MONTAG

Viewpoints

SECOND QUARTER 2021

"I'll give you a HUGE bonus in bitcoins if you can explain to me what the hell they are."

Chris Wildt/CartoonStock.com—Used by permission

THE TIMES, THEY ARE A-CHANGIN' — *Ned Montag, CEO*

The first half of 2021 has seen an S&P market return of nearly 15% as I write this. Coming off the turmoil of the pandemic, economically, our nation's basic indicators appear to be very healthy, a testament to the American workforce and its resourcefulness, ingenuity and industriousness. And though as a nation, we don't have an easy time forging consensus on anything anymore, the economic recovery highlights the strengths of our nation, past and present.

Since often in life we experience the theme of "*no good deed goes unpunished*," this generally positive sounding economic news gives the Federal Reserve reason to pause and consider again whether and when an interest rate hike is in order. And when the Fed does so, traditionally the markets have gotten very nervous. But that's not so for now. So far, markets seem rather at peace with the prospects of rising rates.

Rising prices from various industries and the ever-tightening unemployment figures suggest that we may be entering a new era for inflation, which has been flat and low for almost two decades. Prices are rising in almost every measurable domestic industrial or consumer category. The American experience with inflation has traditionally been one which didn't fare so well. And so, in summer 2021, we enter a time when, for the first time in several decades, we must accept the real possibility of rising interest rates. And this news of inflation leads to uncertainty and therefore volatility.

The last time our nation had to "fight inflation" was the late 1970s & early 1980s. Fighting inflation then was a mess, economically. Record high interest rates were the norm, and when the cost of "renting money" rises that high, security valuations tend to suffer. Recognizing this, the Federal Reserve has signaled that its first step to cool inflation risks will be to stop buying treasury bills from the US Treasury. At present the U.S. Treasury sells about $120 billion a month of bonds to the Federal Reserve to fund deficit spending at the federal level. In anticipation of this, markets have somewhat adjusted. Thus far, thankfully, we have seen no correction as investors have embraced the fact that some inflation early in a recovery is normal and to be expected. But the Fed has made its signal clear, rates will likely rise in the coming years, so we are preparing for changes in the markets.

This change, the first in generations, is what we prepare for every day at MONTAG. We are coming upon our 40th anniversary, and with 75 years of investing by Montag family, we have faced uncertainties like this many times before.

So, this is the "big story" for the second half of the year and likely into 2022. Rest assured, we at MONTAG are ready. And we are grateful for your trust in our work. M

MARKET OBSERVATIONS — *Chris Guinther*

Markets were strongly to the upside during the second quarter. The DJIA was up 5.1%, the S&P 500 up 8.6%, and NASDAQ up 9.7%. At the half-way mark, year-to-date those indices stand at 15.2%, 13.8% and 12.9% respectively. All three indexes finished the quarter at, or near, their all-time highs.

Last quarter I finished with "A bond portfolio with an average maturity of 10 years will lose 10% in principle value when interest rates rise by just 1%." We should keep that risk front-and-center as interest rates on the ten-year U.S. Treasury still sit around 1.5%. The Fed continues to purchase $120b in bonds and mortgages to fund our national deficit

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Georgia-Pacific Center
133 Peachtree Street NE
Suite 2500
Atlanta, GA 30303

404.522.5774

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spending… with the idea being that unemployment (an important goal and mandate of the FED) will continue to improve. However, inflation is being seen everywhere, and that paves the way for rates to return to 'normal'. What's 'normal'? Typically, U.S. Treasury rates are higher than inflation, which is rising to over 3% and even 4%, depending on which measure you want to follow. The Fed tells us that as the economy reopens, inventories and supplies will catch up…and prices will ease. That will be great if it happens but we're not sure many agree. Higher interest rates tend to lower security valuations and of course higher debt expenses slow the economy. A rubber band being pulled back farther and farther, snaps at some point.

We're on alert because so much of the current economy is in unchartered territory. Take M2, (Chart, below) a measure of consumers' current money supply. Shown here, you can get a sense of just how much money has been put to work by the Fed and shows up in consumer savings and checking accounts. This is the 'demand' side of the inflation equation. A lot of money is available currently and there's just not enough 'stuff'… so prices are moving higher and will likely continue. We're concerned that the Fed's continued push to stimulate may be creating a bubble in spending…and potentially accelerating inflation (housing for example). Similar liquidity can be found with corporate America. The good news is, the consumer has managed to de-lever since the '08 real estate collapse and is in a stronger position now to withstand the next storm.

What other unprecedented indicators are we watching with concern? The list is long but take a look at inventories relative to sales of all the companies in the S&P 500 (Chart, right). Notice this shortage that is highlighted and goes back to 1965. This captures numerous other recessions but none have resulted in such low supplies.

We're on alert because the combination of too much demand and low supplies has never been greater. The trillions of dollars printed to avoid another bad recession feels great now, but that can come back to haunt us.

At MONTAG, our message is, as always, is to stay diversified as we strive to protect and grow our clients' capital. As the old adage says, *"markets take the stairs up, and the elevator down."*

Chris Guinther is Senior Investment Strategist & Portfolio Manager

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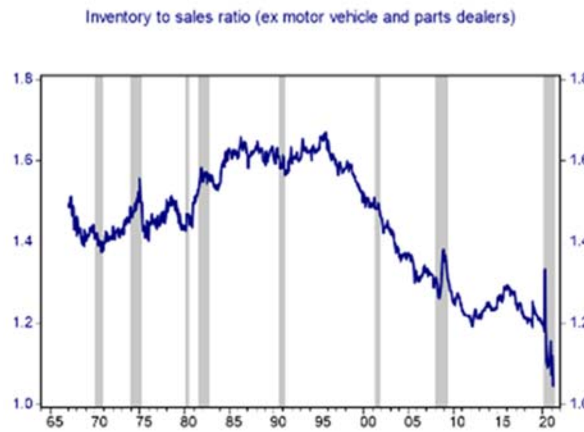

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MAKING HEADS OR TAILS… BITCOIN — *Randy Loving, CFA*

Investor clients at MONTAG get to look at all asset classes to find opportunities to make money.

This flexibility is unique in the financial services field. If we worked for a brokerage house, we would have to explain why their pre-set models for asset allocation are best for a client. If we worked for a mutual fund we would have to explain to a consultant why we are the right fund to meet their clients' needs. At MONTAG we have freedom to look through all asset classes and find the ones that provide the greatest opportunity to make money and fit them into a customized portfolio for our clients.

Since we can go anywhere in search of return, our research efforts are focused on what conditions are needed for an asset class to outperform the rest of all other assets we could invest in. To do this we identify key metrics that have driven performance in the past and track them over time. This process allows us to be ready to invest when the opportunity presents itself.

For the last year we have been tracking cryptocurrency and Bitcoin specifically. Bitcoin currently has a market capitalization of $743 billion, representing a little over ½ of the market capitalization of all cryptocurrency. One im-

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DEFINITIONS

Bitcoin Mining: (No pick or digging) Bitcoin mining is the process of creating new bitcoin by solving a computational puzzle.

Blockchain: The record-keeping technology behind the Bitcoin network. The most common use so far has been as a ledger for transactions.

Source: Investopedia

Large investors like Fidelity and BlackRock have recently warmed to the cryptocurrency asset class with the former referring to it as "digital gold"

DID YOU KNOW?

The dish — poached eggs and Canadian bacon on an English muffin, all topped with hollandaise sauce — remains a brunch staple in New York City's most luxurious restaurants, and far beyond, prepared by the most accomplished chefs, keeping the distinguished company of the Bloody Mary and the Mimosa. What New York City institution first served what became known as "Eggs Benedict"?

A. *The Knickerbocker Hotel*

B. *The Waldorf Hotel*

C. *The Yale Club*

D. *The St. Moritz Hotel*

(Answer on Page 4)

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portant factor to know when investing in Bitcoin is that not only is supply fixed, but also the pace of creation of new Bitcoin is also known. The last of the 21 million Bitcoin will be mined in 2140. The pace of creation is known and will not change. As an investor, this means that supply is known by the market and does not drive performance of the asset. It all comes down to demand.

We started tracking key metrics for Bitcoin in 2020 when the Office of the Comptroller of the Currency confirmed that national banks could provide custody services for cryptocurrency, referring to this as a "traditional banking service". This was followed by PayPal allowing its 361 million users to transact with and hold several cryptocurrencies. So far, the demand has outstripped expectations with volume averaging $4.5 billion per quarter versus the $1.8 billion expected. By the end of 2020 Guggenheim and Mass Mutual had started to add Bitcoin to funds they managed.

In the beginning of 2021 institutional acceptance continued to grow. In January Goldman Sachs joined JP Morgan in starting to hold cryptocurrency for clients. In February both Visa and MasterCard announced that they will allow merchants to transact in and hold cryptocurrency versus previously forcing conversion to cash. Large investors like Fidelity and BlackRock have recently warmed to the asset class with the former referring to it as "digital gold" and the latter starting to hire a strategy team to build out crypto exchange traded funds.

The asset class still has significant roadblocks to widespread adoption. The speed of transactions is significantly worse than current existing technology. Today, Bitcoin can handle about 7 to 10 transactions per second versus Visa which can handle 24,000 transactions per second. Programmers and miners are currently working on methods to work through the speed issue. The other major issue is that Governments can outlaw ownership and use. China recently – May 19th – banned financial institutions from participating in crypto services which dropped cryptocurrency values by 20 – 40%. Importantly, headlines like this will slow institutional investors investment in the asset class.

Bitcoin and other cryptocurrencies along with the technology that they run on, blockchain, solve several real-world issues that will lower costs for financial transactions from home sales to international trade. Their use may lower significant transaction costs while providing a clear trail of ownership of an asset. Over time this likely drives growth in acceptance.

With any asset you need to identify the key metric that drives performance and we believe that acceptance which will come with greater regulation will drive the value of Bitcoin and other cryptocurrencies. So far the price of Bitcoin, like any payment network, tracks large transaction volume. We will be tracking the growth of volume and durability of the volume to drive decisions around the asset class. M

Randy Loving, CFA, is a Portfolio Manager

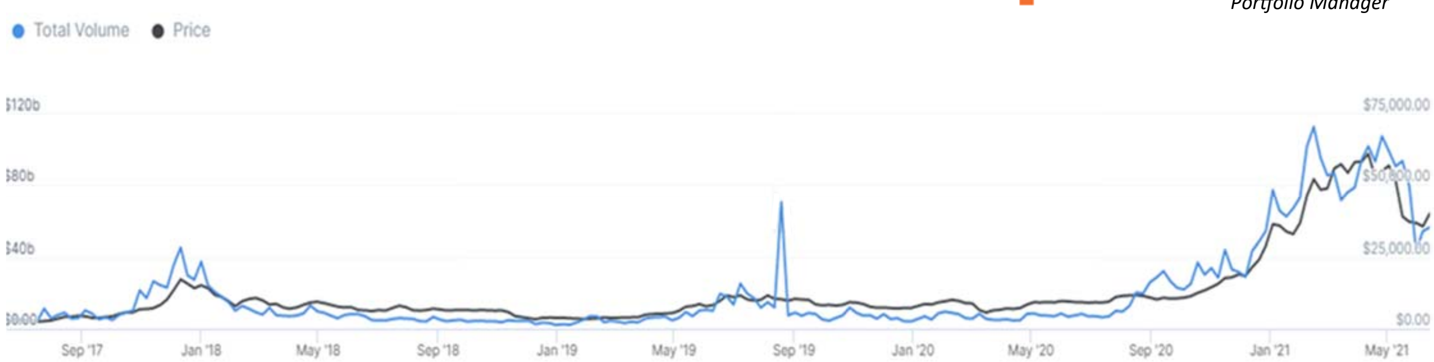

Chart Source: Coinbank

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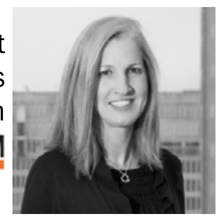
COMPLIANCE MATTERS: Investment Objectives Are Important

If you haven't met with your MONTAG Portfolio Manager lately to review your current Investment Objectives, this summer is a great time to review your portfolio(s) in the context of risk tolerance, investment goals and any changes to your current circumstances. At MONTAG, we take these important pieces of information seriously and want to be sure we have up-to-date information about them in our files. Regulators require that we manage portfolios according to client-directed objectives and that we review them regularly with our clients because they provide guidance regarding how client money should be invested. Given the market volatility during 2020 and into 2021, it makes sound financial sense to speak with your MONTAG Portfolio Manager about any changes that may be necessary as a result. We always enjoy hearing from our clients, so make it a priority to get this important task on your calendar today! M



Stacey Godwin is Chief Compliance Officer

CLIENT PERSPECTIVES: Growth, Expansion & The Human Touch

Although COVID-19 has brought about instrumental changes in the way the world does business, now and in the future, it has also reminded us that the investment advisory business is still strong and creates a peace of mind that professional investors are paying attention to your investment accounts, every day of the week.

We have been fortunate that the markets have rebounded since the COVID crash of early 2020, but MONTAG as a firm has also been fortunate that our business has been able to grow, adding many new clients to the MONTAG family. We have also expanded our staff, continuing to bring on high quality investment personnel and expand our breadth of resources to enhance the client experience.

For those clients who have been with us for decades, and those of you who are just beginning to enjoy the MONTAG client experience, we are delighted to have the opportunity to serve you and your families, with such an important aspect of your lives.

The onboarding experience allows us to get to know our clients on both a personal and financial basis, and becomes a partnership in moving forward to meet personal and lifestyle goals. We appreciate the opportunity to share your journey and lend a human touch.

As always, a satisfied client is our best referral source; as you come across friends or situations where MONTAG might be of help, we would appreciate your introduction. M

Larry Mendel is VP of Sales & Viewpoints Editor

DID YOU KNOW? *(from page 2)*

Answer: B. The Waldorf Hotel

Long since known as the Waldorf-Astoria Hotel, this venerable New York City institution can claim "Eggs Benedict" among its creations, alongside the "Waldorf Salad" and Thousand Island salad dressing.

As the story has it, stockbroker and NYSE seat-holder Lemuel Benedict had a hangover that morning in 1894, but he didn't shy away from breakfast. He ordered two poached eggs, bacon, buttered toast and a pitcher of hollandaise sauce, a rich, egg-based sauce flavored with butter, lemon and vinegar. Then he built the dish that bears his name.

Lemuel's innovation attracted the attention of *Oscar of the Waldorf*, as the maître d'hôtel there was widely known. He promptly tested it and put the item on the menu, although Oscar's version substituted ham for bacon and an English muffin for toast. After that history-making morning, Lemuel Benedict reveled in the attention and prestige that resulted from his breakfast order. M

Source: The New York Times

A PARTING THOUGHT

"Rest is not idleness, and to lie sometimes on the grass on a summer day listening to the murmur of water, or watching the clouds float across the sky, is hardly a waste of time."

— John Lubbock

MONTAG

Georgia-Pacific Center
133 Peachtree Street NE
Suite 2500
Atlanta, Georgia 30303
404.522.5774
montagwealth.com
info@montagwealth.com

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