MV Financial Special Update

February 11, 2021

To Our Valued Clients:

Observers of the financial markets with long memories will no doubt remember the words of former Federal Reserve Chairman Alan Greenspan, who in a 1996 speech asked, “But how do we know when *irrational exuberance* has unduly escalated asset values?”

It has now been nearly 25 years since the term “irrational exuberance” permanently entered our financial vocabulary. But recent developments – such as the wild trading in GameStop Corp., the buying binge in silver, or the proliferation of “blank check” special purpose acquisition companies (SPACs) – bring the phrase to mind with new relevance.

However, if we look past these recent aberrations, we may find evidence to justify at least some sense of “*rational*” exuberance for financial market prospects in 2021. Certainly there are several reasons for optimism:

- Vaccinations against Covid-19 are now available, and while the roll-out has certainly been less than perfect, this bodes well for the U.S. economy to resume a more normal trajectory later this year.
- In the meantime, there seems to be recognition among political leaders of both parties that more relief and stimulus are needed in the near-term, even if the magnitude of the aid package is still up for debate.
- The Fed remains committed to using all the monetary tools at its disposal, including “lower for longer” interest rates, to help keep the economy on the road to recovery.
- There is also a real possibility that the U.S. government will finally commit to policies in support of meaningful infrastructure investment, as the Biden administration unveils its broader economic plans.

All that said, many things have to go right in order to maintain the current buoyant state of the financial markets, including (but not limited to) the items we noted above, as well as a lack of unpleasant surprises on the global political and economic front.

One of the “unpleasant surprises” could be a change in U.S. tax policy. The nation is facing enormous budget deficits, due in part to the costs associated with Covid-19 stimulus programs.

The cumulative deficit for fiscal 2020 exceeded $3.1 trillion and in December 2020 alone, the federal deficit was $144 billion – more than 10 times the level a year earlier. Some form of tax increase will undoubtedly be required to ease this fiscal burden, although it remains to be seen whether that will come in the form of a reversal of prior tax cuts, changes to the estate tax, or other measures. We continue to monitor this situation closely and will advise our clients to the extent that any changes in their own financial strategies are appropriate.

Overall, given that the U.S. economy was basically in a "slow and low" growth mode during the 2020 fourth quarter, it will not take much to keep this gentle momentum going. We have been rebalancing our clients' portfolios in a measured way, modestly increasing the allocation to equities as fixed income investments remain largely unattractive in view of prevailing interest rates.

In summary, we at MV Financial are proceeding in a manner consistent with our well-established, long-term oriented philosophy, by continuing to manage our clients' portfolios in a way that is intended to promote diversification and avoid over-exposure to risk. As you might imagine, we believe that speculating in highly volatile, "crowd mania-driven" assets in an effort to capture quick trading gains, is the very definition of "irrational exuberance" – and is the last thing any prudent investor should be doing.

As always, please feel free to reach out to us at any time to discuss your investment and financial questions. We wish you and your family abundant health, joy and success in 2021.

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