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Charles C. Weeks Jr., JD, CFP®  
Founding Partner



Paul F. Savini, CFP®  
Partner

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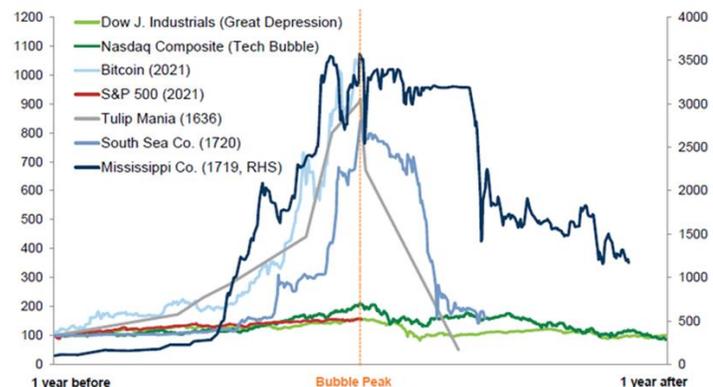
1515 Market Street | Suite 1050  
Philadelphia, PA 19102  
contact@barrister.net  
www.barrister.net  
800-465-8140

Dear Friends,

The first quarter of 2021 is already in the books, and we continue to follow the same themes mentioned in our [Bulletin from February 20<sup>th</sup>](#). Despite the Federal Reserve continuing an accommodative policy, and the US government passing another large round of fiscal stimulus, we have seen a significant pullback in growth stocks carrying frothy valuations.

This should be especially concerning to holders of risky, speculative assets. See below a chart of some past (and one current) financial bubbles, compared to today's S&P:

Exhibit 2: Most famous financial bubbles around their peak ... and the S&P 500  
Rebased price performance, 1 year before bubble peak = 100



South Sea Co. and Mississippi Co. data from Frehen, R., Goetzmann, W. N., and Rouwenhorst, K. G. 2013. New evidence on the first Financial Bubble. Journal of Financial Economics, 108(3), pp. 585-607.

Source: Bloomberg, International Center for Finance at Yale University, Goldman Sachs Global Investment Research

This visual should drive a few points home for readers. Part of giving great financial advice is protecting our clients from speculative financial decisions that lead to extreme volatility in their portfolios and possible total loss of principal. Volatility like this destroys *financial* and *mental* capital, and is an important reason why investing in long-term, diversified portfolios leads to the best outcomes.

Best,

## PLANNING NOTES

### Mortgage Refinancing

Low interest rates have many homeowners evaluating refinancing their home mortgages. Many clients contact us on this topic. Here is a summary of key points to bear in mind when refinancing.

- Seek several quotes, all the way through to the Loan Estimate document so that you can compare closing costs
- Closing costs
  - Excitement over saving on monthly payments often overshadows the significant expense of closing costs
  - Pay particular attention to closing costs “you can shop for”
  - Search the internet for typical closing costs in your area for a home of similar value and compare to the closing costs presented on the Loan Estimate
  - Negotiate with your mortgage broker to reduce closing costs
- Breaking even on closing costs
  - We should calculate our break-even on closing costs – that is *how long we have to remain on the mortgage to recoup the expense*
  - Calculation: closing costs / monthly savings on principal & interest payments = number of months to break-even
- Contemplating family, career or other life changes
  - Don’t look at the refinancing decision in isolation
  - These changes may involve a move or relocation
  - Example, if you move a year after you refinance it’s likely you won’t break-even on closing costs
- How long to borrow for
  - Compare payments and total interest over the life of the loan
  - Examples - \$500,000 loan balance:
    - 30yr at 3.25%, monthly P&I payment = \$2,176, total interest = \$283,371
    - 15yr at 2.75%, monthly P&I payment = \$3,393, total interest = \$110,759
  - If we accept a 56% increase in our P&I payment we can reduce interest over the life of the loan by 61%
- IRS Home Mortgage Interest Deduction
  - An *itemized deduction* is allowed for loans used to buy, build or substantially improve a first or second home
  - Mortgage interest, insurance and points are deductible up to limits
  - The limit is currently \$750,000 across all mortgage debt, for first and/or second home
- Planning tip – the HELOC and the Emergency Fund
  - Interest on cash savings is currently close to 0% - so we earn \$0 on an asset
  - If we refi our mortgage we could consider adding a HELOC to the debt mix
  - Example – we have \$50,000 in EF cash and a \$500,000 mortgage balance
    - Repay the mortgage with \$450,000 in new debt at a lower rate
    - Apply for a \$50,000 rate-locked HELOC and fully pay off with EF cash
  - Net effect is to exchange a zero-earning asset (cash) for a reduction in liability costs (debt) and thereby increase net cash flow

## MARKET & ECONOMIC INDICATORS

<i>Indicator</i>	<i>Note [change vs prior quarter]</i>
Investor Sentiment AAI	46% Bullish [-8%]   31% Neutral [+12%]   23% Bearish [-4%]
Investor Sentiment CNN	58 Greed [-13]
Leisure and Entertainment (PEJ)	Up 16.21% YTD, beating the S&P 500 by 8.71%
Technology (XLK)	Up 4.42% YTD, trailing the S&P 500 by 3.08%
SemiConductors (SMH)	Up 15.8% YTD, beating the S&P 500 by 8.3%
Financials (XLF)	Up 17.45% YTD, beating the S&P 500 by 9.95%
Staples (VDC)	Up 2.74% YTD, trailing the S&P 500 by 4.76%
Healthcare (XLV)	Up 2.96% YTD, trailing the S&P 500 by 4.54%
Utilities (XLU)	Up 2.8% YTD, trailing the S&P 500 by 4.7%
Commodities (GSG)	Up 14.68% YTD, beating the S&P 500 by 7.18%
20yr+ Treasury (TLT)	Down 12.49% YTD, trailing the Barclays Bond Index by 9.3%
2yr/10yr Government Bond Spread	Spread is positive at 1.52% [+53 bps]
High Yield Bonds (HYG)	Up .46% YTD, beating the Barclays Bond Index by 3.65%
HYG spread vs 10yr Treasury	+336 bps [-42 bps]
YOY Corporate Earnings	Record-high increase (6%) in S&P 500 EPS Estimates for Q1
Central Bank Activity	Fed announced they will hold rates near zero through 2023
Average Hourly Earnings	YOY increased of 3.4% for the period ending February 2021
Fund Flows	Inflows into Equities, Bonds & Money Markets   Outflows from Commodities
Advanced/Decline Line S&P 500	Increased YTD
Merger & Acquisition Activity	U.S. M&A activity decreased but with higher spending



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## DISCLOSURES

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