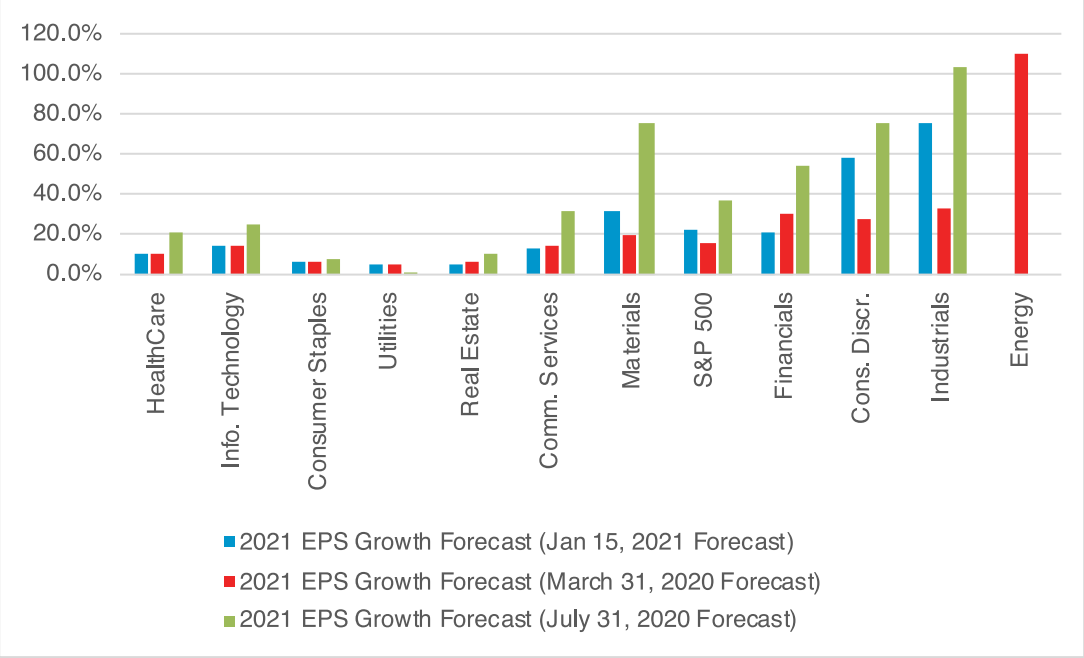
He spent two years managing the Citi Private Client Investment Strategy team in London and worked as the financial services strategist for Smith Barney in New York. He received an M.B.A. degree in Accounting and Finance from New York University's Stern School of Business. Steve's background in portfolio management, asset allocation, and macroeconomics dovetail well with the team's client-first approach to wealth management.

## EARNINGS & VALUATION

After six quarters of looking past disappointing earnings, investors now appear ready to scrutinize and penalize weaker-than-expected numbers and have largely even failed to reward those that handily exceed posted forecasts. The muted reaction to solid earnings raises the question of how much further the stock market can advance and whether stock prices have seen their peak. Current valuations do appear elevated relative to history, but by and large, they remain attractive relative to underlying company fundamentals, positive earnings announcements, growth potential and interest rates. Beneath the surface, we have seen unprecedented changes to the economy, with innovative business strategies enabling small entrepreneurs to build their own businesses more quickly and for more established companies to reinvent themselves. Growth companies often reinvest in future products and markets, thereby understating traditional earnings metrics. At the same time, it should be noted that we see pockets of overenthusiasm and overvaluation.

Based on numbers compiled by Factset, analysts continue to ratchet estimates higher, which stands in contrast to the typical trend of tamping down expectations throughout the year. As of July 16th, analysts predict calendar year earnings to climb 36.7% for 2021, up from the 25.9% figure when we published our last quarterly. The forward 12-month P/E ratio stands at just over 21.4x.

**S&P 500 SECTOR EARNINGS GROWTH ESTIMATES**




**Source:** Standard & Poors

# THE ROAD AHEAD

Looking ahead to the rest of the year, we see the potential for periods of heightened volatility and more "sideways" markets. Economic growth should remain quite strong relative to the trend seen over the past few decades. However, as we discussed last quarter, the market often cares less about the aggregate level of growth and more about whether things are accelerating or decelerating. And we are not alone in forecasting a marked slowdown in growth in the coming quarters.

*The antidote to slowing growth is patience and a disciplined investment process.*

With asset prices up substantially over the past 18 months, there is also the potential for equities to be more susceptible to some of the issues it has thus far largely shrugged off – earnings disappointments, rising inflation readings, the potential for less support from the Federal Reserve, and a resurgence in COVID cases.

This begs the question of what the antidote is to slowing growth. First, patience is generally rewarded, as these periods tend to be transitory. Second, our process-based framework can help tip the scales by overweighting regions, assets, and sectors that tend to outperform during periods of slowing growth, including areas like Real Estate, HealthCare, and Technology. Finally, we believe the slowing growth backdrop will generally reward those companies that can themselves show accelerating revenue and earnings growth. The fund managers we utilize continue to identify well-priced opportunities across asset classes, market caps, industries and geographies. These include long-term secular growers as well as beneficiaries of economic reopening. These tend to be well-run businesses with sustainable growth prospects.

If 2020 taught market participants anything, it is that powerful shocks can occur with more regularity than the models would suggest. But the recent past has also helped solidify the view that a long-term perspective can keep us from making emotional choices at the wrong time. Looking at the day-to-day volatility (even now) is a good way to have sleepless nights and sub-optimal investment returns. At the same time, we need to assess where we stand in the economic cycle and where the best opportunities should lie. As we have seen several times since the recovery began, there will be bumps along the way to full economic recovery. Remember to stay the course and keep investing decisions focused on individual timelines, long-term goals, and risk tolerance.

## POTENTIAL POSITIVES FOR THE MARKET

- The pace and breadth of the Federal Reserve's intervention helped stabilize financial markets and restore confidence.
- As restrictions ease, a "return to normalcy" could lead to strong economic and earnings growth
- Strong vaccine availability in the US has led to over 350 million doses being administered
- Household net worth remains near a record high for the U.S. boosted by stock market gains and rising house prices
- Interest rates remain low around the world
- Corporate default rates remain low
- Economic data show continued signs of acceleration
- Upward Corporate Earnings revisions at U.S. companies have never been higher – this supports the view that many analysts see the impact of the coronavirus as temporary
- Household balance sheets are in the best shape in decades

## POTENTIAL NEGATIVES FOR THE MARKET

- Questions abound about the ability to maintain growth without outsized help from the Federal Reserve
- Despite the pace of recent hiring, unemployment remains quite elevated
- Many areas of the world have not enjoyed access to vaccines and are coping with record Coronavirus cases
- Rising interest rates could dampen loan demand and curtail the current housing boom
- Low interest rates are a function of cyclical headwinds along with demographic challenges
- Overall corporate debt levels stand at historic highs
- Tariffs have created uncertainty for corporate decision-makers and it has shown up in recent industrial data
- Record deficits raise questions about financial stability and the need for future growth dampening austerity
- Fickle investors may be put off by strong but decelerating growth in the second half of 2021


## WE ANSWER SOME OF THE MOST ASKED QUESTIONS FROM OUR CLIENTS

We have an extremely diverse group of clients – a wide range of backgrounds, political beliefs, and income levels. We enjoy our conversations with every one of them and are always learning from them. Despite these often trivial differences, we also tend to see a lot of similarities. Everyone just wants to make sure they are in a position to protect their families and their livelihood. During our conversations, we begin to detect certain themes and patterns – some driven by biases common to all humans, others from the 24-news cycle looking for something to engage viewers. In this section, we attempt to discuss some of the main issues on the minds of our clients.

## SHOULD I JUMP INTO THE LATEST INVESTING TREND

Judging by the increased call volume at the (home) office about certain "hot" areas of the market (electric vehicles, cryptocurrencies, meme stocks, marijuana stocks, and the like), we believe FOMO is spreading rapidly. FOMO is the Fear of Missing Out, and it rears its head at certain points of every market cycle. Based on our experience, jumping from trend to trend is easier said than done. That's not to say that there isn't money to be made – particularly in the current "risk-on" environment. However, we see some of these trends as either unsustainable or already reflecting a best-case outcome. We see many parallels with past periods of optimism, but we also see some notable differences. For instance, technology has enabled businesses to rapidly scale their operations with lower costs and larger addressable markets. Valuations, however, do ultimately matter, as does diversification. Highly volatile securities should be sized much smaller than those that exhibit more price stability, in our view.

## ARE THE BEST DAYS BEHIND US?

Given the market's gains since March of 2020, the stubborn nature of the virus, concerns about deficits, and the potential for slowing economic growth over the next year, it comes as no surprise that clients have begun asking about whether we should be bracing for a substantial pullback. To that end, it's true that the market has seemed to encounter that "100-year storm" about every decade (way more frequently than the statistics would indicate).

After the rapid declines seen in March of 2020 and in 2008 and 2009, it's quite understandable that investors could be anchored on the next pullback being the big one. Clients would not be wrong to say "we are due" for a pullback. Indeed, corrections (a move of 10% from the last all-time high) have occurred with surprising regularity over the past 100 years. We did see our correction in February, but we have not seen anything approaching 5% since then. To illustrate the volatile nature of financial markets, the strategists at Schwab took a look at intra-year stock market declines over the 20-year period from 2000–2019. A decline of at least 10% occurred in 11 out of 20 years, or 55% of the time, with an average pullback of 15%. And in two additional years, the decline was just short of 10%. Despite these pullbacks, however, stocks rose in most years, with positive returns in all but five years and an average gain of approximately 6%.

For equity markets to exhibit a significant drawdown (always possible), we believe we would need to see a number of things unfold. First, economic growth would have to slow meaningfully faster than currently forecast. Second, we believe that some sort of chain reaction in the credit markets – likely a result of the economy re-closing as a result of a further evolution of the virus. Third, investors would need to lose confidence in the Federal Reserve's ability to maintain price stability. We see limited potential for these scenarios to play out, but the probability isn't zero either. This means different things to different people. For clients with excess cash who are waiting for a drop to get invested, we caution that market timing is very difficult. For clients, however, who don't have the luxury of time on their side—due to age, change of circumstances, or the need for liquidity—we think the bounce in equities makes now a great time to review goals, change allocations, and potentially lower portfolio volatility.

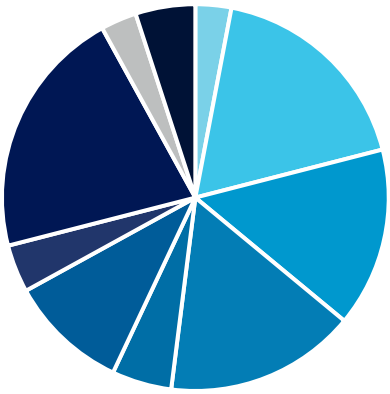
## AM I STILL ON TRACK TO MEET MY FINANCIAL GOALS?

As fiduciaries, we customize client portfolios to meet their specific investing goals and cash flow needs. We factor in expected (and unexpected) volatility into that plan. If 2020 taught us anything, it's that bad stuff happens but it generally proves temporary. Asset prices have rebounded significantly from the March lows, and future gains will be unlikely to match the pace seen over the past 18 months. With valuations elevated and interest rates at historically low levels, it does raise questions about where we go from here, particularly if you historically relied on safe, income-producing bonds. The low interest rate environment means that investors must work considerably harder to generate the same income stream they would have in the past without taking on considerably more risk. We have spent considerable time identifying potential safe income solutions. Call us to schedule a meeting to discuss how we can help you build an income-oriented portfolio.

# SEELEY HOWARD TACTICAL ASSET ALLOCATION FRAMEWORK

**Model** **Strategic**

| 1. Conservative | Asset Type | 100% | Rep. Holding |
|---|---|---|---|
| Preferreds | Equity | 3% | BAC PR L |
| Liquid Alternatives - Mortgage Fund | Fixed Income | 18% | RFXIX |
| Tactical/Capital Preservation Bond | Fixed Income | 15% | STBJX |
| Specialty - Market Neutral | Alt. Investment | 16% | CMNIX |
| Liquid Alternatives - Income Fund | Equity | 5% | EOI |
| Domestic Large Cap Growth | Equity | 10% | HGIYX |
| US Gov't Inflation Protection | Fixed Income | 4% | TIP |
| Domestic Balanced | Balanced | 21% | AMBFX |
| Cash Equivalents | Cash | 3% | FDXCASH |
| Specialty - Utilities | Equity | 5% | VPU |

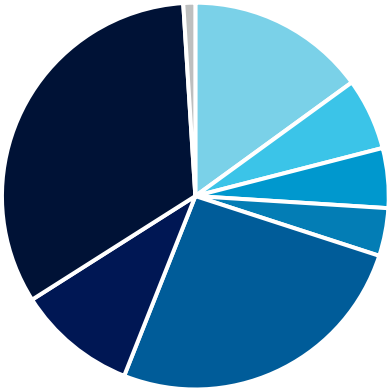


**Model** **Strategic**

| 2. Moderate Conservative | Asset Type | 100% | Rep. Holding |
|---|---|---|---|
| Liquid Alternatives - Mortgage Fund | Fixed Income | 15% | RFXIX |
| Tactical/Capital Preservation Bond | Fixed Income | 10% | STBJX |
| Specialty - Market Neutral | Alt. Investment | 11% | CMNIX |
| Liquid Alternatives - Income Fund | Equity | 6% | EOI |
| Domestic Large Cap Growth | Equity | 10% | HGIYX |
| US Gov't Inflation Protection | Fixed Income | 5% | TIP |
| Domestic Large Cap Growth | Equity | 7% | VIG |
| Domestic Balanced | Balanced | 28% | AMBFX |
| Cash Equivalents | Cash | 2% | FDXCASH |
| Specialty - Natural Res | Alt. Investment | 2% | HRSTX |
| Domestic Balanced | Balanced | 4% | CKKRX |

**Model** **Strategic**

| 3 . Balanced | Asset Type | 100% | Rep. Holding |
|---|---|---|---|
| Liquid Alternatives - Mortgage Fund | Fixed Income | 15% | RFXIX |
| Tactical/Capital Preservation Bond | Fixed Income | 6% | STBJX |
| Specialty - Market Neutral | Alt. Investment | 5% | CMNIX |
| Liquid Alternatives - Income Fund | Equity | 4% | EOI |
| Domestic Large Cap Growth | Equity | 26% | HGIYX |
| Domestic Large Cap Growth | Equity | 10% | VIG |
| Domestic Balanced | Balanced | 33% | AMBFX |
| Cash Equivalents | Cash | 1% | FDXCASH |

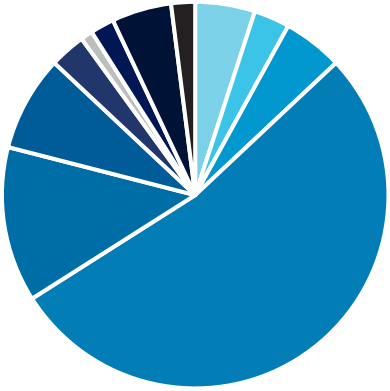


The models advertised herein are not designed based on the individual needs of any one specific client or investor. In other words, it is not a customized strategy designed on the specific financial circumstances of the client. You are also provided the opportunity to place reasonable restrictions on the securities held in your account. Investing involves risk. Depending on the types of investments, there may be varying degrees of risk. Investors should be prepared to bear losses, including total loss of principal.

# SEELEY HOWARD TACTICAL ASSET ALLOCATION FRAMEWORK

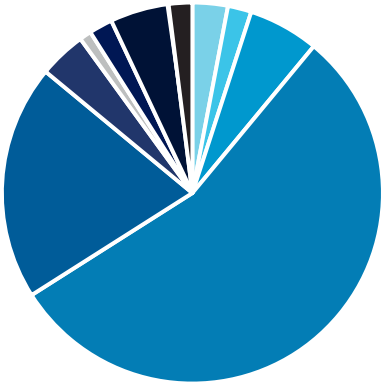
**Model** **Strategic**

| 4. Opportunistic Growth | Asset Type | 100% | Rep. Holding |
|---|---|---|---|
| Liquid Alternatives - Mortgage Fund | Fixed Income | 5% | RFXIX |
| Specialty - Market Neutral | Alt. Investment | 3% | CMNIX |
| Domestic Small Cap Growth | Equity | 5% | OGGFX |
| Domestic Large Cap Growth | Equity | 53% | HGIYX |
| Domestic Large Cap Growth | Equity | 13% | VIG |
| Domestic Balanced | Balanced | 8% | AMBFX |
| Specialty - Health | Equity | 3% | IBB |
| Cash Equivalents | Cash | 1% | FDXCASH |
| Specialty - REITS | Alt. Investment | 2% | XLRE |
| Emerging Markets | Equity | 5% | JEMSX |
| Specialty - Technology | Equity | 2% | XLK |



**Model** **Strategic**

| 5. Absolute Return | Asset Type | 100% | Rep. Holding |
|---|---|---|---|
| Liquid Alternatives - Mortgage Fund | Fixed Income | 3% | RFXIX |
| Specialty - Market Neutral | Alt. Investment | 2% | CMNIX |
| Domestic Small Cap Growth | Equity | 6% | OGGFX |
| Domestic Large Cap Growth | Equity | 55% | HGIYX |
| Domestic Large Cap Growth | Equity | 20% | VIG |
| Specialty - Health | Equity | 4% | IBB |
| Cash Equivalents | Cash | 1% | FDXCASH |
| Specialty - REITS | Alt. Investment | 2% | XLRE |
| Emerging Markets | Equity | 5% | JEMSX |
| Specialty - Technology | Equity | 2% | XLK |



**Model** **Strategic**

| 6. Low Volatility | Asset Type | 100% | Rep. Holding |
|---|---|---|---|
| Liquid Alternatives - Mortgage Fund | Fixed Income | 20% | RFXIX |
| Tactical/Capital Preservation Bond | Fixed Income | 20% | STBJX |
| Specialty - Market Neutral | Alt. Investment | 7% | CMNIX |
| Cash Equivalents | Cash | 5% | VMSXX |
| Domestic Equity | Equity | 5% | EOI |
| Domestic Equity | Equity | 4% | MCI |
| Domestic Equity | Equity | 4% | BST |
| Specialty - Senior Secured Debt | Fixed Income | 5% | CADUX |
| Specialty - Market Neutral | Alt. Investment | 5% | ETW |
| Domestic Equity | Equity | 4% | BME |
| US Gov't Inflation Protection | Fixed Income | 5% | VTIP |
| Domestic Balanced | Balanced | 6% | CKKRX |
| Liquid Alternatives – Options | Alt. Investment | 10% | HRSTX |

# OUR SERVICES

## FINANCIAL PLANNING

Cash Management and Investments
Retirement Planning and 401(k)
Stocks, Bonds, Mutual Funds
529 College Savings Plan
Insurance and Annuities

## INSURANCE SERVICES

Term Life Insurance
Permanent Life Insurance
Care Insurance

## SETTLEMENT PLANNING

Comprehensive Settlement Valuation
Mediation Support
Personalized Needs Analysis and Structured Settlement Design
Availability To Assist Both Claimants and Defendants

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