

July 2021

Midyear Update

In our last newsletter we discussed our investment style and what made us different than many of our competitors. That newsletter and all our past newsletters can always be found on our website¹. We finished the newsletter stating that we felt the remainder of 2021 would be a tough environment for traditional bond investors and a good year for stock investors. To support that thought we referenced the recently passed stimulus bill, vaccines being distributed at a greater pace than anticipated, and work on a very large infrastructure bill in Washington D.C. We also pointed to risks of higher taxes and high valuations in the stock market. Our opinion in April was that there would not be enough votes to pass a significant tax bill and that the vaccinations would lead to a reopening of America and countries across the globe.

Now we are at the midpoint of the year, and the S&P 500 increased over 8% over the last three months to be up over 15% for the year. Legislation is bogged down in Washington as both parties fight over terms of bills. President Biden originally proposed an infrastructure bill with a price tag exceeding \$2.25 trillion dollars. It was quickly negotiated down to about \$1.2 trillion dollars. Even at the lower amount there is not enough support to get it passed and negotiations will continue for many more months. Tax hikes seem to have died down as well as there are not currently enough votes to get anything passed.

¹ <https://www.paragoncap.com/about-us/>

Looking ahead, the major themes Paragon and the markets will be watching are:

- 1) Inflation- The equity and fixed income markets are not priced for sustainably high levels of inflation.
- 2) Infrastructure bill- As discussed above, the bill remains in limbo as both sides of the aisle attempt to appease their voting base.
- 3) Big Technology and anti-trust legislation- Many of President Bidens recent appointees in Washington are very anti-monopoly and anti-big technology.
- 4) Corporate Tax- The G7 passed a global minimum tax rate of 15%, can they get the G20 to follow. President Biden would like to see corporate rates increase from 21% to 28%.
- 5) Potential changes to individual taxes- Tax bills that include changes to the estate taxes, capital gains taxes, tax rates and the step-up in basis upon death.
- 6) China- Economic relations with China are very volatile. President Biden would like significant investment in the U.S. to reduce our dependence on China. The biggest story currently is computer chips that are affecting inflation by creating shortages in everything from automobiles to appliances and anything with chips. Intel is looking to open chip fabrication plants in the U.S.
- 7) Fed Policy- At June 16th Fed meeting they held rates near 0% but signaled two tax rate hikes by the end of 2023 and continued purchasing of \$120 billion per month of assets until “substantial further progress” has been made on employment and inflation. The next big Fed policy meeting will take place Aug 26-28 at Jackson Hole.
- 8) Cyber security- Increased incidents of cyber ransom attacks and the role of cryptocurrencies.
- 9) COVID Variants- We have seen the rise of the Delta variant. Lots of discussions on whether the current vaccine works against the Delta variant, when or if we will need a booster and approval by others than Pfizer for children under 18.

Inflation is a tricky topic to discuss. Economists have been predicting inflation since the great financial crisis and we have not seen any significant increase. We have seen food prices rise, gas rise at times (and fall at times) but we have also seen electronics prices fall dramatically as technology continues to evolve. This year we did see inflation across the economy from food and gas, to lumber, wages, concrete, housing prices, automobiles and just about anything else you can think of. The question is if inflation is caused by interest rates and Fed policy and if it is here to stay or if it is short-term and will go away soon. The cause can be debated and will never really be known. However, we have seen a major shortage in workers in many industries such as restaurants, manufacturing, airlines, shipping, retail, and many others. Many restaurants are offering signing bonuses to get people to come to work. Speculation that the extra government stimulus that will last until September is the major reason for workers deciding to stay home vs re-enter the workforce. A shortage in computer chips has led to a shortage of new cars, appliances, and many other products as computer chips are in just about everything today. Shipping is also a major issue, especially in getting supplies out of China, causing backups at shipping yards and increased costs of the goods.

The continued acceptance around the world of cryptocurrencies such as Bitcoin has led to multiple cyberattacks in the U.S. The first big one was the Colonial Pipeline. Then we saw JBS -one of the largest meat suppliers in the U.S. and most recently one affecting 100s or 1,000s of U.S. companies. The increase could be because criminals can demand ransom money in cryptocurrency without risk of it being traced. Many of these attacks are coming through the back door of a company's security so even with proper protocols in place, these attacks can continue to happen. The U.S. government was able to recover most of the ransom Colonial Pipeline paid the criminals which could be the best defense in preventing future attacks. If cryptocurrency can be tracked or traced it will not be as attractive to the criminal mind.

Update to Paragon's Security Policy

As we discussed cybersecurity earlier in the newsletter, we take your security very seriously. We have instituted new security protocols that will require verbal confirmation of all money movements. If you email or message us to move money from your account to your bank, we will be calling to verify. We understand this creates an additional step in the process and may be viewed as an inconvenience, but it is for your security!

A Fond Farewell and Best Wishes!

Dorothy Boehr joined Paragon 17 years ago to help us part-time with compliance. She soon became our Chief Compliance Officer and Chief Financial Officer. Prior to joining Paragon, Dorothy spent 26 years as the head of the Trust Tax division of UMB Bank. She had 16 accountants reporting to her. She left UMB to join National Advisor Trust Company as an owner and executive before leaving to join our team. Dorothy retired June 30th and will be missed greatly. She is looking forward to spending more time in her garden and playing golf as well as spending time with her family.

We have split Dorothy's job duties and are working with Kristen Guerrero, owner of RIA Compliance Key, to assist us in our compliance responsibilities. We are also working with Dina Davis of PeoplePeople to assist with CFO duties. Both Kristen and Dina have been working alongside Dorothy for most of the last year to make the transition very smooth. We are very excited to add both of them to the Paragon team!

We all wish Dorothy the very best!

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>
- Paragon Facebook <https://www.facebook.com/Paragon-Capital-Management-llc-352968418169300>
- 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.

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