

July 28, 2021

As we cross into the second half of this year, the team at Albion hopes this quarter letter finds you healthy and safe.

In this quarter's missive John Bird, our co-founder and CEO, shares recent leadership changes that have been made within the company to pave the way forward into our next forty years of business. Our CIO, Jason Ware offers analysis of the post-pandemic economic acceleration that we witnessed in the second quarter of 2021. Then, Senior Wealth Advisor Liz Bernhard describes the state of fixed income investing in this era of low-interest rates. Finally, an update on our office hours and available meeting formats.

We hope you enjoy the remainder of your summer.

The Albion Team

## From John Bird's Desk

From an Idea to an Enduring Provider of Financial Advice:  
The Next Chapter of the Albion Story

It's essential when starting a company to have a big vision, one that motivates you to get up every morning and work on building your dream. However, it is equally important to take care of the myriad critical tasks that must be done each day to keep your budding dream alive. A big vision without sweat and effort will quickly fail. By the same token a lot of sweat and effort without a vision will never get far.

In the early days of Albion Toby and I, as founders, did everything. We met with prospects, researched companies, designed portfolios, worked with our client families to understand their goals, kept the books, sourced and managed our technology, and yes, cleaned the office.

For years all decisions flowed through us as founders. Slowly the company grew, staff was added, our service offering became broader and deeper, yet still all decisions flowed through us. Even as the staff grew Albion was the epitome of a practice; the company relied on the founders without whom the firm would quickly fail.

We strived to be more than a practice. We intended to be a business. One that would endure and be capable of serving our clients for several generations. We knew that this would not be possible without succession of management, succession of control, and succession of ownership of the firm. As previously announced Toby retired at the end of 2019, and while I feel I am immortal I suspect that it will not ultimately play out that way.

With this in mind I am delighted to announce Albion has named Elizabeth Bernhard as President of Albion Financial Group. Liz joined Albion in 2009 and quickly demonstrated her qualitative and quantitative skills as well as exceptional emotional intelligence. Liz began as an Associate Wealth Advisor and after a few years joined our Senior Wealth Advisor team. She is a strong voice for fiduciary fee-only wealth advising in the community and is a strong advocate for and defender of Albion's collaborative and caring culture that always puts our clients first. It was important to the Board and to me personally that the President of Albion be an individual with direct experience working with our clients as well as the many allied professionals in our community with whom we collaborate. We want our President to be well aware of what our clients are experiencing. For those of you who work directly with Liz don't be alarmed; she will continue in her role as a Senior Wealth Advisor supported by both Patrick Lundergan and Natalie St. Denis.

Liz is the latest addition to a strong management team that has been working together for several years. The team includes Mason Woolf, COO, Jason Ware, CIO, Peggy Knodel, Director of Associate Wealth Advising, Carrie Kerr, Director of Operations, Zenfira Holm, HR Manager, and Doug Wells, Director of Business Development. I will continue to serve as CEO of the firm.

We have a strong team of twenty-six motivated and caring individuals who work each day on your behalf to help you meet your financial goals. The steps we take today as we work to ensure continuity of management, appropriate transition of control, and a shift of ownership to those team members who are front and center delivering the services upon which you depend will allow this group to work together on your behalf well into the future.

Thank you for your continued trust and confidence in us. We will never take your loyalty for granted and work each day to earn it.

### Economy & Markets

## ac·cel·er·a·tion

/ak,selə'rāSH(ə)n/

increase in the rate or speed of something.

plural noun: **accelerations**

"the acceleration of the industrialization process"

The second quarter was a story of acceleration. In the economy. Its reopening. Financial markets. Vaccinations. The downslope of Covid-19 infections. All placing us firmly onto normalcy's path. A hastening back toward a pre-pandemic life we all long to re-experience. In prior letters we've described the work that got us here - prodigious global scientific efforts, bold monetary and fiscal policy, and, yes, each of us individually as we piloted new ways to live in effort to tamp down the virus' spread. Newton explained that what goes up must come down. In economics however with each passing recession and crisis it seems that rule is the reverse ... what goes down must come up. Any objective examination of the facts suggests this is so. It is irrefutable the machine that is long-run American progress. Its veracity evident when studying data around GDP, per capita incomes, consumption,

jobs, productivity and innovation. The charts of major US equity indices visibly tell this tale (up and to the right). This general yet powerful trend of rising living standards over time is central to our investment philosophy. It undergirds how we construct portfolios on your behalf. It is said that to be an investor one must believe in a better tomorrow. We contemplate that a lot, in both good times and bad. This very notion struck again a couple weeks back when pouring through fresh economic reports. Then, a couple days later I read this from Josh Brown:

“Last year’s crash was triggered by a natural disaster, which is what a pandemic is. This has happened before.” [He goes on to describe the 1906 San Francisco earthquake that wiped out ~80% of the city, as one example.]

“We don’t have perfect stock market data from this episode, but it is believed that stocks had seen a billion dollars of value wiped out before the market bottomed, which used to be a lot of money. These days Jeff Bezos makes another billion dollars in the time it takes him to brush his teeth. Which is sort of the point. Time goes on, the dollars get bigger. I don’t think there’s a hurricane, earthquake, tsunami, typhoon, disease outbreak, landslide, avalanche, forest fire or flood that could keep the US stock market from staging a furious rebound once participants have had a chance to recognize the inherent opportunity that these sorts of events always create. We’ve just lived through a pretty bad one, on both a relative and absolute basis. And here we are roughly 100% higher in less than a year and a half. Someday, the final asteroid will come crashing through the atmosphere, thudding into the earth’s surface to set off the extinction-level event. Someday we’ll go

out dinosaur-style. The better bet, however, is to say Someday. Not this day.”

Brilliant! That day is not this day. OK, so what of this progress ... this acceleration that I spoke of? After growing choppy by March, US stocks resumed course and sped higher. After a period of relative lethargy, growth and tech stocks joined emitting notable gains as the calendar flipped to May with leadership enduring as of this writing. Driving these returns were vaccinations topping 4M per day (at one point) smashing down infections; economic growth of +6.4% in the first quarter on its way to perhaps +9% for the second quarter; a record jump in retail sales; corporate profit growth that’ll likely eclipse +66% after seeing +45% in quarter one; the biggest annual price jump in housing since 1988, and much more. Meanwhile headline inflation hit 5%. Though at some level, even economics cannot escape Newton’s iron laws. In what we’re calling “peak everything”, this acceleration should begin to modulate by year’s end. Across inoculations, the economy, earnings, sentiment, and inflation this incredible momentum simply cannot last. We shouldn’t wish it to –it’s an unsustainable pace that if left unchecked would produce its own unintended consequences. Yet unlike the third law of motion, this mere rate of change won’t send our lives crashing back into earth. Less growth is still growth after all. Indeed, as the recovery morphs into expansion we anticipate a trajectory similar to the last economic cycle harboring conditions sufficient in promoting prosperity. Color us (continued) optimists on where the American economy, and by extension markets, can go from here.

Checking back in on Josh, he concludes, “there will be more natural disasters that hit the stock market hard and force the government to spring into action.” Sometimes the response will “be muted and sometimes stronger than you could possibly imagine. There will be more moments where investing seems terrifying and the wrong thing to do. In these moments, there will be people who feed off your fear and uncertainty for their own benefit by saying the least helpful [stuff] imaginable just to get your attention. You will have to fight through those moments and remind yourself that all natural disasters throughout history have represented incredible buying opportunities for investors. Maybe not immediately, but eventually. Every single time.”

We agree.

Besides, what good are tribulations if greater wisdom isn't attained? At Albion, we continue our commitment to you that the above perspective, in concert with our process, perseverance and principals will not waver. For nearly 40 years we have endeavored to find and own the best investments possible, free from conflict and myopia. The Covid-19 pandemic was the most recent example of stress testing our investment mettle. It's never easy. But that's by design. The superior returns offered in stocks aren't free. The levy is paid via, at times, wild volatility and deep uncertainty often yielding great psychological and emotional toil. Regrettably, no equity investor gets a pass. But we toil together. We emerge stronger. Smarter. More resilient. Our appreciation to you, our dear clients, in joining us along this journey is profound. We thank you for your trust in us. Onward.

### Planners Corner

One of my earliest investment memories is going to the bank with my dad so he could reinvest the proceeds from his CDs that matured. It was the late 1980s or early 1990s and he was investing money for my college education which was still a decade away. Why CDs? Because at the time they were paying 7-8%. Not a shabby way to save for college. Today the average rate on a 1-year CD is 0.24%. After inflation, the real rate of return is negative. Not a great way to save...for anything in the future.

Interest rates are low and have been for a while. This is not news. But what does this mean for investors who rely on fixed income investments such as CDs or bonds? Historically high-quality fixed income investments have provided capital preservation and some return in the form of interest payments. In today's low interest rate and moderate inflation world, the reality of fixed income investments is that they do still provide capital preservation, but very little to no return in the form of interest. As of this writing, the rate on a 30-year US treasury bond is 1.93%. That means the US government will pay you 1.93% for the pleasure of borrowing your money for 30 years. Thirty years! Adjusted for inflation, your rate is negative. Said another way, at 1.93%, your money won't grow as fast as the price of goods and services. You'll lose purchasing power.

For investors who need fixed income investments to provide what we at Albion call, “the sleep at night factor,” or a sense of security within their portfolio, fixed income investments

such as corporate or municipal bonds, are still the best bet. When you buy a bond, you know at the purchase date what your return will be and when you'll get your principal back (barring a default by the issuing company or municipality). This certainty provides stability. But beyond capital preservations investors are forced into riskier assets as they search for cash flow. These riskier assets might be dividend paying stocks, hybrid investments such as real estate investment trusts or business development companies, or lower quality bonds, often referred to as junk bonds. Not only is this changing the average risk profile for mature investors, but it is also increasing the amount of money flowing into the equity markets. An acronym coined for this phenomenon is TINA (There Is No Alternative) to the equity markets if you are looking for returns that exceed the rate of inflation.

Will we see a return to earning 7% on a bank CD? Probably not in my lifetime. Unless we see an explosion of growth in the US economy, low rates are here to stay. What does this mean for the average investor? It means taking a harder look at how much risk they are willing to stomach to achieve the income stream and investment returns they desire. Today's college saver with a 10-year time horizon doesn't have the luxury of investing in fixed income assets if they want their returns to exceed the rate of general inflation, let alone the rate of inflation seen in college tuition (that's a whole other topic).

Albion's Senior Wealth Advisors and investment team members have lots of experience working with clients to design portfolios that balance their needs and their risk

tolerance. If you have questions about the role of fixed income in your account or overall asset allocation, please give us a call.

### Albion Community

Lately we are hearing from many clients who are wondering if we are back in the office. The answer is, yes! The Albion office is open and the team is available to meet in person. Through Covid, we realized we can work remotely and the option to do so provides enhanced flexibility for our team. Therefore, we are now operating with a hybrid model where some team members are working from home and some are in the office. We are still conducting virtual meetings as we realize not everyone feels comfortable meeting in person and we also recognize that some people find it more convenient to meet online or over the phone. Our office building is currently open from 8am to 4pm, but we are happy to accommodate alternative schedules with advanced notice.