Farmers Trust Company

John D. Stewart, CFA
Chief Investment Officer
Farmers Trust Company
42 McClurg Rd • Boardman • OH • 44512
330-743-7000
stewartj@Farmerstrustco.com • farmerstrustco.com

Please make sure to read John Stewart's article "Optimism Abounds" below.

Different Inflation Measures, Different Purposes

The inflation measure most often mentioned in the media is the Consumer Price Index for All Urban Consumers (CPI-U), which tracks the average change in prices paid by consumers over time for a fixed basket of goods and services. In setting economic policy, however, the Federal Reserve Open Market Committee focuses on a different measure of inflation — the Personal Consumption Expenditures (PCE) Price Index, which is based on a broader range of expenditures and reflects changes in consumer choices. More specifically, the Fed focuses on "core PCE," which strips out volatile food and energy categories that are less likely to respond to monetary policy. Over the last 10 years, core PCE prices have generally run below the Fed's 2% inflation target.

Sources: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis, 2020 (data for the period September 2010 to September 2020)

Optimism Abounds

Equity markets have begun the New Year the same way they finished last year - moving higher. Investor sentiment has been steadily improving despite continued pandemic-related stresses and political turmoil. This isn't just wishing on a prayer. Economic data around the world has been strengthening in recent months, and corporate earnings estimates for the coming year have been on the rise. While there are certainly signs of excess in some areas – overvalued growth stocks, rising penny-stock trading volumes, and an average of five SPAC initial public offerings per day (Google to learn more) – some segments of the stock market are still attractively valued ahead of what is expected to be nothing short of an economic boom in 2021.

The question at this point becomes whether or not the economic improvement expected throughout the balance of this year has been fully discounted into current stock prices. For one, the expectation of growth accelerating this year when compared against last year isn't exactly a tough call to make. The economy will perform better when it is open versus having a significant portion of businesses shut down for several months last year. In addition, it's no secret that there has been, and will continue to be, substantial stimulus pumped into the economy via the federal government. It makes little sense to bet against the equity markets with these tailwinds in place. Nevertheless, the risk/reward profile has become somewhat less attractive than where it was just a few months ago, and investors would be wise to expect that 2021 will be characterized by a continued high level of volatility in financial markets.

Based on the aforementioned factors, it may be wise for investors to consider rebalancing portfolios back to intended asset allocation targets. This is especially true for those that have equity allocations well in excess of what would be considered appropriate for their age and risk tolerance. It is also a good time to examine portfolios for a proper level of diversification. For example, many investors have modest exposure to international equities, if they have any at all. This may be a mistake, as we see an increasing probability of outperformance from financial assets outside the United States in the coming years. It also likely makes sense to have some assets in your portfolio in addition to traditional stocks and bonds. We have been recommending investors build positions in a broad basket of commodities and global real estate to combat the risk of depreciating fiat currencies from the aggressive monetary and fiscal policies enacted to fight the pandemic.

Watch Out for These Financial Pitfalls in the New Year

As people move through different stages of life, there are new financial opportunities and potential pitfalls around every corner. Here are common money mistakes to watch out for at every age.

Your 20s & 30s

Being financially illiterate. By learning as much as you can about saving, budgeting, and investing now, you could benefit from it for the rest of your life.

Not saving regularly. Save a portion of every paycheck and then spend what's left over — not the other way around. You can earmark savings for short-, medium-, and long-term goals. A variety of mobile apps can help you track your savings progress.

Living beyond your means. This is the corollary of not saving. If you can't manage to stash away some savings each month and pay for most of your expenses out-of-pocket, then you need to rein in your lifestyle. Start by cutting your discretionary expenses, and then look at ways to reduce your fixed costs.

Spending too much on housing. Think twice about buying a house or condo that will stretch your budget to the max, even if a lender says you can afford it. Consider building in space for a possible dip in household income that could result from a job change or a leave from the workforce to care for children.

Overlooking the cost of subscriptions and memberships. Keep on top of services you are paying for (e.g., online streaming, cable, the gym, your smartphone bill, food delivery) and assess whether they still make sense on an annual basis.

Not saving for retirement. Perhaps saving for retirement wasn't on your radar in your 20s, but you shouldn't put it off in your 30s. Start now and you still have 30 years or more to save. Wait much longer and it can be hard to catch up. Start with whatever amount you can afford and add to it as you're able.

Not protecting yourself with insurance. Consider what would happen if you were unable to work and earn a paycheck. Life insurance and disability income insurance can help protect you and your family.

Your 40s

Not keeping your job skills fresh. Your job is your lifeline to income, employee benefits, and financial security. Look for opportunities to keep your skills up-to-date and stay abreast of new workplace developments and job search technologies.

Spending to keep up with others. Avoid spending money you don't have trying to keep up with your friends, family, neighbors, or colleagues. The only financial life you need to think about is your own.

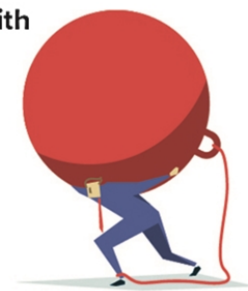
Funding college over retirement. Don't prioritize saving for college over saving for retirement. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Closer to college time, have a frank discussion with your child about college options and look for creative ways to help reduce college costs.

Using your home equity like a bank. The goal is to pay off your mortgage by the time you retire or close to it — a milestone that will be much harder to achieve if you keep moving the goal posts.

Ignoring your health. By taking steps now to improve your fitness level, diet, and overall health, not only will you feel better today but you may reduce your health-care costs in the future.

The Weight of Too Much Debt

Approximately 70% of workers with non-mortgage debt say their debt has impacted their ability to save for emergencies and retirement, with 40% saying their debt is a "minor" problem and 21% saying it is a "major" problem.



Source: Employee Benefit Research Institute, 2020

Your 50s & 60s

Co-signing loans for adult children. Co-signing means you're 100% on the hook if your child can't pay — a less-than-ideal situation as you approach retirement.

Raiding your retirement funds before retirement. It goes without saying that dipping into your retirement funds will reduce your nest egg, a significant tradeoff for purchases that aren't true emergencies.

Not knowing your sources of retirement income. As you near retirement, you should know how much money you (and your partner, if applicable) can expect from three sources: your personal retirement accounts (e.g., 401(k) plans and IRAs); pension income from an employer; and Social Security at age 62, full retirement age, and age 70.

Not having a will or advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

Income Investors May Find Closed-End Funds on Sale

Most mutual funds are open ended, which means the investment company can issue and redeem fund shares to meet investor demand. By contrast, closed-end funds issue a fixed number of shares in an initial public offering (IPO), and thereafter shares are traded on an exchange.

Both open-end and closed-end funds may hold stocks, bonds, and other types of underlying investments. Unlike open-end funds, closed-end funds do not have to maintain cash reserves or sell securities to meet redemptions, so fund managers can invest in less-liquid securities. They can also use riskier leverage strategies, which can magnify a fund's positive or negative returns and volatility.

Closed-end funds are often designed to generate a steady income, called the distribution rate, that tends to be higher than what might be offered by an open-end fund with similar securities. However, closed-end funds may be better suited for long-term investors who can tolerate the potential price swings.

View Discounts in Perspective

The market price of closed-end fund shares trading on a secondary market is determined by supply and demand. The trading price fluctuates with market conditions and can be higher or lower than the net asset value (NAV) of the shares. Shares, when sold, may be worth more or less than their original cost.

If the current price is higher than the NAV, shares are selling at a premium. If the price is lower, they are selling at a discount. A wide discount does not necessarily make a fund a better value. However, buying shares at a wider-than-normal discount may provide a bonus if the gap between the share price and the NAV narrows after investment.

When making investment decisions, it's important to understand the reasons for the fund's current valuation, compare the discount to the historical average, and assess whether the fund is likely to meet its objectives, including any potential income stream.

Distributions from closed-end funds can come from three possible sources: income distributions, including payments from interest and dividends; realized capital gains; and return of capital. Distribution rates are not guaranteed and can increase or decrease in response to market conditions.

Closed-end funds incur broker trading fees and charge management fees. They are generally not redeemable; the investment company does not have to buy back shares to fulfill investor demand.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.