PARAGON CAPITAL MANAGEMENT, LLC

April 2021

Thank You!

There are thousands of investment professionals to choose from. There are commissioned brokers, large wire houses, financial planners, independent RIAs and more. We appreciate your choosing Paragon Capital Management, LLC or at least for reading our newsletters if you have not joined us…yet!

How do you tell one manager apart from another? How do you decide who to trust with managing your assets? These are a couple examples; we can list plenty more that you should ask when making that decision.

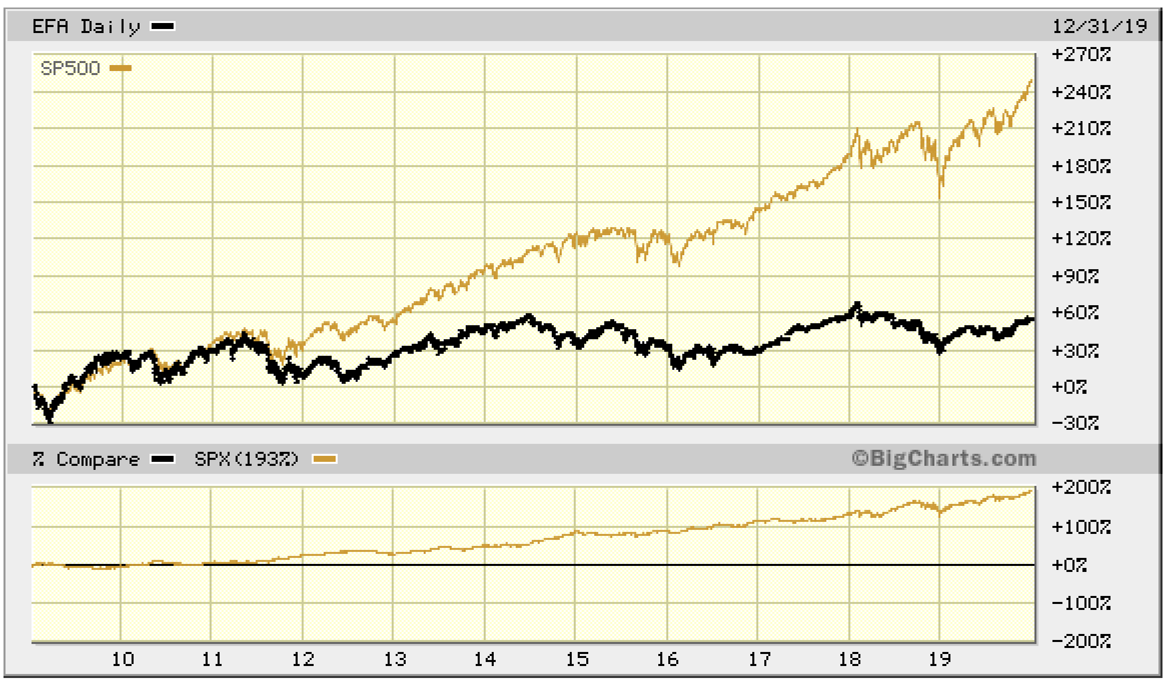
What is most important to you? A financial plan? Estate planning advice? Insurance? Accountant? Investment Advice/Management?

There are plenty of options for each of these; we prefer to focus on investment management first, and we can also help with creating a financial plan. But the implementation of the management of your assets should not be a cookie cutter solution. Not everyone fits in the same box.

In this quarter's newsletter we want to demonstrate how we take what is happening in the world and adjust how we manage money. The world, the economy, the markets are all constantly changing - shouldn't your portfolio as well?

There are many examples of terminology that is overused and are sometimes used incorrectly. In the investment world many managers discuss how they manage money using the terms tactical vs strategic. A tactical manager is supposed to make changes to adapt to the current environment while a strategic portfolio will make an asset allocation decision and it will stay the same over time. Most managers say they are tactical - they will make small trades in their portfolios, but never really change the portfolio enough to make a difference.

As our clients who have been with us since at least 2007 will recall, in the financial sector, we sold all the common stocks, preferred stocks, and bonds. This was a full year before the financial sector melt down. Our clients thought we were crazy, and we did take a big bet against the index, but we felt strongly that the financial statements for these banks were not right. In 2009 we sold all our international, emerging markets, and small cap investments. We felt that the US markets would recover much quicker and the large cap companies were down far greater than they should have been. This turned out to be a great decision for our clients as the S&P 500 outperformed the EAFA index (an index that tracks large and mid-cap developed market equities excluding the U.S. and Canada) 4:1 over the next 11 years (see below).



- S&P 500 in Gold vs EAFA in Black from Jan 2009 until Jan 2020

In June of last year, we started adding small cap exposure to our equity holdings because we felt that the economy would begin to recover with the stimulus money and vaccines coming. Further, our research indicated that small cap stocks tend to outperform at the beginning of an economic recovery, and they were trading at a significant discount to large cap stocks.

- Fuller & Thaler Behavior Small-Cap Equity Fund in Gold vs S&P 500 in Black

In December we began to add international with the Goldman Sachs GQG Partners and in February, we began to add emerging markets. In a Jan 26, 2021 Barron's article titled "The Great Chinese Rebound? Not So Fast" the wrote that China had officially become the world's only major economy to expand year-over-year in 2020, China real GDP grew 2.3%. The US, by contrast, contracted 3.5%. This was the most severe shrinkage since just after WWII.   We will not know for a while if these were the right decisions long-term, but when we see a trend, we are tactical in nature and will make an active decision for our clients.

A different type of income

Even before the impacts of COVID were apparent, interest rates and spreads on fixed income securities were falling which led Paragon to deepen our research in alternative fixed income solutions to meet client's needs for income. With the decline in rates, many bonds were maturing or getting called in an environment where reinvesting in traditional bonds did not always make sense. The frustration led us to begin educating clients, prospects, and partners on the potential benefits of adding Callable Yield Notes to portfolios. We believe that rates will remain low or slowly continue to rise for a while, and when rates rise, total return on bonds and fixed rate investments will most likely not be positive.

In February of this year Warren Buffet agreed. He released his annual letter to shareholders of Berkshire Hathaway. In the letter he was quoted saying "bonds are not the place to be these days." The 10-yr Treasury note yield fell to an all-time low of .318% in March of last year, rose to 0.917% by year-end and is 1.65% as of this writing. Warren Buffet went on to write "fixed income investors worldwide – whether pension funds, insurance companies or retirees- face bleak future." He further wrote "many try to juice the pathetic returns now available by shifting their purchases to obligations backed by shaky borrowers."

While many of our competitors still recommend the same old bond funds or individual bonds and are locking in yields between 1-2% for years to come, Paragon recommended Callable Yield Notes (CYNs). We can structure CYNs for clients that have yields higher than traditional fixed income securities. For our most conservative investors that are looking for a fixed income alternative, we have been able to structure CYNs with yields in the 5%-8% range. For our clients that have the ability to take on more risk, we have been able to structure CYNs with yields in the 8%-14% range. We remain active in CYN market and see rates in general at the lower end of the ranges listed above due to the recent decline in volatility. We have seen multiple unforeseen short-term increases in volatility over the past year and pride ourselves on taking advantage of these tactical opportunities when they present themselves.

All the above are examples of how we constantly strive to find new solutions for our clients and not remain "stuck in the mud" doing the same thing year after year, whether or not it is working.

What's next?

We are constantly discussing our views on the markets with everyone we meet. This is as tricky an environment as we have ever seen. The bond market, as we discussed above is near record lows; the Federal Reserve is determined to keep them low. Yet longer term rates have more than doubled the past year. Money market rates are paying well below 1%. The stock market is at all-time highs and valuations are second only to 1999 before the technology bubble burst. See last quarter's newsletter on our website for more details on the market valuations.

Our view on fixed income is rates will continue to go higher, initially organically, and with assistance when the Federal Reserve eventually begins to raise rates. Until rates go dramatically higher, we will continue to recommend CYNs over traditional bonds. We have also added some preferred stocks to portfolios, as well as alternatives, for our qualified purchasers ($5 million in investable assets). For those investors, we have recommended private real estate or other income producing investments to diversify their portfolios.

For our stock investors, we think that 2021 will be a good year. First, we saw the passage of the stimulus bill that finalized at $1.9 trillion- higher than we anticipated. That money will begin to work its way into the economy through the years to come. Second, vaccines are being widely distributed at a pace greater than initially thought. The timeline for all Americans who want a vaccine continues to get shorter. Third, legislature is working towards an agreement on an Infrastructure Bill which we have anticipated for many years.

Offsetting the positives above are the risks related to higher taxes and high starting valuations across markets. The original proposal from President Biden and the White House included many tax hikes. Most notably, tax increases on Corporate America, a minimum tax on Corporate America and tax increases on the those making over $400,000 have been discussed. It seems unlikely that they have the votes to pass any of these or they will be watered down to a point the markets can live with it.

Over the next few months, we will continue to monitor the progress of the infrastructure bill, COVID vaccines and the spread of the virus, and the reopening of America and countries across the globe.

How to stay informed

For up-to-date news and thoughts from Paragon, plus interesting articles on topics like saving and investing for children, taking care of elderly parents and their finances and other timely topics; we encourage you to follow us on LinkedIn and/or Facebook. We have company pages for both and definitely appreciate your liking and/or following us.

- Paragon LinkedIn: https://www.linkedin.com/company/paragon-capital-management-llc/?viewAsMember=true
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- Craig Novorr LinkedIn https://www.linkedin.com/in/craig-novorr-1a8a822/www.paragoncap.com

Also, please share your experiences with friends and family; we love the opportunity to help those you know with their financial success.

Even though Paragon's offices remain temporarily closed due to COVID-19, we are all working from home and staying in contact with each other daily. We are available to meet with clients at our office by appointment only and are also available to schedule account reviews via video or phone conference.

Paragon Capital Management, LLC
9200 Indian Creek Parkway, STE 600
Overland Park, Kansas 66210
Phone: 913-451-2254
Toll Free: 1-800-508-4605

Wealth Management with a Unique Focus {you}!