



**BlackDiamond
Financial**

INVESTMENT INSIGHTS

SECOND QUARTER 2021

Key Topics

- ◆ **Stocks Charge Ahead Amid Economic Rebound**
- ◆ **Cryptocurrencies Capture Media Attention, But Remain Early in Lifecycle**



Stocks Charge Ahead Amid Economic Rebound

Rebounding economic indicators and rising earnings estimates fueled stellar stock market gains in the second quarter. Consumers emerging from Covid-19 restrictions flush with cash from government programs and accelerating business expenditures are expected to propel economic growth in the second half of 2021. Better than expected economic conditions have caused Wall Street analysts to increase S&P 500 earnings estimates for 2021 and 2022 by 14% and 9%, respectively, since the start of the year. Although not always the case, the 14% estimated earnings increase has directly correlated to a 14% increase in stock prices for the S&P 500 this year.

Real estate stocks gained 12.0%, outperforming other major asset classes this quarter. After losing 7.6% in 2020, real estate stocks are up 21.8% this year. In addition, annual residential home price growth hit a 30-year high, increasing 14.6% in April. Large U.S., small U.S., and international stocks all performed similarly this quarter with gains between 4.3% and 8.5%. Bond interest rates declined slightly this quarter, which helped generate a return of 1.8%.

Investors are closely watching legislative action in Washington to estimate impending tax increases. Biden's current proposals include a host of substantial tax increases including taxing capital gains over \$1 million at ordinary income tax rates of 43.4% (retroactive to all gains realized after April 28th), eliminating the step-up in basis at death, and increasing the corporate tax rate from 21% to 28%. As negotiations have progressed, legislators on both sides of the aisle have expressed divergent opinions making it challenging to predict the ultimate outcome. Ultimately, inter-party negotiations will likely lead to a compromise that is significantly different and less onerous than the administration's current proposal.

Comparative Returns

	Annualized Performance					
	Q2 2021	YTD	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks ¹	8.5%	14.3%	40.8%	18.7%	17.6%	14.8%
Small Cap U.S. Stocks ²	4.3%	17.5%	62.0%	13.5%	16.5%	12.3%
International Stocks ³	5.5%	9.2%	35.7%	9.4%	11.1%	5.4%
Real Estate ⁴	12.0%	21.8%	38.1%	10.1%	6.3%	9.4%
U.S. Bonds ⁵	1.8%	(1.6%)	(0.3%)	5.3%	3.0%	3.4%

¹ S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy

² Russell 2000, which includes the 2000 smaller stocks of the Russell 3000 index

³ MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets

⁴ MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks

⁵ Bloomberg Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market

Cryptocurrencies Capture Media Attention, But Remain Early in Lifecycle

Cryptocurrencies are digital assets designed to be a medium of exchange and a store of value, secured by cryptography to ensure authenticity. Cryptocurrencies have increasingly gained prominence as investors seek inflation hedges and are used to supplement existing ownership of gold and other stores of value. Their history, however, is far more limited than traditional currencies and gold. Bitcoin, released initially as open-source software in 2009, was the first decentralized cryptocurrency.

While cryptocurrencies lack history, they improve on certain flaws inherent in other traditional fiat currencies due to their decentralized nature. The networks that cryptocurrencies are based on, like blockchain, are maintained by a community of mutually distrustful parties referred to as miners: who use their computers to help validate and timestamp transactions. This results in an ecosystem that is both visible and verifiable.

Bitcoin is impossible to value and extremely volatile making it difficult for investors to use as an inflation hedge and merchants to accept as a form of payment. Many speculators amplify the inherent volatility of Bitcoin by borrowing funds to make large purchases, which magnifies price changes: A 900% rally in Bitcoin followed by a 50% correction is not uncommon.

Bitcoin Volatility Has Been High

Start of Rally	Peak	Trough	Start-Peak	Peak-Trough
Apr 2011	Jun 2011	Nov 2011	3,900%	-92%
Oct 2013	Dec 2013	Jan 2015	1,030%	-87%
Jan 2017	Mar 2017	Mar 2017	65%	-28%
Mar 2017	Jun 2017	Jul 2017	179%	-38%
Sep 2017	Dec 2017	Dec 2018	521%	-84%
Apr 2019	Jun 2019	Dec 2019	229%	-53%
Mar 2020	Jan 2021	Jan 2021	972%	-31%
Jan 2021	Apr 2021	May 2019	125%	-54%
Average			878%	-58%

Source: Bloomberg, Morgan Stanley Research

Despite its volatility, Bitcoin's total market value has risen from approximately \$1.5 billion in early 2013 to about \$622 billion today, with millions of individuals holding Bitcoin. By comparison, the value of mined gold is approximately \$11 trillion. New financial products are in development to meet this increasing demand from speculators, but it is critical to point out that Bitcoin, and other cryptocurrencies, are not traditional investments. Cryptocurrencies are highly speculative assets and thus inappropriate for most portfolios at this time.

Bitcoin Total Market Value vs. Price



Source: CoinMarketCap as of June 30, 2021



ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment advisor with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, returns optimized, and tax-efficient. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is well-below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

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