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Clients and Friends of Bodnar Financial,

In drafting this mid-year letter (is it possible we're halfway through 2021 already?), I've tried to do justice to the spectacular progress made by the economy, the markets, and above all the state of public health these past six months. The letter is divided into two parts:

- A restatement of the timeless principles guiding our shared investment philosophy
- My perspective on the current state of the economy and the markets

PART ONE: GENERAL PRINCIPLES

Bodnar Financial was founded in 1988 on a goal-focused, planning-driven philosophy. The financial plan we created together is not motivated by current events, or the closing value of a stock on any given day. We don't forecast the economy or attempt to time the markets. We've made a financial plan—and built a portfolio—based on your most important financial life goals. We revisit this plan once a year to make sure your life goals have not changed.

If your goals have not changed, we stay the course—which is not easy to do in a 24/7 media cycle that peddles fear for profit. This is where my real life's work begins, managing the emotional side of money. Successful investing is a brutally counterintuitive practice. My job is to prevent people from taking shortsighted (and fear-based) actions that will sabotage their financial goals.

I've found the more often investors change their portfolios in response to market fears or fads, the worse their long-term results. Every successful investor I've ever known has acted continuously on a plan. Failed investors react to current events in the economy and the markets.

We celebrate volatility, because it's the reason the average closing price of the S&P 500 is more than 70 times bigger than it was in 1960. In the same period, the Consumer Price Index (which measures price changes to estimate inflation) increased by a factor of only nine.

My job is to make sure your wealth outlives you, not the other way around. Ask your grandchildren what they prefer to inherit after inflation—a stock portfolio feasting for decades on the S&P 500's average annualized total return of 9.8%, or a Bank of America savings account with .03% interest. I know which one my five grandsons would pick!

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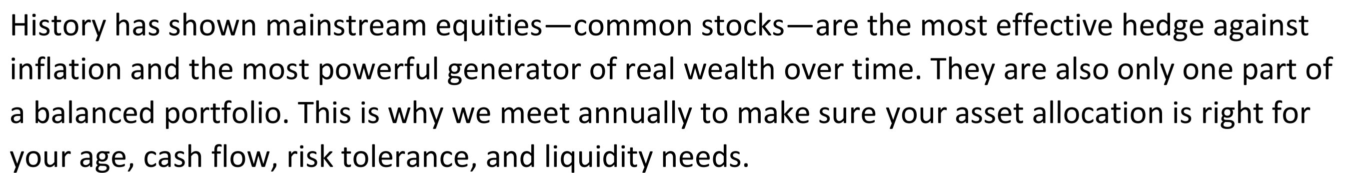

History has shown mainstream equities—common stocks—are the most effective hedge against inflation and the most powerful generator of real wealth over time. They are also only one part of a balanced portfolio. This is why we meet annually to make sure your asset allocation is right for your age, cash flow, risk tolerance, and liquidity needs.

Our definition of success is simple and holistic: are you achieving life goals with a sense of financial security? Or are you waking up in the morning and worrying about money?

The performance of a portfolio relative to an arbitrary benchmark is largely irrelevant to a person's financial success. After all, you take your income to the supermarket each week, not your account values. The only benchmark of true significance is whether you can afford to live your best life.

We measure risk as the probability you won't achieve these goals. Our investing approach has the exclusive objective of minimizing this risk. We are in it with you for the long haul—it's not about a monthly statement, it's about your life.

PART TWO: CURRENT OBSERVATIONS

The American economy has seen a heck of a recovery in the first half of 2021, thanks to Covid vaccines, dropping case counts, massive monetary and fiscal accommodation. Not to mention—America's deep fundamental resilience, which ought never to be underestimated.

The S&P 500 ended the first half at 4,297.50, an increase of 15.25% from its close at the end of 2020. Coming into the year, the consensus earnings estimate for the Index was around $165. As I write, the consensus for the next 12 months has reached $200, and is still being raised.

Anybody tried to order anything lately? Stuck on a waiting list? The economy continues to struggle with supply chain issues, along with a historic mismatch between open jobs and high (though rapidly declining) unemployment. While the talking heads squabble over when these supply chain issues will clear, long-term investors like you and me have faith they will, in the fullness of time.

We are in the midst of an unprecedented experiment in both fiscal and monetary policy—and the outcome remains impossible to forecast. The possibility that we've overstimulated the economy was highlighted this spring by a significant resurgence in inflation. But Fed Chair Powell and Governor Bullard indicated a keen awareness of this risk, and a readiness to act against it.

The markets evidently took them at their word. Inflation hedges like gold and oil sold off, equities pulled back modestly, and the yield on the bellwether 10-year U.S. Treasury Note retreated to the

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area of 1.5%. I don't read too much into short-term phenomena like these. The main takeaway is the Fed appears acutely aware its credibility is almost existentially on the line.

The Biden administration's proposals on capital gains and estate taxes are losing momentum. But the political climate remains hostile to capital (and capitalists), so his plans are down but not out.

But enough about politics. The most important economic factoid of this mid-year report came just a few days ago. Household net worth rose 3.8% in the first quarter of 2021—to $136.9 trillion. It was driven by broad gains in the stock market and home prices. And more good news! The ratio of household debt to assets continues to fall, and is back down to about where it was 50 years ago.

Consumers—you and me—power this economy, and "we" have rarely carried more manageable debt levels relative to disposable income (and have never been holding more cash) than we do today. In June, the National Retail Foundation raised its outlook yet again, and now expects retail sales to grow 10.5% to 13.5% year over year. Just this past month, the retail giant Target raised its dividend by a whopping 32%.

I will leave you with this:

On February 19, 2020—the market's peak just before the pandemic took hold—the S&P 500 closed at 3,386. It declined 34% in 33 days, amid the worst global health crisis in a century. Panic selling ensued. **BUT. If you bought the Index at that epic top, and were still holding it on June 30 of this year** … your total return with reinvested dividends has been close to 28%. I've never seen a more powerful demonstration of Peter Lynch's truism that "the real key to making money in stocks is not to get scared out of them."

I believe I was put here for that exact reason: to help you not get scared out of them. Thank you for being my clients. It is a privilege to serve you.

Faith…Patience…Discipline…

John Bodnar, CFP®, CIMA®

These are the opinions of Bodnar Financial and not necessarily those of Cambridge, are for informational purposes only, and should not be construed or acted upon as individual investment advice. Indices mentioned are unmanaged and cannot be invested into directly. Oh yeah, and past performance is not indicative of future results. My lawyer wanted me to tell you that.

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