SJS Investment Services

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2021 OUTLOOK Q3

THE SJS 100-YEAR VISION

By Scott Savage

When I started SJS 26 years ago, I had a big vision to better serve you, the investor and client: You should have a local choice that competes with the major money center Wall Street firms that were full of conflicts of interest that I experienced early in my career. You should be better served by a firm that combines major money center expertise with the small-town values that I grew up with right here in Sylvania, Ohio. Your SJS advisor should sit on the same side of the table as you so our interests would be aligned.

I am very proud to say that SJS celebrated its 26th anniversary in July 2021, and I feel we have achieved that initial vision. Our philosophy, practices, and clients have evolved over the past 26 years, but our fundamental principles have remained the same. We aim to do the right thing for you, all the time, every time. We want to give you the same investment experience that we would provide for our mothers and grandmothers. We want to help you and your family grow financially, and we want to enjoy the journey with you along the way.

I am happy to say that 26 years later, SJS is alive and well. And that is thanks to you, our client. Thank you for the confidence and trust you have placed in us. You have allowed us to continue to reinvest in the business and keep the organization on the leading edge in terms of people, resources, and technology.

INSIDE THIS ISSUE

And other firms have started to notice too. Over the last year, I have received many calls from other investment firms asking if I would be interested in selling SJS. And I always say no. I have no intention of selling SJS. I strongly believe that the heart of the business leaves at the closing table. The connection I have built with you and the strong sense of purpose in our work are much more important to me than the benefits of selling the business. I still love coming to work every day—maybe even more than 26 years ago—and I don't want that to change.

I want SJS to be a 100-year firm, serving multiple generations of your family and / or organization. We want to continue growing with you and those that rely on you, helping you evolve as the world continues to change. In order to build a 100-year firm, we have made significant investments in areas including:

TEAM

To serve our over 800 clients, we need a strong team. I believe that people are the most important factor in the longevity of a company, which is why we invest so much in finding the right team members. It has taken a village to build SJS, and it will take an even larger village going forward. Each team member brings their own personality and experiences to SJS, and we work together to provide you with the best experience we can. And our team is growing: We now have team members all across the country, from Sylvania to Chicago to Phoenix. I am proud of the work we do, and I would stack up the SJS Team with anyone, anywhere, anytime in terms of smarts, experience, and caring.

TECHNOLOGY

Twenty-six years ago, I could not have imagined all the technology we would be using today. I believe that SJS has been able to use technology to provide you with an increasingly better investment experience. Technology is changing rapidly, and to keep improving your experience, we invest heavily in areas including financial programs, cybersecurity, high-quality hardware, and tools for safekeeping your data and information.

CLIENT EXPERIENCE

The more we can improve your experience, the better. Whether speeding up the account opening and management process, providing you with better account access and accountability via your MySJS Portal, or improving your investment experience through evolving research and better implementation practices, we are trying to improve your overall experience each year. We are available via in-person visit, phone, email, or video conference to discuss what you want to talk about in the way that you want to talk about it. We want to be there for you any time you want or need our help.

We approach every day as learners, seeing each day with new eyes, not assuming we have all the answers. SJS will continue to evolve, but our fundamental principles will remain the same. Thank you for trusting us and for allowing us to be part of your journeys. We hope to serve you and future generations for the next 100 years.

THERE'S ALWAYS SOMETHING TO WORRY ABOUT

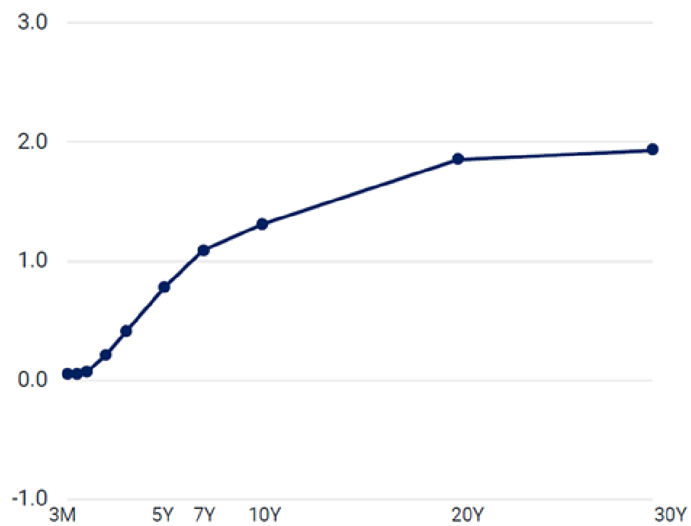
By Kirk Ludwig CFIP, AIF®

When it comes to the financial markets, there's always something to worry about. In today's "uncertain" market, people are worried about the COVID resurgence, stock market valuations, the long-term trend of inflation, the Fed's plans on monetary and fiscal policy, potential tax law changes, and debt ceiling negotiations. Many investors become so worried about risks and uncertainty that they sell out of the market.

Yet risk is the nature of markets, and that's a good thing! Can you imagine a stock market with nothing to worry about? It would essentially mean there would be no perceived risk for investors. What's the expected return for investments with little or no risk?

The One-Month Treasury Bill is considered one of the lowest-risk investments available in the public markets and carries an annual yield of 0.06% as of September 27, 2021.[1] In this case, the expected return for little or no perceived risk is near 0%. There's a simple rule in investing—risk and return are related! If you want return, there must be a level of risk you're willing to accept.

U.S. Treasury Yield Curve Over Time



Source: Avantis Investors, Bloomberg, as of 31-Aug-2021. The U.S. Treasury yield curve compares the yields of maturities from short-term Treasury bills (<1 year) to long-term Treasury notes and bonds (>10 years).

People dislike risk because they are worried about the uncertainty of the future. Yet from a broadly diversified investing perspective, the greater the uncertainty, the higher the risk. Investors expect to be appropriately compensated for accepting risk. An investor who owns a One-Month Treasury Bill understands there's very little to worry about when it comes to volatility and agrees to give up expected return for the comfort of safety. We want stock market investors to understand that while the value of their investments can drop rapidly at times, investors tend to benefit significantly from this risk in stocks over the long run.

For example, when COVID-19 started spreading in the U.S., the S&P 500 fell roughly 34% from February 19, 2020, through March 23, 2020.[2] Even before the United States reached its highest spike in COVID cases, the market started rebounding, and this year has continued to set new record highs.[2,3] As of September 27, 2021, the S&P 500 is up roughly 104% since the lows set on March 23, 2020.

Even with their knowledge of financial history, some investors are currently worried that the U.S. stock market is overvalued. The Price/Earnings (P/E) ratio of the S&P 500 is around 25, which places this time period in the top five percentile of historical market valuations since 1930.[4] However, not all sectors of the U.S. economy have equally high valuations. For example, the mega-cap growth space, driven by the FAAMG stocks, has a P/E around 39.[5] Conversely, the small value space, which is heavily weighted with financials and energy companies, has a P/E around 14.[6] As this accompanying graph demonstrates, the valuation spreads between growth and value stocks are near record highs around the world.[7]

Source: "Are Value Stocks Cheap for a Fundamental Reason?" AQR Capital Management, 30-Aug-2021, aqr.com. Spreads are constructed using the Hypothetical AQR U.S. Large Cap, International, and Emerging Valuation Theme Models, and are adjusted to be dollar-neutral, but not necessarily beta-neutral through time. For illustrative purposes only and not representative of an actual portfolio AQR currently manages.

General market commentary doesn't always capture the full picture of the markets. When you dig into the details, you'll often find a different story.

Given all this information, we do not anticipate a major stock market correction in the short term. But markets are unpredictable, and it's possible a stock market correction may occur. If so, we don't think that you should be alarmed, because stock market corrections are relatively common.[8] Since 1946, the S&P 500 has experienced a 5% drawdown every seven months on average.[8] Similarly, 10% corrections have occurred every 22 months, and 20% corrections every 76 months (6.33 years) on average.[8] Despite all of these corrections, the S&P 500 has continued to march onward, returning 11% annually since 1946.[4]

In summary, there's always something to worry about, but it's rare that a well-known issue causes a major stock market correction. Most issues are well-known and analyzed by markets participants at every moment. Typically, it's a surprise event that serves as the catalyst for a market sell-off. Despite all the surprise events of the past, global stock markets have remained resilient and have rewarded investors over the long run.[9]

We believe that the best course of action for managing unexpected events is through controlling what you can, such as broad diversification with the appropriate balance of growth and stability in your portfolio. You can use market volatility as an opportunity to rebalance to your target asset allocation. As certain asset classes increase in value, you can look to reduce exposure, and as asset classes decline in value, you can look to add—this is the simple notion of selling high and buying low. There might also be an opportunity for tax loss harvesting.

By focusing on the long-term goals of your portfolio, you can reduce the temptation of making major changes based on short-term news events. There will always be something to worry about, but with the right portfolio design and disciplined approach, you can weather almost any storm.

Important Disclosure Information and Sources:

[1] "Daily Treasury Yield Curve Rates." U.S. Department of the Treasury, 27-Sep-2021, treasury.gov.

[2] "S&P 500 (^GSPC)." Yahoo Finance, 27-Sep-2021, finance.yahoo.com.

[3] "COVID-19 Projections." Institute for Health Metrics and Evaluation, healthdata.org.

[4] "S&P 500." Morningstar Direct, January 1930—August 2021.

[5] "CRSP US Mega Cap Growth Index." Morningstar Direct, August 2021. The CRSP US Mega Cap Growth Index includes the largest U.S. companies, with a target of including the top 70% of investable market capitalization, ranked by various metrics to consider valuations.

[6] "CRSP US Small Cap Value Index." The CRSP US Small Cap Value Index focuses on the bottom 2% - 15% of U.S. stocks by market capitalization, ranked by various metrics to consider valuations.

[7] "Are Value Stocks Cheap for a Fundamental Reason?" AQR Capital Management, 30-Aug-2021, aqr.com.

[8] "Putting Pullbacks in Perspective." Guggenheim Investments, August 2021, guggenheiminvestments.com.

[9] "Stocks for the Long Run." Jeremy Siegel, 2014, Wharton School Press.

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.

Statements contained in this article that are not statements of historical fact are intended to be and are forward looking statements. All forward looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties which could cause actual events or results to differ materially from those projected.

Indices are not available for direct investment. Index performance does not reflect the expenses associated with management of an actual portfolio. Index performance is measured in US dollars. The index performance figures assume the reinvestment of all income, including dividends and capital gains. The performance of the indices was obtained from published sources believed to be reliable but which are not warranted as to accuracy or completeness.

TAX-SMART CONSIDERATIONS BEFORE YEAR-END

By Tom Kelly, CFA

"Death, taxes and childbirth! There's never any convenient time for any of them." —Margaret Mitchell, *Gone with the Wind*[1]

While there never seems to be a good time to talk about taxes, the topic has been unavoidable this summer. With a $3.5 billion infrastructure plan in the works, the House Ways and Means Committee recently introduced a draft bill advancing many tax proposals, such as raising the long-term capital gains tax rate from 20% to 25%, a potential net investment income tax of 3.8%, and increasing the top individual federal income tax rate from 37% to 39.6%.[2,3] While none of these proposals is set in stone, the right time to talk about taxes is now!

In collaboration with your SJS advisor and other trusted professionals, here are some tax-smart things to consider before year-end:

TAX-DEFERRED CONTRIBUTIONS

- Contribute the maximum amounts to tax-deferred retirement accounts—including your 401(k), individual retirement account (IRA), and health savings account (HSA)—to reduce your taxable income.

ROTH CONVERSIONS

- With your SJS advisor and trusted tax professionals, identify if there are opportunities to accelerate income into 2021 through a Roth conversion.

CHARITABLE DONATIONS

- Consider gifting highly appreciated securities held for more than one year, either directly to a qualified charity or to a charitable fund. You could reduce taxable income and avoid realizing capital gains on those donated securities.

ESTATE PLANNING

- With your SJS advisor and trusted estate professionals, review your estate and financial plans to understand how you are positioned to achieve your financial and legacy goals.

While we may have just added a few things to your to-do list, know that SJS has been reviewing opportunities on your behalf throughout the year. Using our MarketPlus Investing® principles and our disciplined approach to long-term investing, we strive to manage tax-efficient portfolios by utilizing asset location (putting tax-disadvantaged investments in tax-advantaged accounts), tax-efficient investments (using mutual funds and ETFs with low capital gains distributions), and tax loss harvesting (realizing losses to offset future realized capital gains).

We are always looking for ways to decrease your April 15th bill. Wherever taxes go in the future, we will continue to be here for YOU. All the time. Every time. At whatever time is convenient for you.

Important Disclosure Information and Sources:

[1] "Margaret Mitchell > Quotes > Quotable Quote." Goodreads, goodreads.com.

[2] "What's in Democrats' $3.5 Trillion Budget Plan—and How They Plan to Pay for It." Wall Street Journal Roundup, 09-Aug-2021, wsj.com.

[3] "How House Democrats Plan to Raise $2.9 Trillion for a Safety Net." Emily Cochrane and Alan Rappeport, 13-Sep-2021, nytimes.com.

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THE SJS 20-YEAR CLUB

Please join us in congratulating Jeff Yost (that's him in the second row on the left) on his 20th anniversary of working at SJS! Having always worked directly with clients, Jeff has become the Director of Client Service as well as the head of trading operations. Jeff joins Founder and CEO Scott Savage (26 years), Executive Assistant Meredith Sleet (22 years), and President Kevin Kelly (21 years) as members of the SJS 20-Year Club. We are grateful for all they do, and we hope that many more team members will join them in the SJS 20-Year Club!

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

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