FINANCIAL DESIGN STUDIO
DESIGNED FOR LIFE

DECEMBER 2021 NEWSLETTER

2021 INVESTMENT RETURNS REVIEW

BY: ROBERT STOLL, CFP® CFA

We always like to take the last newsletter of the year to look back and see which asset classes performed and which ones did not. In reality, we do this all throughout the year, as it's part of our process to rebalance client portfolios. But this review is always helpful as it reminds us and our clients that there's a lot going on under the big tent of "Stocks" and "Bonds." With that, let's do a review of investment returns for 2021.

FDS Asset Class "Heat Map"

The busy chart you see on the next page tracks 11 of the key asset classes we follow. There are five stock indexes, five bond indexes, and Gold. We invest almost all FDS client portfolios in these asset classes. Why invest in different asset classes? Because each year, there are winners and there are losers. Having a well-diversified portfolio helps reduce overall portfolio volatility.

I'll run through some key asset class performance highlights in a moment. But let's take a moment to consider the goal of investing your long-term savings. Why are you socking away money each month in a 401(k)?

As many of our clients already know, at some point in your life, you're going to stop working. We call this 'retirement.' At that point, you'll no longer have paychecks being deposited into your account every two weeks. But you'll still have to pay the mortgage, buy food, maintain your cars, and (*gasp*) get out and enjoy life by going on vacations!

Your long-term savings is what you'll use to pay for these things. And as our retired clients can attest, it's a very different set of emotions when you're using your savings versus "saving for the future." There's always a fear of running out of cash.

It's for this reason that we invest in a well-diversified portfolio. Each year, some asset classes do well,

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

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 YTD*
Gold +29.2%	Inflation Bonds +13.6%	Emerging Mkts +18.2%	US Small Cap +38.8%	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 +25.2%	Real Estate +23.7%
US Small Cap +26.9%	Muni Bonds +10.7%	Real Estate +18.1%	US Large Cap +32.4%	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 Small Cap +20.0%	US Large Cap +23.2%
Real Estate +26.7%	US Gov't Bonds +9.8%	Int'l Developed +17.3%	Int'l Developed +22.8%	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 Large Cap +18.4%	US Small Cap +12.3%
Emerging Mkts +18.9%	Real Estate +9.5%	US Small Cap +16.4%	US High Yield +7.4%	US Corp Bonds +8.6%	US Gov't Bonds +0.8%	Emerging Mkts +11.2%	US Small Cap +14.7%	Inflation Bonds -1.3%	Int'l Developed +22.0%	Emerging Mkts +18.3%	Int'l Developed +5.8%
US High Yield +15.1%	US Corp Bonds +9.3%	US Large Cap +16.0%	Real Estate -0.5%	US Gov't Bonds +5.1%	US Corp Bonds +0.7%	Gold +7.7%	Gold +12.6%	US High Yield -2.1%	Gold +18.8%	Inflation Bonds +11.0%	Inflation Bonds +5.6%
US Large Cap +15.1%	Gold +8.9%	US High Yield +15.8%	Muni Bonds -2.6%	US Small Cap +4.9%	Int'l Developed -0.8%	US Corp Bonds +5.8%	Real Estate +9.2%	Real Estate -2.1%	Emerging Mkts +18.4%	US Corp Bonds +9.9%	US High Yield +3.3%
US Corp Bonds +10.9%	US High Yield +5.0%	US Corp Bonds +11.4%	Emerging Mkts -2.6%	Inflation Bonds +3.6%	Inflation Bonds -1.4%	Real Estate +5.5%	US High Yield +7.5%	US Corp Bonds -2.3%	US Corp Bonds +15.5%	US Gov't Bonds +8.0%	Muni Bonds +1.4%
Int'l Developed +7.8%	US Large Cap +2.1%	Gold +8.3%	US Gov't Bonds -2.8%	US High Yield +2.5%	US Small Cap -4.4%	Inflation Bonds +4.7%	US Corp Bonds +6.1%	US Large Cap -4.4%	US High Yield +14.3%	Int'l Developed +7.8%	US Gov't Bonds -1.8%
Inflation Bonds +6.3%	US Small Cap -4.2%	Inflation Bonds +7.0%	US Corp Bonds -2.9%	Gold +0.1%	US High Yield -4.5%	US Gov't Bonds +1.0%	Muni Bonds +5.5%	US Small Cap -11.0%	Inflation Bonds +8.4%	US High Yield +7.1%	US Corp Bonds -2.0%
US Gov't Bonds +5.9%	Int'l Developed -12.1%	Muni Bonds +6.8%	Inflation Bonds -8.6%	Emerging Mkts -2.2%	Gold -11.3%	Int'l Developed +1.0%	Inflation Bonds +3.0%	Int'l Developed -13.8%	Muni Bonds +7.5%	Muni Bonds +5.2%	Emerging Mkts -4.3%
Muni Bonds +2.4%	Emerging Mkts -18.4%	US Gov't Bonds +2.0%	Gold -27.3%	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 -2.8%	Gold -6.7%

* 2021 YTD is through November 30, 2021

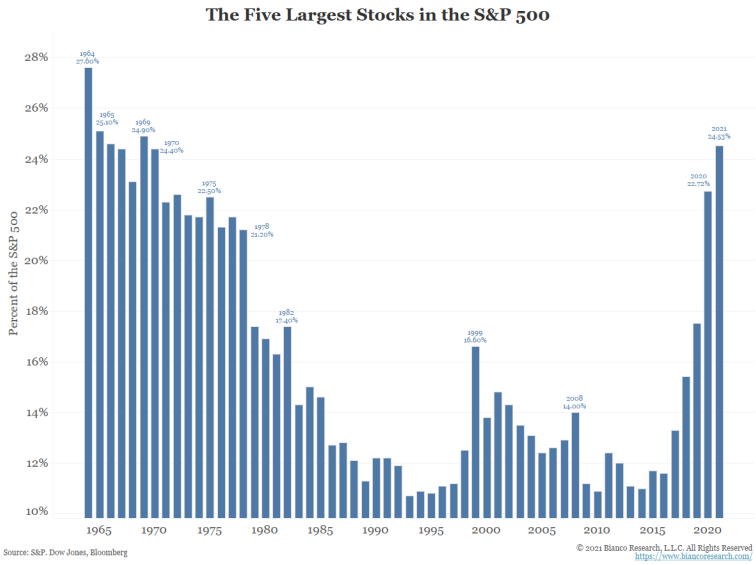
others do not. We don't want to put all your "eggs in one basket" because it's impossible to predict which basket will do best from year to year. Diversification can hurt your returns in concentrated markets like we've had the last few years. But when we go through tough markets like we did in 2000-2003 and 2007-2010, being well diversified was extremely important, especially if you retired during those periods.

US Large Cap Growth Stocks Continue to Perform

It's almost like a broken record at this point - US Large Cap stocks once again were one of the best asset classes of 2021. The only time this asset class wasn't in the Top 3 over the last nine years was 2018.

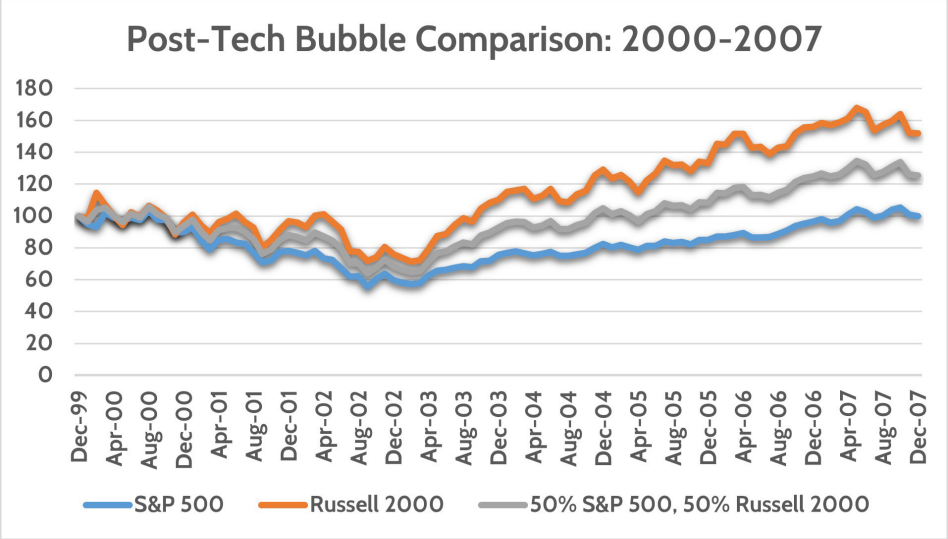
We've written many times about how concentrated the stock market has become. This dynamic continues to get worse, with fewer and fewer stocks powering the market to all-time highs. The chart below from Bianco Research highlights how concentrated the large-cap S&P 500 index has become. Five stocks account for 25% of the value of the overall index, a level not seen since 1970.

Here's another way to put this into context. The S&P 500 is up +23% through the end of November. If you took out just seven stocks - Microsoft, Apple, Google, Facebook, Tesla, Amazon and NVIDIA - the index would be up half that amount.



Is it time to throw in the towel and put all of our Stocks "eggs" in the large cap basket? That's the temptation

that most investors and professional money managers are facing, with many following that path. But we're reminded of what happened the last time the market went through this sort of cycle in the late 90s.



An investor who put all their eggs in the S&P 500 basket at the end of 1999 made no money for the next 7 years before the Great Financial Crisis hit in 2008. A diversified investor who also owned small cap stocks (Russell 2000) performed much better. This is my constant reminder that while it's tempting to say "large caps win forever," history tells us that's not the case.

Gold & Real Estate Flip-flop Best and Worst Performance

The performance of Gold and real estate stocks the last two years is a great example of how feast-or-famine investing can be. In 2020, as the world grappled with COVID-19, Gold was the clear standout performer. Real estate stocks, by contrast, fell in 2020 because of concerns about whether office workers would ever go back to the office again.

Turn the page to 2021 and the script has been flipped. Gold has lagged as fears around COVID-19 faded. As that happened, investors snapped up real estate stocks, causing that asset class to be the best performer this year!

Gold's performance is about as unpredictable as any asset class can be. I would've thought it would do better in 2021 as the inflation story took off. But it hasn't. Does that mean it won't eventually respond to higher inflation? I think it will. The fact remains that "cash" investors are losing money, and are expected to keep losing money for the next 10 years.

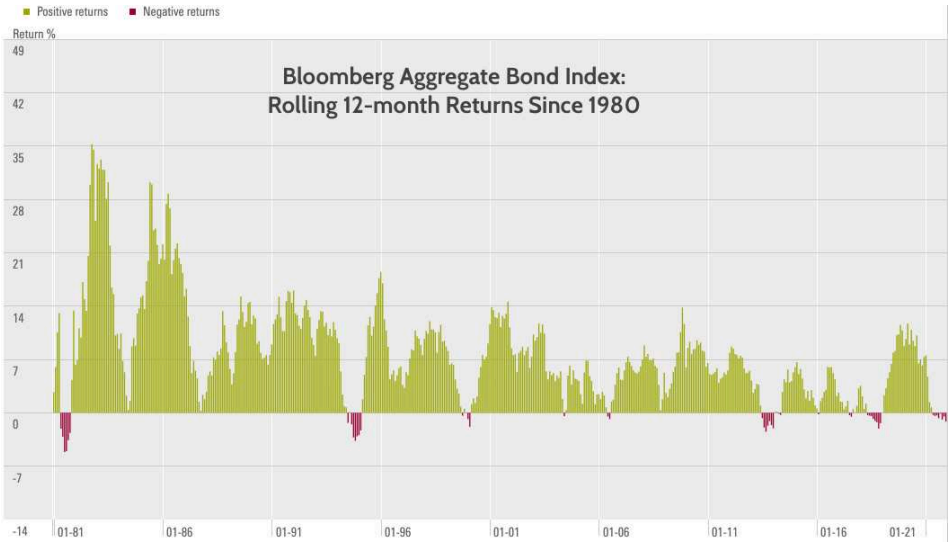
The knock on Gold is that it doesn't earn interest and that it costs money to store it. But investors in 10 year U.S. government bonds will LOSE -1.0% per year for the next 10 years, after inflation. This was a dynamic investors faced throughout the 1970s. And it was a good time to be in Gold. Maybe 2022 will be the year?

Historically Tough Year for Bonds in 2021

Since the late 1970s, bonds have been one of the most consistent asset classes. If you're old enough, you might remember when mortgage rates were over 15% and you could get over 10% interest on your bank deposits. Yes, that actually happened.

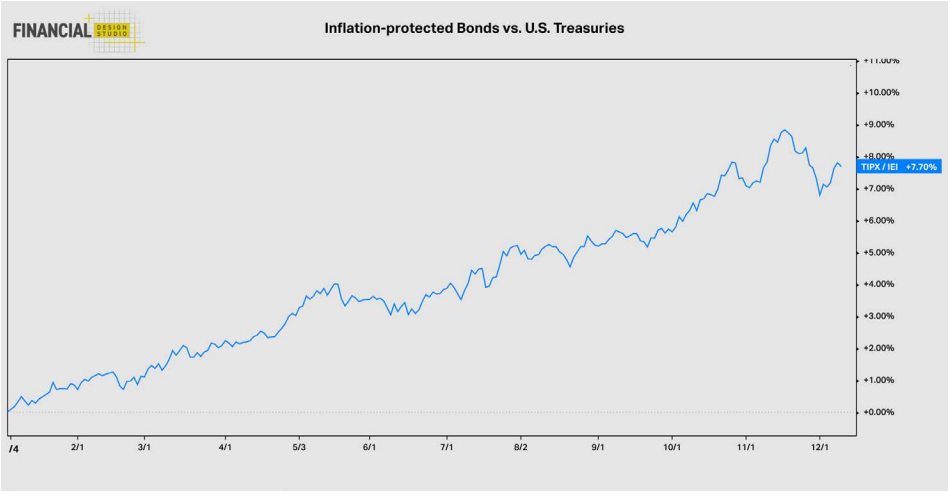
But after Fed Chairman Paul Volcker committed to defeating the scourge of inflation once and for all, bond yields have consistently gone lower over the last 40 years. Lower bond yields mean higher bond prices, which have benefitted investors a lot!

Other than a short period in 1994, 2013 and again in 2018, investors have consistently made money in bonds. 2021 will be one of those rare "down" years for bond investors.



We made some moves in client portfolios to protect against this trend by shortening the "duration" of their bonds [see linked article above]. Just like stocks, we aim to put clients in a well-diversified portfolio of bonds, which has helped in 2021.

One of those better areas has been Inflation-protected Bonds. Of the five major categories of bonds that we track in the Heat Map, inflation-protected bonds



performed the best in 2020 and again in 2021.
We've written a lot about inflation over the last 12+ months. In short, we believe that we're entering a new investment regime where inflation will be higher and prove stickier than anything we've seen in 4 decades. This means the easy money days for bond investors are likely over.

Does that make bonds a poor investment going forward? No. You just have to be careful with how you invest. Investing in shorter-maturity bonds not only protects against higher interest rates (lower prices) but means the interest you make on your bonds will increase more quickly.

We also put emphasis on higher quality "junk" bonds. This may sound like a misnomer, but there are ways to invest in junk bonds of otherwise good and steady companies that have too much debt at the moment. Those kinds of bonds are also less sensitive to higher interest rates.

Market Return Expectations for 2022

That's a trick headline. We do not know what the market is going to do in 2022. And neither does any highly paid prognosticator at big Wall Street banks.

What we know is that what worked and didn't work in 2021 is likely to look different in 2022. Maybe this is the year Gold shines again. Maybe inflation bonds take a "breather" after two great years. It's anyone's guess.

Since we can't control market returns, we focus on what we can control. And that's the way we manage money for clients. Building well-diversified portfolios and backing those up with a process that allows us to rebalance and take advantage when asset classes get "out of whack" vs. others.

Nothing keeps the FDS Team up at night more than knowing we have clients who depend on their portfolios to fund daily living expenses. There's a constant tug-of-war between the reality of today's living expense needs and the likelihood that those clients will be retired for a long time and need to earn high enough returns on their investments to out-pace inflation.

As we wrap up 2021, please know that we're grateful for your trust. We work hard to earn it and we work very hard to add value to your financial life!

Have a great Christmas and Holiday Season!

CHARITABLE DONATIONS & CONTRIBUTIONS

BY: STEPHEN SMALENBERGER, EA

This time of year people are thinking about charities and year-end donations. Even events like recent tornadoes prompt people to consider how they can give. This is one item on our year-end tax planning checklist.

Let's talk through the number of options you have.

How to make Charitable Donations & Contributions

Monetary Options:
Cash: Give cash directly to the charity you wish
Check: Write a check to the charity
ACH: Have the funds pulled directly from your bank account
Credit Card: For a recurring payment
Stock: Stock with large gains can be good for donating so you do not have to recognize the gain
RMDs or QCD: If you don't need your RMD you can donate that money up to $100,000 per year

Non-Monetary Options:
Clothing
Furniture
Household Items

These are typically things you donate to the Salvation Army or Goodwill. With these items be sure to keep a receipt. If you're donating things that are worth over $5,000 you need to get an appraisal. This is required by the IRS. For example, you may be remodeling your kitchen and giving away all the cabinets or appliances to Habitat For Humanity.

Donor Advised Fund:

Another strategy that can allow you to give cash or stocks when you don't know which charitable organization you want to give to can be using a Donor Advised Fund or Charitable Trust. You donate or contribute money into this account. The gift is irrevocable meaning that it can't be undone. In the year you make the contributions you get the tax deduction. Then when you decide to make gifts to one or more organizations over time you can do so. The funds can be invested so it can be growing year by year too.

When would a Donor Advised Fund make sense to use?

- If you don't know which organizations you want to give to, but still want to get the tax deduction in this year.
- If you have a high income year. Whether you have a large bonus or extra earned income.

Download our year-end tax planning checklist. If charitable donations & contributions are important to you this may be a great option. We're happy to help you set this up!

SERVING IN STUDENT MINISTRY

BY: TREVORE MEYER, CFP®, CKA®

When I got married back in 2014, one of the pastors at our church asked Courtney (my wife) and I if we wanted to get involved with our church's youth group as student group leaders. Hesitantly, we said yes. The first night we attended to "lead" our respective groups, we both left that night seriously questioning if we were the right fit.

Believe it or not, teenagers can be really hard to connect with. Add in the aspect that we're not their parents and shouldn't try to act as such, it can lead to a challenging way to build relationships. Despite our continued hesitancy, we kept showing up.

Weeks turned into months, which turned into years, which resulted in watching students grow into adolescence and into their faith. Better still, what originally started out as "us helping out with students" turned into ways in which we both personally grew in our own faith relationship with God.

Every church is different. However, one common thread is that the youth group a church offers teenagers is often time set apart from the "main" service. To step back and think about it, the youth group is ultimately the future of the church. Further still, teenagers and their relationships with Jesus are the future of the Church, big "c". So how do we encourage these students today; the future of the church?

How can you help?

Not everyone is built to work with students. But you can empower others who might be! Some of the ways that can be most helpful without directly interacting can be:

- **Childcare** - some of the best youth group leaders are young adults. Young adults often have younger kiddos. Making sure that their own kids are cared for on student group nights allows those young adults to be involved.

- **Production/Admin** - apart from the actual connecting with students piece, there's logistical "stuff" that needs to be done. Whether it's setting up for the evening, tearing down after, running slides or sound during service.

- **Scholarships** - Some of the most impactful events I've seen for students are retreats, summer camps, and missions trips. These trips often cost money for students to go on. Dedicating a scholarship so one or more students can attend can allow that student to meet God in an incredible way.

Of course if you've considered being a student group leader, I cannot say this loud enough, "DO IT!"
Personally, I am so thankful that I said, "yes" back in 2014 when asked to help serve with student ministry. Being able to watch students grow with God has been an incredible experience for my family. If you want to learn more about my own journey or find ways to get involved in a youth ministry, let me know!

Merry Christmas to you and your family!

7 TAX THINGS TO DO BEFORE 12/31

BY: STEPHEN SMALENBERGER, EA

Here are 7 Tax Things to do before 12/31. As we approach the end of the year what should you be thinking about? This is the second most common time people start to think about their finances. It could be because you are spending more money due to Christmas shopping. So you pay attention to how much is available to spend. It could also be that the year is mostly behind you so now you know what total income and deductible items are. Here is a helpful list to guide you through year-end, tax efficiently.

The list of 7 Tax Things to do before 12/31:

1. **IRA's** - These are both traditional and Roth IRA's. Maybe you need to put some into the traditional or some into the Roth IRA. You could also put a combination of the two until you reach your full amount. If you are budgeting it's probably easier to do this all year. But this is one you actually have until April 15th after year-end. You don't have to make a contribution by 12/31, but if you are budgeting and like to stay on track then doing it before year-end is great.

2. **Gains and Loss harvesting** - This involves looking at your investments in your taxable account. What have you sold at gains this year and do you have anything you can sell at losses to offset those? Otherwise if you're in a really low tax bracket, take advantage of the zero tax for capital gain/loss harvesting. You may even want to sell things at gains on purpose to fill up some of the lower brackets that could be taxed at a zero tax rate.

3. **Charitable** - This is one area it is really easy to get behind on supporting the charities and organizations that you appreciate. Look at what you have given year to date. Are you behind? Do you want to catch up? Many organizations can use your support. This can be in the form of cash, a check, non-cash (household items, clothing) donations to goodwill or salvation army, or even with appreciated stock.

4. **HSA's** - These are Health Savings Accounts. These accounts you put money into are specifically for medical expenses. You can do this through your employer which is the preferred way as it reduces your payroll taxes. Or you can contribute personally with a check. This is one where you have until the end of the year, through payroll, or you have until April 15th of the following year if you are contributing funds by check on your own.

5. **FSA** - A Flex Spending account is another medically related account. This one is known commonly as use-it-or-lose-it. You deposit money in and have until the end of the year to use it or it's gone. There are a few types of plans that allow $500 to be rolled to the next year or there is a grace period, but essentially you need to use it or you'll lose it. Maybe you have some medical procedures you are planning for early next year and if you have met your deductible you could get it done now while you have FSA funds to use.

6. **Gifting** - If you want to help a family member or a friend you can give up to $15,000 a year per person without any tax implications. As long as you stay under the $15,000 per person per year there is no gift tax requirement you have to file.

7. **529's** - Whether you are a parent or a grandparent you may want to start setting up some education funds. Here in Illinois and some certain other states you can contribute funds and also receive a state tax benefit. It doesn't have any effect on federal tax and each state has some different thresholds that have to be met. But you could be allowed to take a state deduction with this contribution too.

Reach out if you need help!

So those are the 12 tax things to do before 12/31. See which ones apply to you or make sense given your current situation. Maybe others are not for this year but other years ahead. We can put together a tax analysis so you know which of these would really impact you. It's never too late to get started either. Even starting a new year ahead you can make changes! If you have any other questions we are always happy to help!

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.

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