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2021 OUTLOOK Q1

INFLATION: NECESSITY OR RISK? AND WHAT SHOULD WE DO?

By Kevin Kelly, CFA

Have you ever had a flat? Re-inflating the tire is a good thing!

Ever over-inflated a tire? Or a balloon? Not so good!

Coming off the severe economic disruption from the early months of the COVID pandemic, you could justifiably argue that daily commerce had a flat tire—or four!

Never fear! Our duly elected leaders in Washington of BOTH parties were ready to help—a few trillion dollars in stimulus payments ought to do the trick!

A classic characterization of economic inflation, or its cause, is “too many dollars chasing too few goods.”

Of course, it is never quite that simple.

While “Money Supply” has increased measurably from this time one year ago, significant slack remains in our U.S. economy such that the “Velocity of Money,” or how frequently a dollar changes hands, has plummeted from the pre-pandemic rate. Both have an influence on inflation. (Federal Reserve Economic Data, FRED, March 2021.)

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Anecdotally, we can point to price increases in housing, automobiles, some groceries, and fill-in-the-blank-here based on your personal experience. Asset prices have increased as reflected by the stock market. Producer Price Indexes have surged, but this may not sustain as supply chains recover and stabilize. The value of a dollar is on a downward trend compared to many foreign currencies. The “breakeven inflation rate” indicated by the U.S. Treasury bond market suggests a 10-year rate of inflation approaching 2.4%, the highest this indicator has been in about eight years. (FRED, March 2021.)

But “what to do” quickly becomes the punchline, whether you anticipate inflation or not.

SJS professionals believe economic inflation is a real risk—the other edge of the sword in contrast to the risk of stock-market volatility that is so often referenced in investment-risk discussions.

A primary motivation for taking investment risk to begin with is to maintain and grow the purchasing power of your assets. With cash deposits receiving close to a zero-percent rate of return, a general inflation rate of 2.4% will erode your purchasing power in a meaningful way over a period of years unless you invest beyond cash.

We recently “benchmarked” our model portfolios against the Consumer Price Index to demonstrate this inflation-beating characteristic of our investment strategies.

Historical Return Characteristics

MarketPlus® Portfolio Investment Returns
Periodic Performance As of 2/28/2021



	Last 3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years	Since Common Inception (7/1/1995) - 2/28/2021
MarketPlus All Equity Portfolio - Net 110	9.86	4.16	28.39	8.07	12.29	8.27	8.01	8.62
MarketPlus 80/20 Portfolio - Net 110	7.66	3.02	23.41	7.39	10.37	7.09	7.13	7.74
MarketPlus 60/40 Portfolio - Net 110	5.52	1.94	18.00	6.42	8.31	5.90	6.11	6.72
MarketPlus 40/60 Portfolio - Net 110	3.41	0.87	12.57	5.29	6.29	4.61	4.98	5.60
MarketPlus 20/80 Portfolio - Net 110	1.33	-0.17	7.07	3.98	4.22	3.26	3.73	4.37
MarketPlus All Fixed Income Portfolio - Net 110	-1.01	-1.36	0.66	2.43	1.88	1.62	2.32	2.99
CPI Inflation	0.86	0.61	1.68	1.82	2.09	1.72	2.03	2.15

See Important Disclosure Information.

Your MarketPlus Investing® design has allocations to inflation-adjusted bonds and inflation-hedging stocks for environments such as our current one. No hedge or adjustment is perfect, and inflation can put stress on your household budget no matter what. But as “professional worriers,” planners, and managers, your team at SJS has anticipated inflation and works daily on your behalf to align your investments with current valuations, our outlook on the markets, and your best interests.

We can all agree that a flat tire or a stalled economy is not a desirable state of affairs. Let’s hope the government stimulus spending, a resurgent economy, and inflationary dynamics find the right balance and keep us on a steady road of progress in the quarters and years ahead!

Important Disclosure Information:

Benchmark: CPI Inflation - U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average.

Past performance does not guarantee future results.

SJS Investment Services (SJS) has created hypothetical performance returns for each of its MarketPlus® Asset Allocation Models. The hypothetical performance was calculated by applying the actual performance of a mutual fund to the asset class percentage within a MarketPlus® Asset Allocation Model. The Model Portfolio Historic Returns do not reflect actual trading or the performance of actual accounts. Actual client results may be materially different than the hypothetical returns. All returns presented include reinvestment of dividends and other earnings. The hypothetical results presented reflect the deduction of a 1.10% annual SJS advisory fee, the maximum fee charged. Advisory fee may be less than illustrated. Performance may be reduced by other fees charged by your custodian. The effect of fees and expenses on performance will vary with the relative size of the fee and account performance. Please refer to Part 2A of SJS' Form ADV for additional information on SJS' advisory fees.

There are inherent risks in the presentation of hypothetical performance data because the data may not reflect the impact of material economic and market factors. The results presented reflect the effect that material market and economic conditions had on the actual performance of the underlying mutual funds but does not reflect the impact that these factors might have had on decision-making.

THE CASE FOR INTERNATIONAL DIVERSIFICATION

By Jennifer Smiljanich, CFP®

We believe that diversification is one of the foundational principles of investing. While many of us might have a favorite stock or two, it is not ideal for most of us to invest in just a few names or in particular parts of the market, such as sectors, countries, or regions. While concentrating portfolios may certainly be a way to create wealth, it also concentrates risk.

Rather, if your concern is to protect your investments, reducing risk by investing across a broad spectrum of asset types may be the better strategy. American film producer Jerry Bruckheimer may have said it best: "I mean, if you put all of your eggs in one basket, boy, and that thing blows up, you've got a real problem."¹

Filmmaking aside, as investors, we know that it is difficult to be able to predict the best part of the market to invest in over any length of time. Case in point, who would have predicted the strong U.S. stock market performance of 2020, especially if we go back to March of last year?² While history has shown that U.S. stock markets (as represented by the S&P 500 Index) have handily outperformed international developed markets (as represented by the MSCI

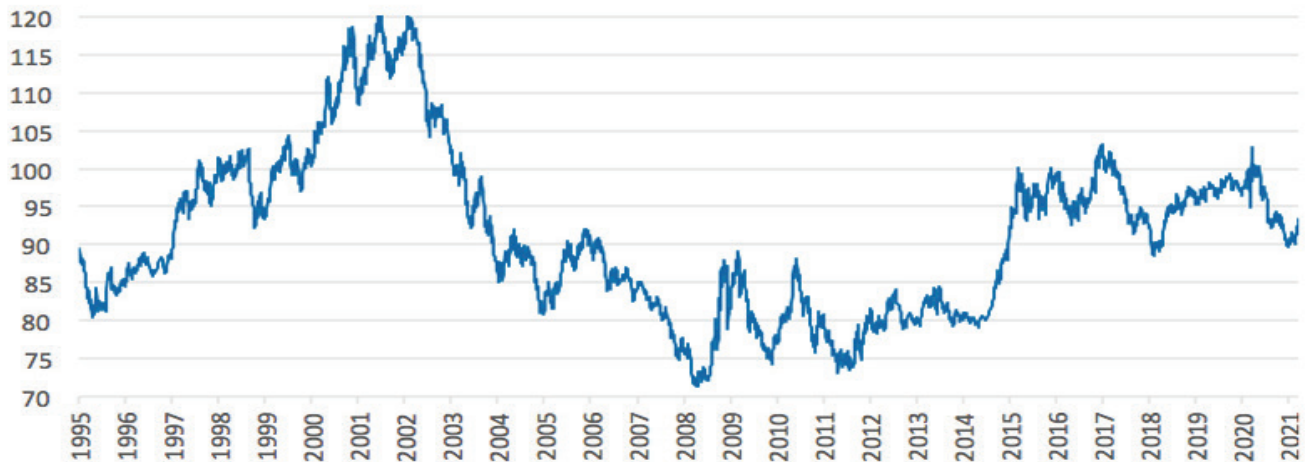
EAFE Index) in nine of the last 11 calendar years, we may be due for a sea change. From 2002 to 2009, it was international stock markets that outpaced U.S. stock markets.²

Another potential benefit of global diversification is exposure to different currencies. Diversified currency exposure can protect your portfolio from unexpected risks, such as inflation. Given the start of a weakening dollar, international markets might again take the lead in the performance race. When the U.S. dollar weakens, international stocks are worth more in U.S. dollar terms. This was generally true from 2001 to 2010, when the international markets last experienced their stretch of outperformance.³

YEAR	S&P 500®	MSCI EAFE	
	Index	Index	
1995	37.6	11.2	S&P 500® outperformed 6 out of 7 years
1996	23.0	6.1	
1997	33.4	1.8	
1998	28.6	20.0	
1999	21.0	27.0	
2000	-9.1	-14.2	
2001	-11.9	-21.4	
2002	-22.1	-15.9	MSCI EAFE outperformed 7 out of 8 years
2003	28.7	38.6	
2004	10.9	20.3	
2005	4.9	13.5	
2006	15.8	26.3	
2007	5.5	11.2	
2008	-37.0	-48.4	
2009	26.5	31.8	
2010	15.1	7.8	S&P 500® outperformed 9 out of 11 years
2011	2.1	-12.1	
2012	16.0	17.3	
2013	32.4	22.8	
2014	13.7	-4.9	
2015	1.4	-0.8	
2016	12.0	1.0	
2017	21.8	25.0	
2018	-4.4	-13.8	
2019	31.5	22.0	
2020	18.4	7.8	

Source: Morningstar, as of 31-Dec-2020.
See Important Disclosure Information²

U.S. Dollar Index (DXY)



Source: "U.S. Dollar Index (DXY)." Wall Street Journal, 30-Mar-2021, wsj.com. See Important Disclosure Information.³

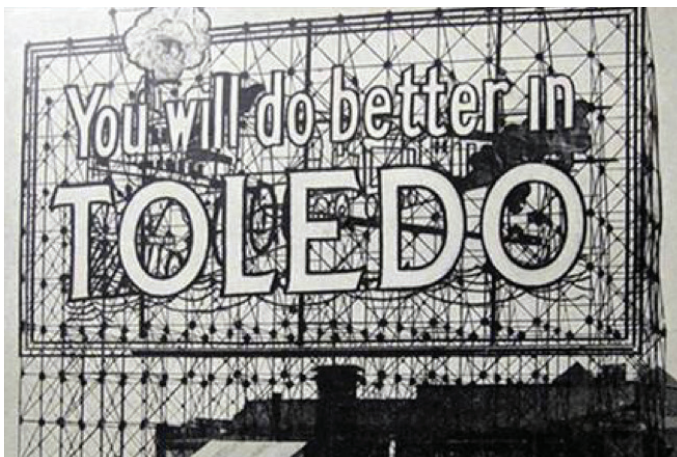
As we enter the modified "Awards Season," cinema buffs may recall that the 2020 Oscar for Best Picture went to the foreign film *Parasite*, which became the first non-English language film to win the Academy Award for Best Picture.⁴ Could this be a coincidental foreshadowing of what's to come in the markets? We'll have to wait and see what the envelope holds! But know that you can sit back, relax, and enjoy the show, knowing that your MarketPlus Portfolio is well diversified and strives to be positioned for whatever the future brings.

Important Disclosure Information and Sources:

1. "Jerry Bruckheimer Quotes." quote.org.
2. Morningstar, as of 31-Dec-2020. The S&P 500 Index is a free float-adjusted market-capitalization-weighted index of 500 of the largest publicly traded companies in the United States. The MSCI EAFE GR USD Index is a free float-adjusted market-capitalization-weighted index that measures the performance of the large and mid cap segments of developed markets, excluding the US & Canada equity securities.
3. "U.S. Dollar Index (DXY)." Wall Street Journal, 30-Mar-2021, wsj.com. The U.S. Dollar Index (USD, DXY, DX) is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.
4. "Parasite (2019 film)." Wikipedia, en.wikipedia.org.

There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results. Diversification neither assures a profit nor guarantees against a loss in a declining market.

MarketPlus Investing® models consist of institutional quality registered investment companies. Investment values will fluctuate, and shares, when redeemed, may be worth more or less than original cost.



Source: Jupmode.com.

TOLEDO-MADE: GIFTS FROM THE 419

By Scott J. Savage

I love Toledo, Ohio. I love living here, I love the people here, and I love working here. I was born and raised in this area, and I have spent the majority of my adult life here. Most of my family still lives in the Toledo area, and two of my adult children decided to move back here even after going to college in other cities

(I am working on getting the other two to come back “home”). I enjoy my life here, and I don’t plan to leave anytime soon.

Toledo, also known as the Glass City, is in the early innings of a rebirth, a renaissance, making it a great place to live, work, and play. Toledo has so much to offer: small-town values where you know your neighbors’ names, affordable cost of living, the ability to get anywhere you want in less than 20 minutes. Toledo is home to a world-class zoo and art museum, dynamic universities, two strong health care systems, the most iconic brand in minor league sports, and the birthplace of the first commercially successful cadmium telluride solar cell technology. The Detroit Airport, which will take you anywhere you want to go in the world, is less than an hour away. And we have the best metropark system in the United States!^{1,2}

I feel that I owe a lot to Toledo. Whenever I meet someone from somewhere else and we start talking about our backgrounds, I talk glowingly about the Toledo area and my experiences growing up here. Most people tell me that I have a love and enthusiasm for my city that they rarely encounter. And yet I don’t feel I say anything odd—I genuinely love talking about Toledo.

When I go to an event such as a wedding, graduation ceremony, or birthday party for a family member or friend, I usually try to gift something from a business based in the Toledo area. There are so many great businesses in this area, and the least I can do is to support them. Below is a list of organizations and companies that I usually consider buying gifts from:

Sports and Outdoors

- Toledo Mud Hens Minor League Baseball
- Toledo Walleye Minor League Hockey
- Toledo Metroparks

Important Disclosure Information and Sources:

1. “Cadmium Telluride Photovoltaics.” Wikipedia, en.wikipedia.org.
2. “Metroparks Receives National Gold Medal Award.” Metroparks Toledo, metroparkstoledo.com.

Sciences

- Imagination Station
- Toledo Zoo & Aquarium
- Toledo Jeep Museum (Coming Soon)

Arts

- Toledo Museum of Art
- Valentine Theatre
- Stranahan Theater

Apparel and Merchandise

- Libbey Glass
- Carruth Studio
- Jupmode
- University of Toledo
- Bowling Green State University
- Owens Corning

Food and Drinks

- Spangler Candy Factory
- Mancy’s Restaurants
- Tony Packo’s
- Rudy’s Hotdog
- Marcos Pizza
- Chandler Café
- Holy Toledo
- Social Rind Co.
- Laperla Tortilla Factory
- Dei Fratelli
- Garlic Expressions
- Betty’s Dressing
- Christie’s Candies
- Maddie & Bella Coffee Roasters
- Toledo Spirits Company
- Inside the Five Brewing Company
- Maumee Bay Brewing
- The Heights

I hope that you enjoy the 419’s local businesses as much as I do.

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THANKS, IRS—HERE WE GO AGAIN!

By Jennifer Smiljanich, CFP®

The IRS recently announced a delay to the date for filing and making 2020 federal tax payments, from April 15 to May 17, 2021.¹ This change applies to individual returns.

While some states have adjusted their tax return filing and payment deadlines to match the new federal dates, each state is making its own decision. To see if your state has delayed its filing deadline, you may check the Federation of Tax Administrators website at <https://www.taxadmin.org/state-tax-agencies>.

For those of you who make estimated tax payments, payments will be due April 15. As always, please be sure to check in with your tax professional for guidance.

Also of interest, the IRS has extended the deadline to make individual retirement account (IRA and Roth IRA) contributions for tax year 2020 from April 15 to May 17, 2021.² This May 17 deadline also applies for 2020 contributions to health savings accounts (HSAs).²

If you have questions, please let us know. We are happy to help!

1. "Tax Day for Individuals Extended to May 17: Treasury, IRS Extend Filing and Payment Deadline." IRS, 17-Mar-2021, [irs.gov](https://www.irs.gov).

2. "IRS Extends IRA Contributions Deadline." Melanie Waddell, 29-Mar-2021, [thinkadvisor.com](https://www.thinkadvisor.com).



Source: IRSnews, 17-Mar-2021, twitter.com.

ABOUT SJS INVESTMENT SERVICES

SJS Investment Services has been serving as investment advisor and co-fiduciary for individuals, foundations, public entities, retirement plans, financial institutions and corporations since 1995 through our proprietary process called MarketPlus Investing.

With more than \$2.5 billion* in assets under management, we bring you major money center investment experience and a team of people whose small-town values put you first, all the time, every time.

*As of 12/31/2020

You come first.

All the time. Every time.™

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