FINANCIAL DESIGN STUDIO

DESIGNED FOR LIFE

DECEMBER 2020 NEWSLETTER

So far we've matched 19 gifts that you've given and we've filled 100 boxes for children to receive a gift at Christmas that normally wouldn't! Thank you for your generosity!

A POEM FOR 2020!

2020 was quite the year
So it's really quite nice the end is near.

Stock markets moved both down and up
And some of you even coped by getting a pup.

We learned a new word that we'd rather forget
COVID sure brought things some of us have never met.

There was a stimulus payment and one-time tax changes too
Trying to help everyone like me and like you.

Most of all what we learned
Is sometimes comfort isn't earned.

For with money we can reach our goals
But even that can leave some holes.

Time with loved ones is what matters so much
So in many ways you creatively learned how to stay in touch.

Let's make next year like none before
And on 2020 we now close the door.

RECAPPING 2020 RETURNS FOR INVESTORS AND LOOKING FORWARD TO 2021

BY: ROBERT STOLL, CFP® CFA

2020 was an interesting year. That's stating the obvious, but for investors it truly was interesting to see how investments performed throughout the year. While it's always important to stay focused on what's ahead, there's value in recapping 2020 returns for investors before looking forward to 2021. This month's article will cover both!

What Were the Best Performing Asset Classes in 2020?

After the S&P 500's +31% gain in 2019, few people imagined the stock market would continue to power ahead. COVID tried to ruin the party in the Spring, sending the index down 35% from mid-February to the end of March. But things quickly recovered, and the market was making new highs just a few months later.

One of my favorite graphics is our FDS Heat Map. This ranks all the investment returns for the most important asset classes we look at. The data here shows YTD 2020 returns through November 30th.

FINANCIAL DESIGN STUDIO, INC.
ASSET CLASS "HEAT MAP"

2014	2015	2016	2017	2018	2019	YTD 2020*
Real Estate +28.7%	Real Estate +4.4%	US Small Cap +21.3%	Emerging Mkts +37.3%	Muni Bonds +1.3%	US Large Cap +31.5%	Gold +17.1%
US Large Cap +13.7%	Muni Bonds +3.3%	US High Yield +17.1%	Int'l Developed +25.0%	US Gov't Bonds +0.9%	Real Estate +29.2%	US Large Cap +14.0%
Muni Bonds +9.1%	US Large Cap +1.4%	US Large Cap +12.0%	US Large Cap +21.8%	Gold -1.2%	US Small Cap +25.5%	US Small Cap +10.4%
US Corp Bonds +8.6%	US Gov't Bonds +0.8%	Emerging Mkts +11.2%	US Small Cap +14.7%	US High Yield -2.1%	Int'l Developed +22.0%	Emerging Mkts +10.2%
US Gov't Bonds +5.1%	US Corp Bonds +0.7%	Gold +7.7%	Gold +12.6%	Real Estate -2.1%	Gold +18.8%	US Corp Bonds +9.3%
US Small Cap +4.9%	Int'l Developed -0.8%	US Corp Bonds +5.8%	Real Estate +9.2%	US Corp Bonds -2.3%	Emerging Mkts +18.4%	US Gov't Bonds +8.3%
US High Yield +2.5%	US Small Cap -4.4%	Real Estate +5.5%	US High Yield +7.5%	US Large Cap -4.4%	US Corp Bonds +15.5%	US High Yield +5.1%
Gold +0.1%	US High Yield -4.5%	US Gov't Bonds +1.0%	US Corp Bonds +6.1%	US Small Cap -11.0%	US High Yield +14.3%	Muni Bonds +4.6%
Emerging Mkts -2.2%	Gold -11.3%	Int'l Developed +1.0%	Muni Bonds +5.5%	Int'l Developed -13.8%	Muni Bonds +7.5%	Int'l Developed +3.0%
Int'l Developed -4.9%	Emerging Mkts -14.9%	Muni Bonds +0.3%	US Gov't Bonds +2.3%	Emerging Mkts -14.6%	US Gov't Bonds +6.9%	Real Estate -2.6%

* YTD 2020 Through November 30

So far in 2020 Gold has been the winner, up about 17%. That's being driven by two things. One, the COVID-driven economic uncertainty has caused many investors to flock to the relative safety of gold. Second, investors are baking in a more aggressive fiscal policy and the potential launch of Modern Monetary Theory (MMT), which we've written about in previous Newsletters.

On the downside, Real Estate has been the only major asset class to generate negative returns in 2020. This is logical. With everyone working from home and states closing down business, there's a lot of uncertainty about office properties and malls. 2021 could be interesting for Real Estate if a COVID vaccine is rolled out quickly, causing companies to call workers back to the office.

Are Small Cap Stocks Ready to Outperform?

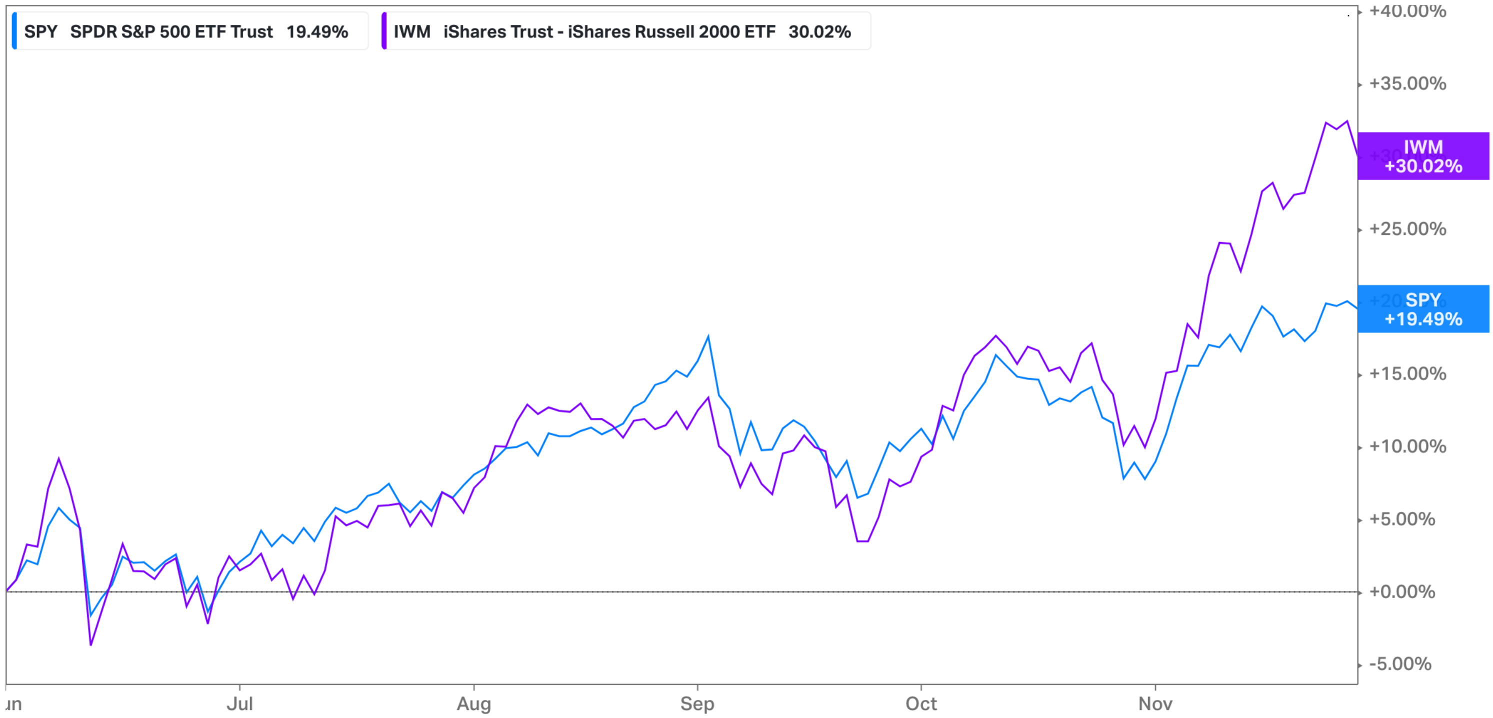
Our November 26, 2020 blog post highlighted the strong rebound in small cap stocks in November. As you can see in the table above, small caps have only beaten large cap stocks one time in the last seven years (2016).

The gap in performance has added up. Over the last seven years, large cap stocks are up an annualized +10.2% while small cap stocks are up only +6.5%. Investors have been piling into fewer and fewer large cap growth stocks in recent years given all the uncertainty we've endured.

As the chart to the right shows, small caps have quietly kept up with large caps since May and have done particularly well post election. They may continue to find a bid if fiscal support for the economy becomes more aggressive.

Will a Weaker Dollar Boost International Stocks?

Another asset class that's been in the doghouse in recent years is international stocks, particularly



for developed markets such as Europe, Japan, and Australia. Putting it bluntly, it really hasn't paid to invest in anything other than US stocks recently.

Growth in international markets has been subdued when compared to growth in the U.S. Both Europe and Japan have flirted with recession in the last decade, which obviously affects investment returns.

The U.S. Dollar has been strong in recent years. If the Dollar is strong, it reduces international investment returns because international currencies aren't worth as much when converted back into dollars.

Much like small cap stocks, international stocks had a strong November after the elections. Emerging markets stocks have quietly been on a tear over the last six months, rising +25% vs. a +17% gain in the large cap S&P 500 Index.

We don't expect economic conditions in Europe or Japan to get better soon. But as I note next, a change in posture towards more aggressive fiscal spending in the U.S. is likely dollar-negative. And if that's the case, then it's possible that international investing makes a comeback in 2021.

Will We Muddle Along or Try Something New (MMT)?

I've read hundreds of "year ahead outlook" reports during my career, and almost invariably they prove worthless by late January. It's hard to predict the future in any aspect of life, let alone stock market returns.
But I am convinced that we're potentially going to see a major change in the way governments approach weak economic growth. And if this happens, it will have a radical impact on the investment environment.

The global response to the Great Recession of 2008 was for monetary policy to do all the heavy lifting. Global central banks cut interest rates to 0% and they've been buying bonds to keep long-term interest rates low. The goal has been to entice people and businesses to borrow cheap money and spend it, boosting the economy. This plan hasn't worked.

Now there are calls to try something new: more fiscal spending to help spur the economy. If cheap rates don't get people to borrow and spend, then maybe direct cash payments will!

The "new" kid on the economic block is Modern Monetary Theory (MMT), which we wrote about in our September 2020 newsletter. This is the driving force behind calls to significantly increase government spending in the form of stimulus and investment projects, such as green energy and infrastructure.

We cannot understate the significance of potential MMT adoption. Global central banks have waged a 40 year war on inflation. Now they're worried inflation is too low. A major fiscal spending increase financed by central banks buying newly issued government bonds to fund higher spending has the potential to increase inflation. This is what MMT is and does, in a nutshell.

In a "muddle along" scenario, where governments continue to keep rates at 0% with modest spending, the investment environment is likely to look much the same as it has. Large growth stocks do well in that environment, while smaller stocks and international do worse.

But we now have a new Administration, and a former Federal Reserve Chair, Janet Yellen, has been appointed Treasury Secretary. This appointment fuses the spending side of government (Treasury) with the monetary side (Federal Reserve.) In short, it's an MMT dream team.

If an MMT scenario plays out in 2021, we believe the investment environment would be dominated by inflation concerns. Large cap growth stocks could suffer, while smaller stocks do better on expectations of more support for the economy. Inflation-hedged bonds would be a big winner in that environment.

Investment Positioning Heading into 2021

If you read our newsletters regularly, you must excuse me for repeating a familiar refrain with FDS's approach to investing client money. Stay well-diversified and have a disciplined portfolio rebalancing process.

2020 is probably the best real life example we have of the value of this approach. The "heat map" above gives you a snapshot of the entire year, but just a few months ago the year to date 2020 returns would've looked much different.

In Spring we were buying stocks as they dropped, favoring the purchase of small and mid-sized stocks which had gotten hit hard. By mid-November, stocks had rebounded so strongly that we unwound some of these investments. We don't buy or sell based on how we "feel" about the markets. Our investment diversification and process guides those buy/sell decisions.

Navigating around fast-moving markets takes a strong infrastructure. We have the systems in place to continually monitor client portfolios and make quick changes when they're moving outside of their risk tolerance.

Investing is just one piece of your financial puzzle. Your financial goals are unique, so every investment plan needs a thought-out financial plan standing behind it. The financial plan is the foundation. The investment plan is the execution. Let the wild experience of 2020 encourage you to sit down with us so we can help you build that foundation.

CHARITABLE GIVING REMINDERS FOR 2020

BY: TREVORE MEYER, CFP®, CKA®

One light can put off some light, but imagine stringing a bunch together like on the Christmas tree here behind us. The light starts filling the room. The room starts glowing. And that's just like you and I. When we do things on our own it's good, but when we start working together as a team that's really when we start to shine our brightest. Is charitable giving one of the things still on your to-do list? Learn how you can make a bigger impact with these final reminders.

1. Partnering with others for charitable giving!

You can partner with a business or organization to reach their giving goals.

As we are filling these Operation Christmas Child boxes we do it on behalf of you. Even as we fill these boxes with basic necessities we do it for someone else and we remember just how much we have been blessed by God. So as we are partnering together, with you, to fill these boxes we together can shine brighter

2. Does your company have a charitable giving match program?

Another way to increase your impact is to see if your company has a matching program for charitable giving. As you look to support those charities that are really special to you see if your company has a matching program that will actually increase the impact of the amount that you are giving. Many employers will match a percentage or dollar amount of what you give to that organization too. This is a fantastic way to give more!

Choose a way to give that works for you!

This may be a year where those who normally give can't, so you may need to shine brightly so that others can see that from you. There are many ways that you can do this: you can deliver groceries, make a meal, you can pack boxes like this, or you can just spend time with someone else to shine your light and sharing that time with someone else.

We will match your family's gift you give, one per family, to help make our charitable giving impact bigger together! Please post a picture on our social media posts to our Facebook or LinkedIn pages so we can match your gift.

A 2020 CHARITABLE GIVING STRATEGY YOU DON'T WANT TO MISS!

BY: ROBERT STOLL, CFP® CFA

It's been a tough 2020. And not just for individuals and families, but for charitable organizations as well. The coronavirus pandemic not only affected a charity's ability to perform its charitable duties, but funding levels as well. As we head into year-end, it's a good time to remind ourselves that the government created a special $300 charitable giving benefit for 2020 that's available to ALL taxpayers.

CARES Act Created Special $300 Charitable Deduction for 2020

As the coronavirus pandemic spread in March 2020, Congress acted quickly to inject stimulus into the economy. We wrote about several of these benefits in March.

One change they made was to allow taxpayers to take an above-the-line deduction for charitable contributions made in cash. They limit this deduction to $300 for 2020, but normally taxpayers only get a benefit for charitable giving if they itemize deductions on their tax returns.

Before getting into the specifics of this change, it's good to look at how recent tax law changes affected the deductibility of charitable giving.

Fewer Taxpayers Itemizing Deductions After Tax Cuts & Jobs Act

The 2017 Tax Cuts & Jobs Act (TCJA) reduced taxes for most Americans. The law not only reduced rates at each of the tax brackets, but made these brackets wider so more people could benefit from lower taxes.

Another big change was the doubling of the Standard Deduction. This is a taxable deduction that's available to all taxpayers regardless of income level. Before TCJA, if a taxpayer's itemized deductions exceeded the Standard Deduction, they'd report their itemized deductions. If not, they'd stick with the Standard Deduction.

With the doubling of the Standardized Deduction and reduction of taxpayers' ability to deduct state and local taxes (a big issue here in Illinois!), fewer taxpayers have been itemizing taxes of late.

The Tax Foundation estimates that the number of taxpayers who itemize deductions dropped by more than half because of TCJA. Unfortunately, that means a lot of charitable giving that received a tax benefit before no longer does.

How to Qualify for Special $300 Charitable Giving Deduction for 2020

The new $300 charitable deduction as part of the CARES Act is available to everyone. The reason is that this is an "above-the-line" deduction. You can see how this will look on the 2020 Form 1040 from the IRS.

You'll see that it says, "Charitable contributions if you take the standard deduction." We saw in the first table that over 85% of taxpayers take the standard deduction. This means that everyone can benefit from making charitable contributions in cash during 2020.

There are a few limitations on this deduction.

- You can only deduct up to $300 in contributions on this line. If you gave more than $300 and use the Standard Deduction, you won't get a deduction for your contributions above $300.
- The contribution has to be in cash.
- If you itemize your deductions, you can't get the $300 above-the-line benefit here. You'll still get a benefit for your giving, but it'll come as an Itemized Deduction.

Also, for low-income taxpayers whose income is lower than Standard Deduction amounts, there's no benefit from this charitable giving deduction. Income needs to exceed the Standard Deduction amount for there to be a tangible tax benefit.

Why is 2020 a Good Year to Give to Charity?

As mentioned at the outset, 2020 has been a tough year for charities. People have pulled back from giving because of economic uncertainty. We've seen this firsthand at Financial Design Studio with the charities we're actively involved with.

Fortunately, many people have been able to adjust to our new reality and keep their jobs. The stock market is at a record high and it looks like a coronavirus vaccine is on the horizon.

Now would be a great time to support a charitable organization you're excited about. It's also an excellent opportunity to teach kids about the value of giving. By working together as a family on year-end giving, you'll not only realize a tax benefit in 2020 but can also instill a spirit of generosity in kids that will last generations!

WHAT IS A SELF-DIRECTED 401(K)?

BY: MICHELLE SMALENBERGER, CFP®

If you have a 401(k) through your employer you know you have investment choices. Let's say you can choose between a bond fund, a stock fund that has some growth stocks or value stocks, and then an international stock fund. Your plan provider is required to give you a variety of fund types to diversify between. This is very typical with your 401(k). In addition to these choices you may have a self-directed 401(k) to choose from too.

A Self-Directed 401(k) is more common than you think.

We have been finding more and more plans that give you this additional investment option rather than choosing from the pre-picked funds. These can be called different things such as a self-directed 401(k) or a self-directed brokerage account.

Normally you choose from a specific list of options and the percent you want to put in these funds. I want to be clear that you do not need to be concerned if you only have a list to choose from, you just need to choose wisely. For those of you who have this self-directed brokerage option you can choose from anything that is on the market whether its a specific stock or ETF's.

What are the benefits of the Self-directed 401(k)?

What's great about this is the ability to do investment as well as some tax planning. Because when you put money into your 401(k) or Roth 401(k) you are setting funds for the future to let them grow. If you contribute to a Traditional 401(k) you decrease your taxable income so you receive the best of tax planning and also investment options that you have available to you. If you contribute to a Roth 401(k) this ability to choose from more aggressive funds allows your retirement funds to grow tax-free! When money comes out of your Roth 401(k) in the future it is not taxed, even the growth.

Your investment choices can make a huge difference in your overall plan. If you do not have great fund choices it might even make more sense to invest outside of your 401(k). These are the pieces as investment and financial planning professionals that we can help you evaluate. You need to have investment choices that are good enough to rebalance regularly between to reach your goals. And if you are nearing retirement these choices become even more important in how long your funds last in retirement.

So what steps should you take with your Self-directed 401(k)?

If you have a self-directed 401(k) available to you we want to help you set an investment allocation that is right for you.

FREQUENTLY ASKED QUESTIONS

Are you a Fiduciary?
Yes, we are! This means we have a duty to act in your best interest. A person acting in a fiduciary capacity is held to a high standard of honesty and full disclosure in regard to the client and must not obtain a personal benefit at the expense of the client.

You're Fee-Only: What does that mean?
We have chosen to be a fee-only advisory firm. This means we do not accept any fees or compensation based on product sales. While we know our clients need products like insurance we do not receive any benefit from any source when you buy a product.

How does Financial Planning Work Virtually?
With advances in technology, it is amazing how much we can accomplish virtually! We are able to share everything we do in person, virtually. We simply use screen sharing and video software so we can see you and look at the same documents, together. Most forms can also be electronically signed.

Are you taking on new clients?
Yes! We are happy to work with friends or relatives that you think would benefit from a Financial Advisor relationship. A quick phone call is all it takes to see if they are a great fit.

WANT TO SHARE THIS WITH SOMEONE?

Know someone who wants to receive this newsletter? Send us the mailing address at **team@financialdesignstudio.com**
If you prefer to no longer receive this newsletter please email us at **team@financialdesignstudio.com**

FINANCIAL DESIGN STUDIO
DESIGNED FOR LIFE
21660 W. Field Parkway
Suite 118
Deer Park, IL 60010