

# OUTLOOK 2021

POWERING FORWARD



**KING** wealth planning, inc.

*Retirement is a Journey. Let us be your Guide.*

# OUTLOOK 2021

Welcome!

POWERING FORWARD



**KING** wealth planning, inc.

*Retirement is a Journey. Let us be your Guide.*

Speaker:

Paul King, King Wealth Planning CEO and  
LPL Registered Principal

- All attendee mics are muted for optimal sound quality
- Questions will be answered at the end of the session
- Email your questions to: [Shannon@kingwealth.com](mailto:Shannon@kingwealth.com)
- Session is being recorded

# OUTLOOK 2021

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*Retirement is a Journey. Let us be your Guide.*

## MISSION

WE PROVIDE RETIREMENT GUIDANCE  
THROUGH LONG-TERM PERSONAL  
PARTNERSHIPS, SO OUR CLIENTS CAN LIVE  
THEIR LIVES TO THE FULLEST.

[HTTPS://WWW.KINGWEALTH.COM/MISSION](https://www.kingwealth.com/mission)

# OUTLOOK 2021

POWERING FORWARD



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## GUIDING VALUES

ETHICS  
RELATIONSHIP  
SERVICE

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TOILET PAPER

HAND SANITIZER FACE MASKS

SIX FEET 2020 ZOOM

TIKTOK A year to remember COVID-19

QUARANTINE TRAVEL BANS

ONLINE LEARNING ESSENTIAL

SOCIAL DISTANCING

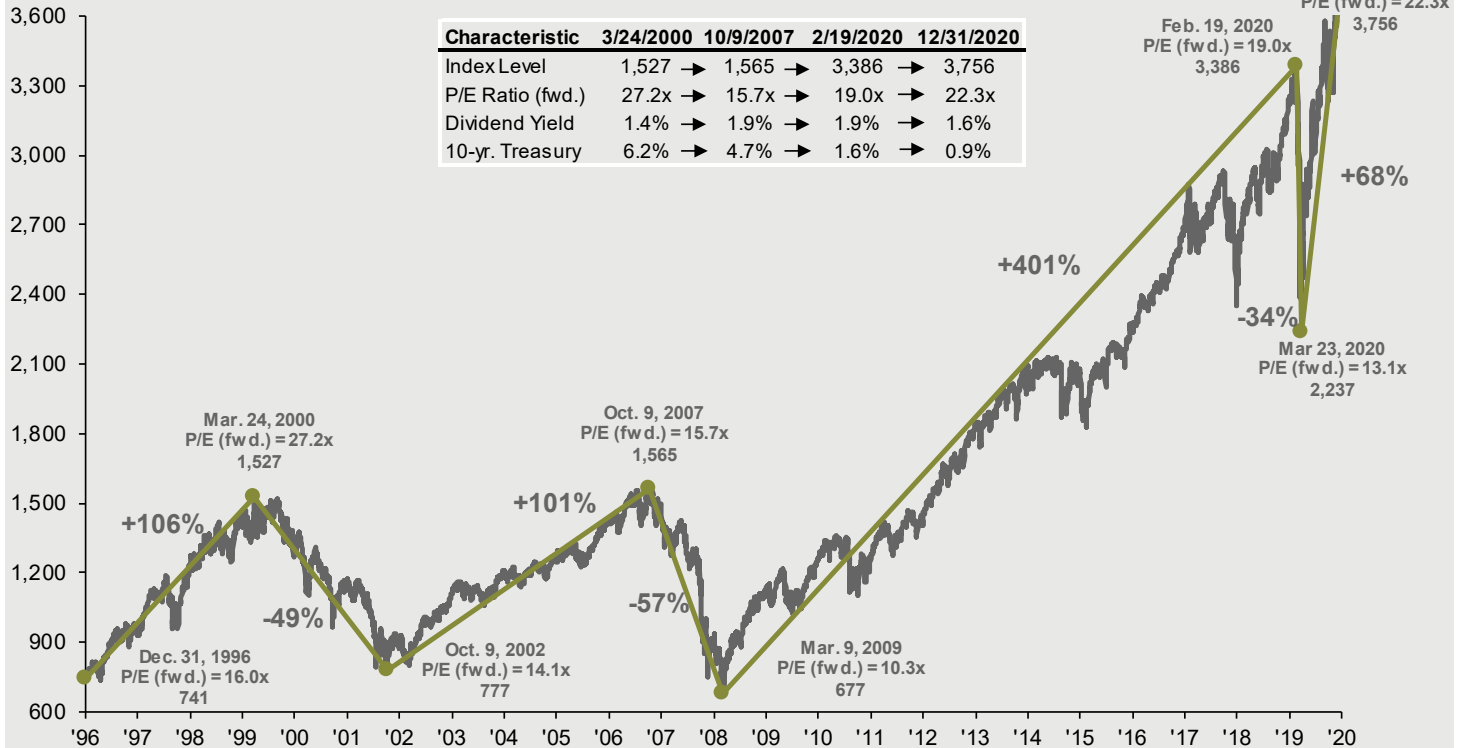


# S&P 500 Index at inflection points

GTM – U.S. | 4

Equities

## S&P 500 Price Index



Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.  
 Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat.  
 Forward price-to-earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.  
*Guide to the Markets – U.S.* Data are as of December 31, 2020.



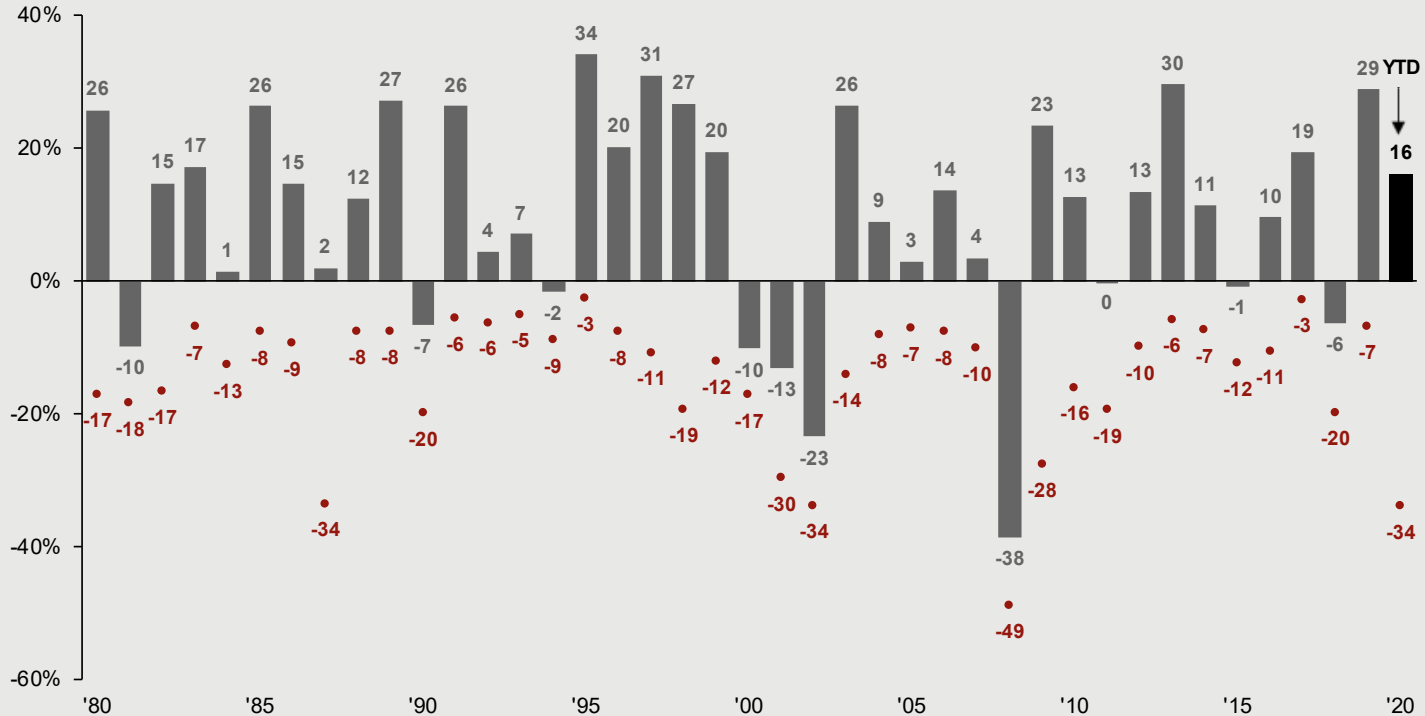
# Annual returns and intra-year declines

GTM – U.S. | 18

Equities

## S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns positive in 31 of 41 years



Source: FactSet, Standard &amp; Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2020, over which time period the average annual return was 9.0%.

Guide to the Markets – U.S. Data are as of December 31, 2020.

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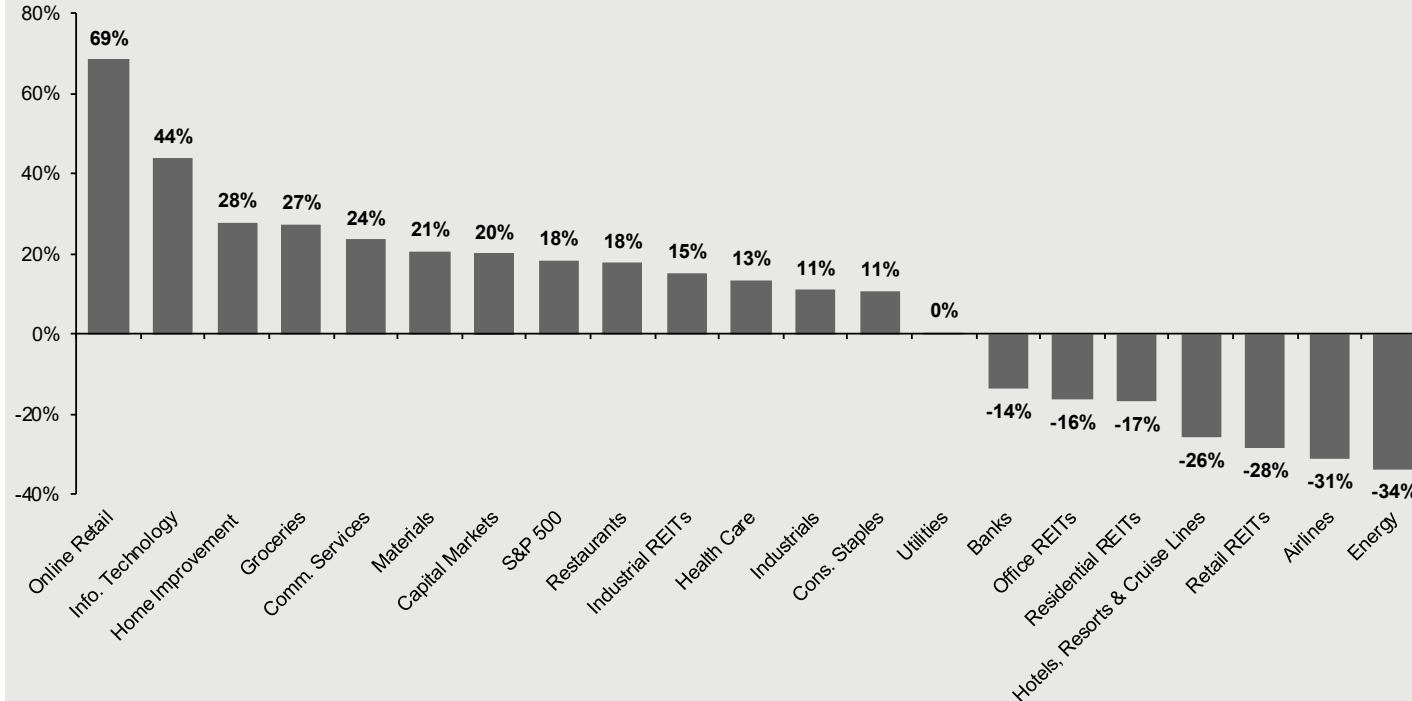
# S&P 500 performance by sector

GTM – U.S. | 16

Equities

## Returns since December 31, 2019

Total returns by sector and industry



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.  
 Guide to the Markets – U.S. Data are as of December 31, 2020.

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# S&P 500: Index concentration, valuations and earnings

Equities

## P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months

	Current	Average	% of avg.
<b>Top 10</b>	<b>33.3x</b>	<b>19.4x</b>	<b>172%</b>
<b>Remaining stocks</b>	<b>19.7x</b>	<b>15.5x</b>	<b>127%</b>
<b>S&amp;P 500</b>	<b>22.3x</b>	<b>16.2x</b>	<b>138%</b>



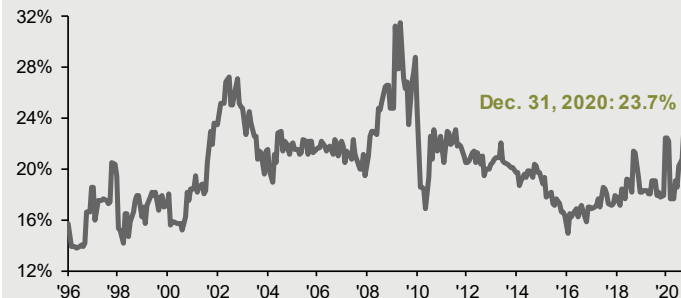
## Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&amp;P 500



## Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

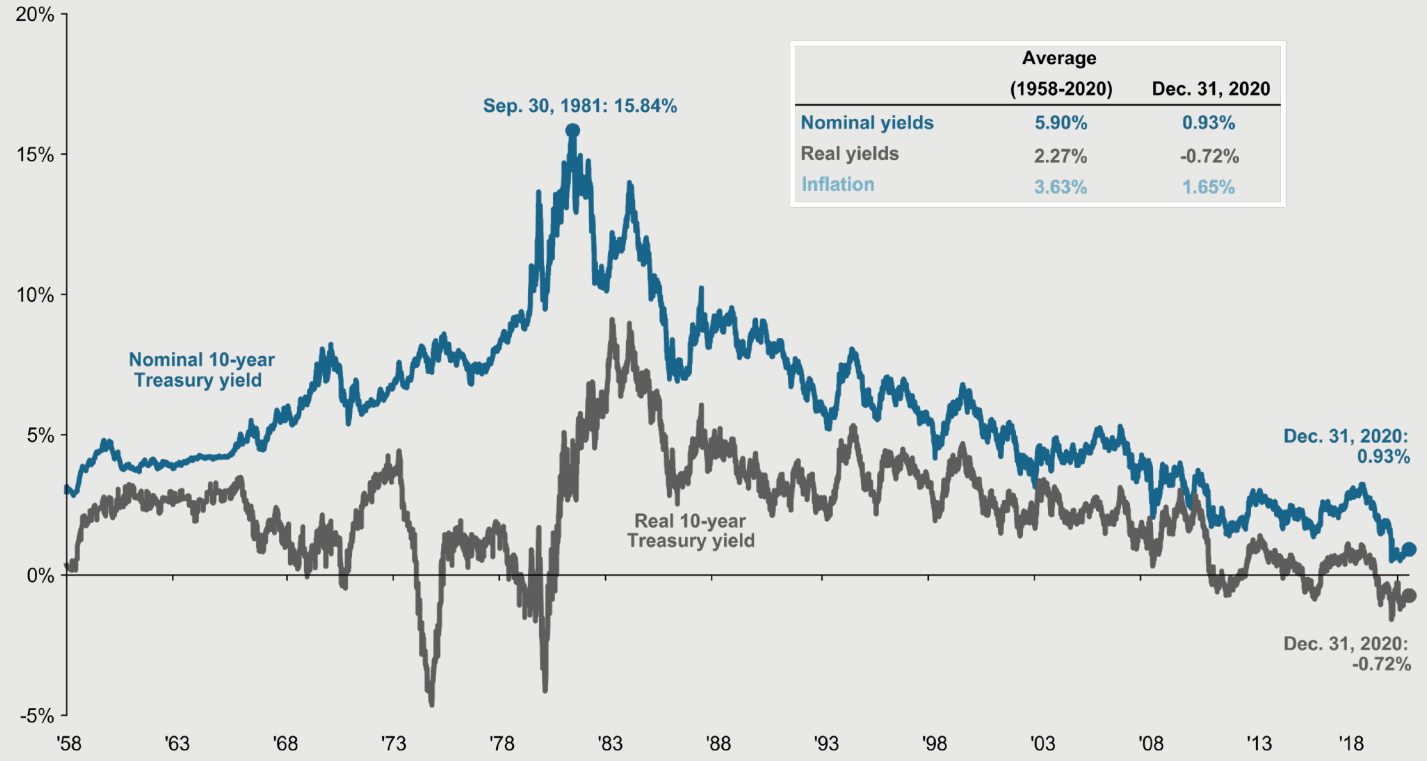
The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. The weight of each of these companies is revised monthly. As of December 31, 2020, the top ten companies in the index were: AAPL (6.8%), MSFT (5.3%), AMZN (4.5%), FB (2.1%), TSLA (1.7%), GOOGL (1.7%), GOOG (1.6%), BRK.B (1.4%), JNJ (1.3%), JPM (1.2%) and V(1.2%).

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**Nominal and real 10-year Treasury yields**

Fixed income



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.  
 Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for December 2020 where real yields are calculated by subtracting out November 2020 year-over-year core inflation.  
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**ECONOMY**

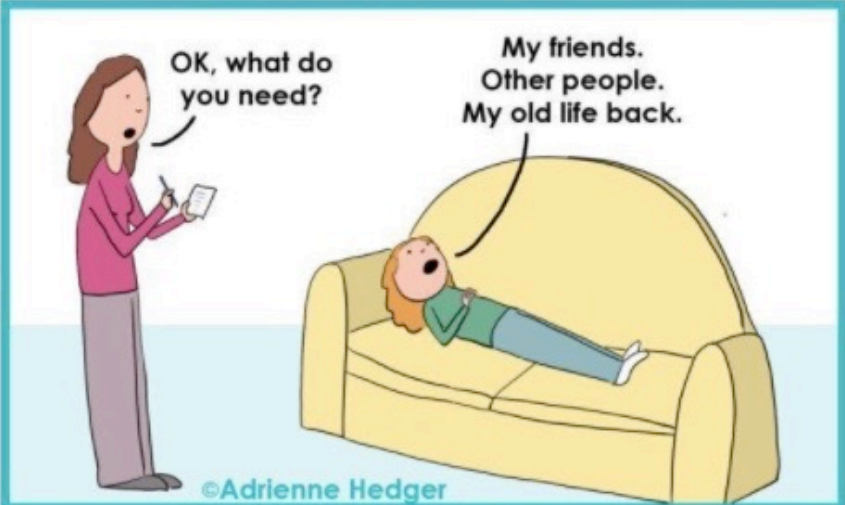


# A NEW START



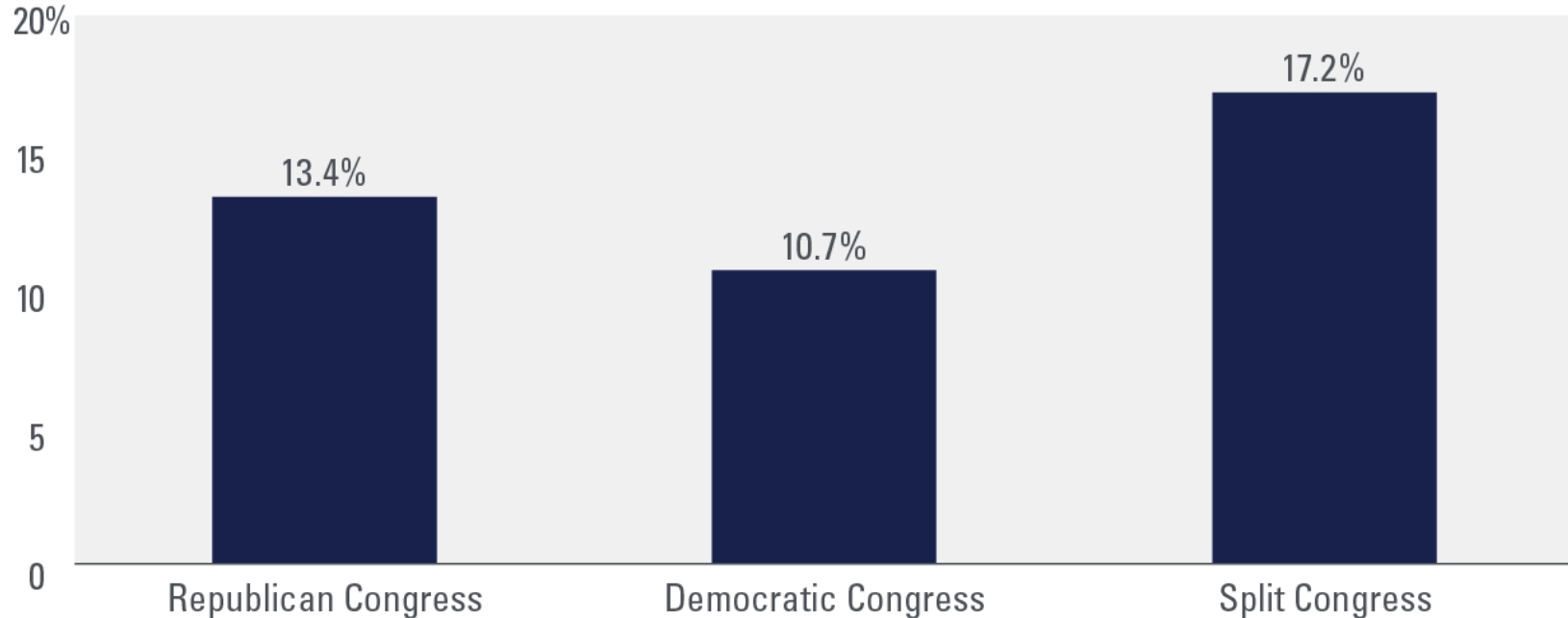
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# Scenes From Self-Isolation



# Historically, A Split Congress Has Been Positive For Stocks

- Average Annual S&P 500 Index Performance Based on Congress Makeup



Source: LPL Research, Bloomberg 11/04/20  
Data are from 1950–2019.

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

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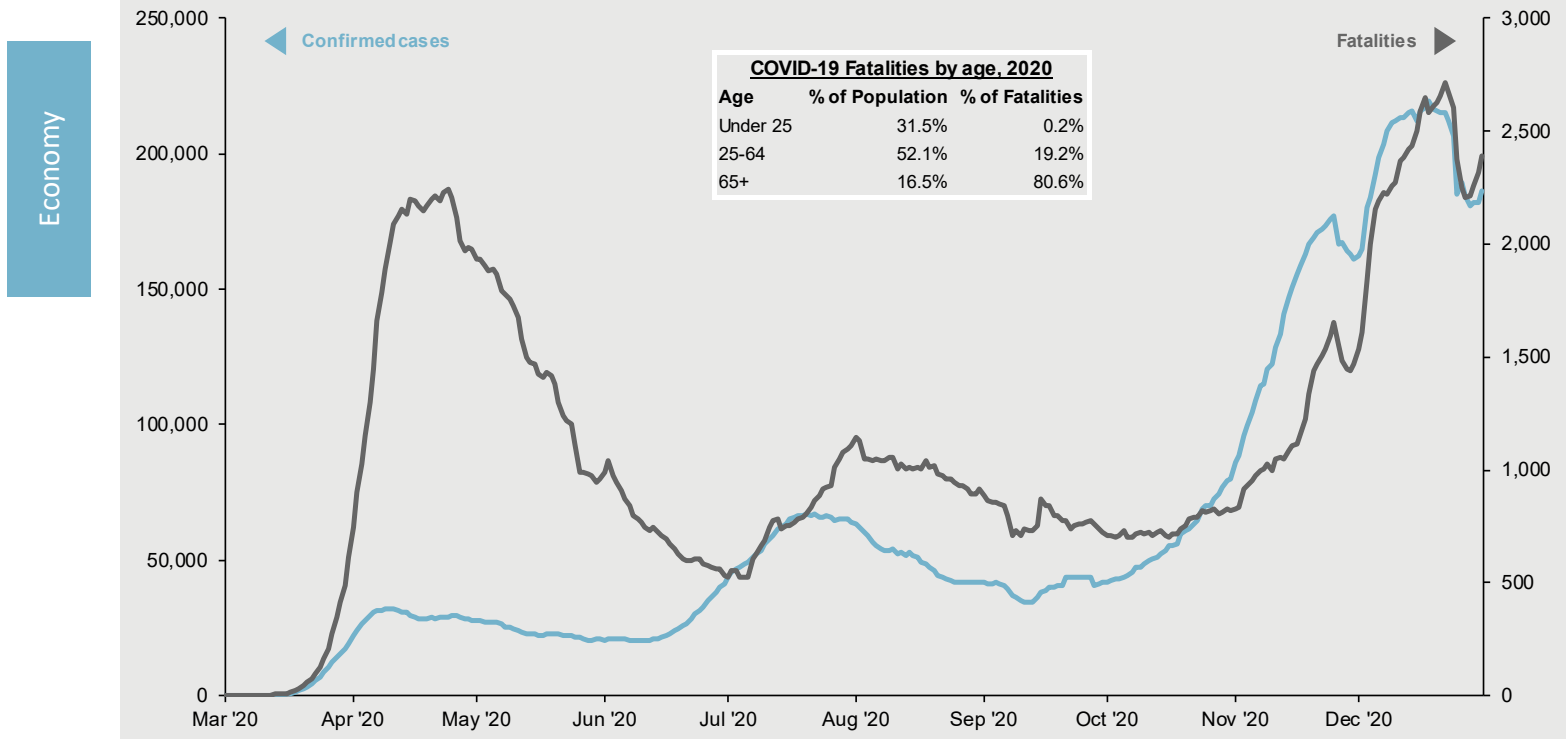
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# COVID-19: U.S. confirmed cases and fatalities

## Change in confirmed cases and fatalities in the U.S.

7-day moving average, as of December 31, 2020



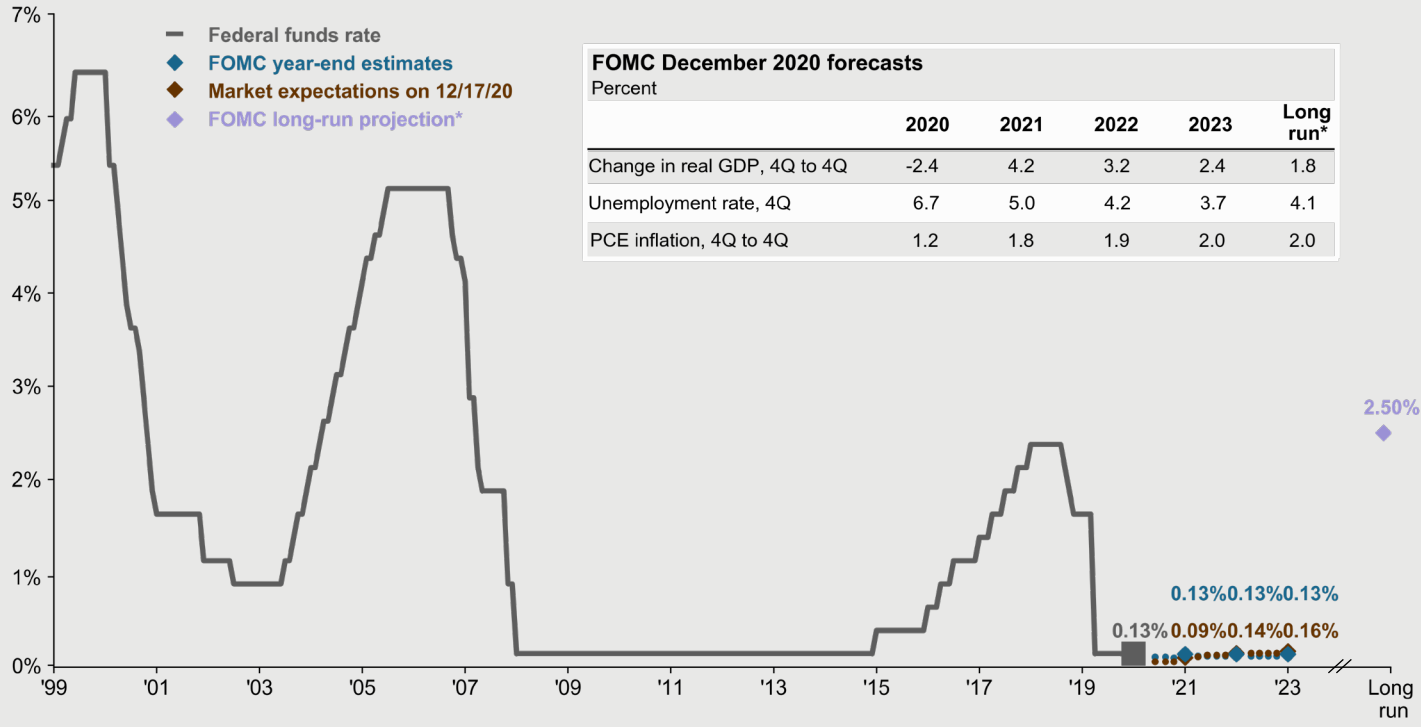
Source: Centers for Disease Control and Prevention, Johns Hopkins CSSE, J.P. Morgan Asset Management.  
Guide to the Markets – U.S. Data are as of December 31, 2020.

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Fixed income

## Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are the federal funds rates priced into the fed futures market as of the following date of the December 2020 FOMC meeting and are through December 2023. \*Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy.

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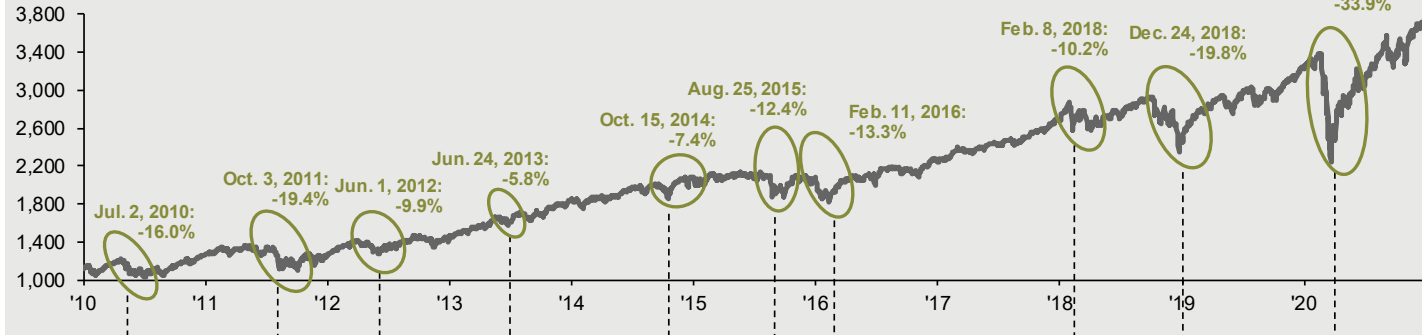
# Market volatility

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Equities

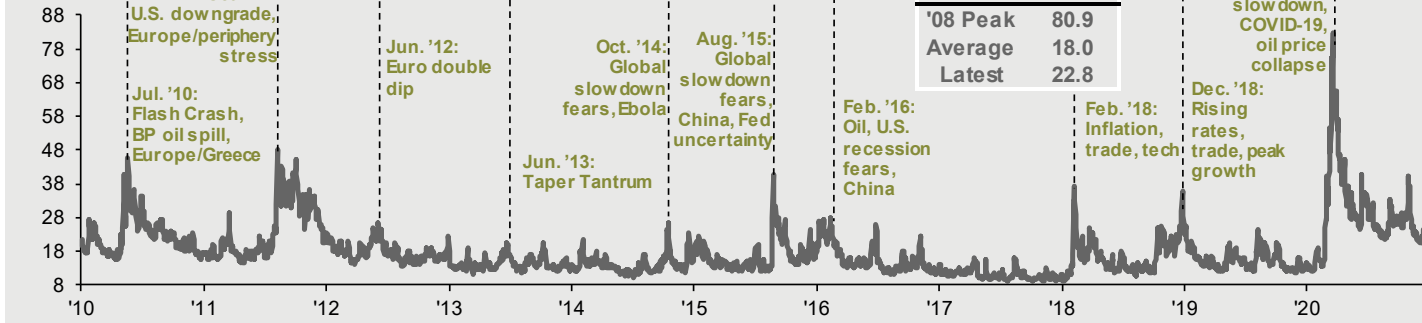
## Major pullbacks since the Financial Crisis

S&P 500 Price index



## Volatility

VIX Index



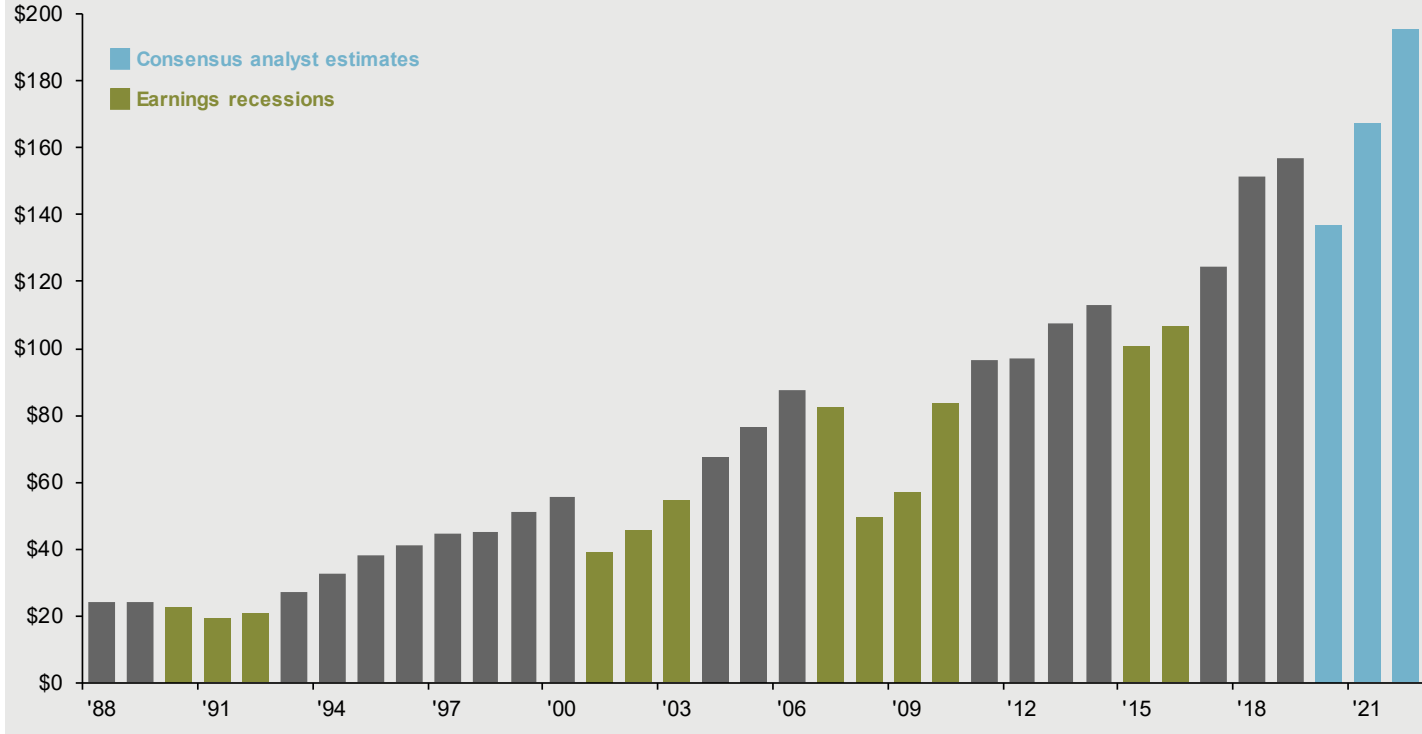
Source: CBOE, FactSet, Standard & Poor's, J.P. Morgan Asset Management.  
Drawdowns are calculated as the prior peak to the lowest point.  
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Equities

**S&P 500 earnings per share**

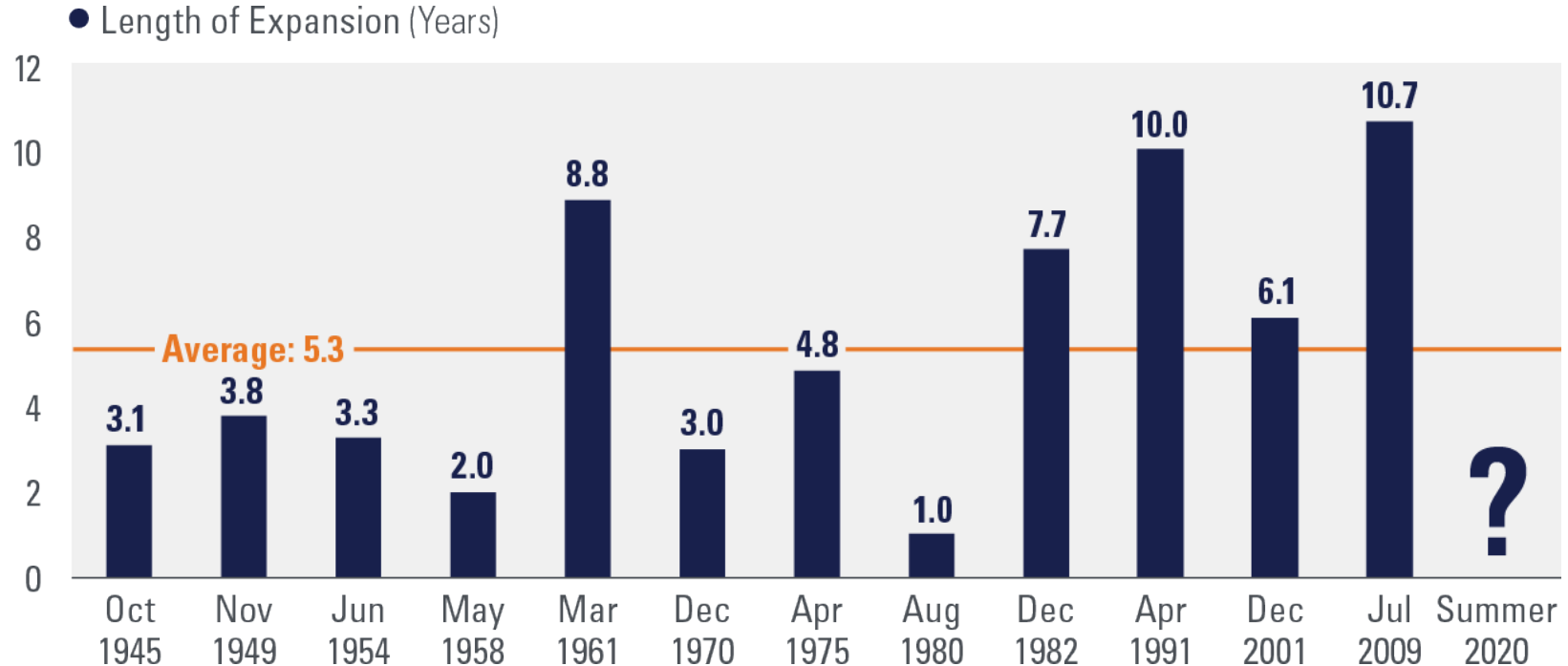
Index annual operating earnings



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.  
Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from FactSet Market Aggregates. Past performance is not indicative of future returns.  
*Guide to the Markets – U.S.* Data are as of December 31, 2020.

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# New Economic Expansion May Have Years to Run



Source: LPL Research, National Bureau of Economic Research 11/06/20

Economic forecasts set forth may not develop as predicted and are subject to change.

While NBER has not officially dated the end of the recession, and typically does not until approximately a year after the economy has troughed, on average, we are provisionally dating summer 2020 as the economic trough based on record retail sales and expanding manufacturing and services data.

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**STOCKS**

# EARNINGS REBOUND MAY SPARK 2021 GAINS



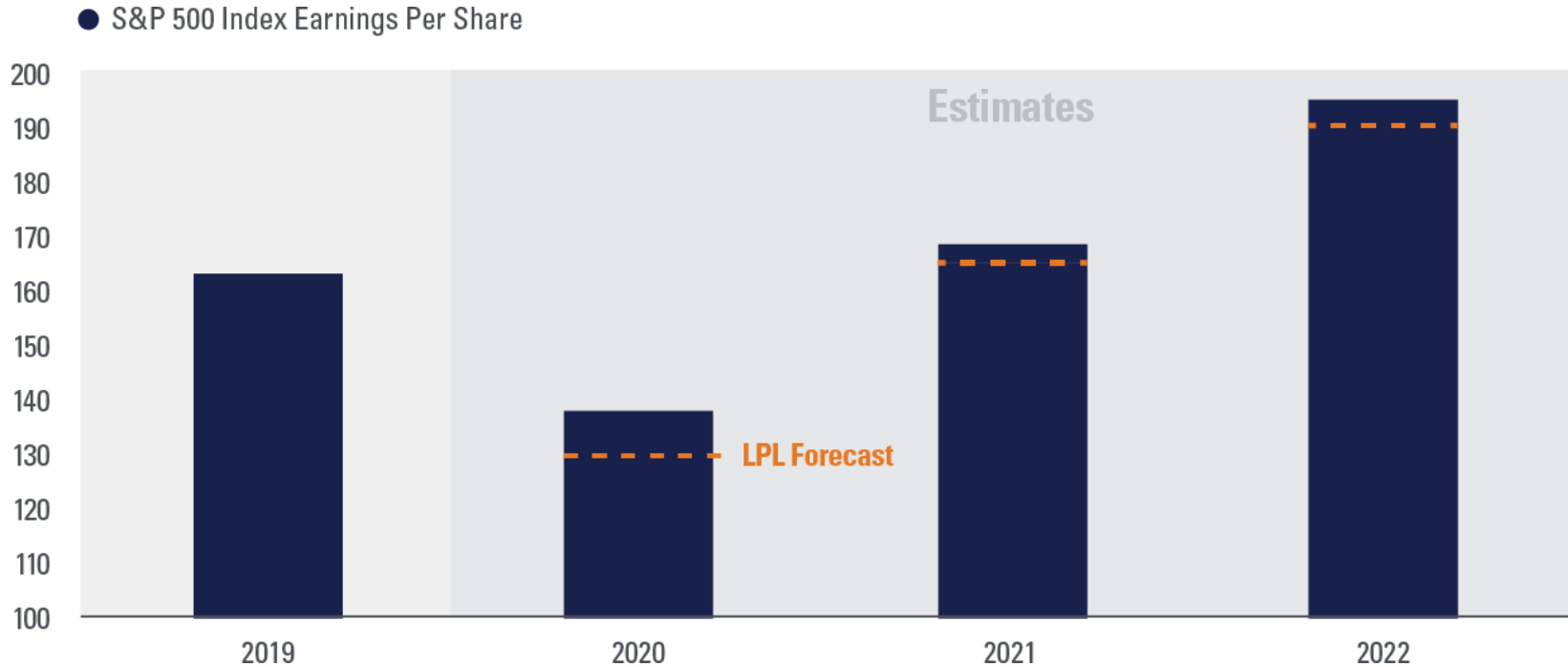
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# Earnings Poised for a Sharp Rebound in 2021 and 2022



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Source: LPL Research, FactSet 11/06/20

Economic forecasts may not develop as predicted and are subject to change.

# 2021 Economic Forecasts—Rebound in Global Growth Expected as COVID-19 Threat Diminishes

<b>Real GDP Growth Forecasts (YoY)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
United States	2.2%	-4.0%	4.0–4.5%
Developed ex-US	1.3%	-7.0%	3.75–4.25%
Emerging Markets	4.3%	-0.7%	5–5.5%
Global	2.8%	-3.9%	4.5–5%
<b>US Economic Data</b>			
Inflation (YoY%)	1.8%	1.2%	1.9%
Unemployment	3.7%	8.3%	6.7%

Source: LPL Research, Bloomberg 11/06/20

Economic forecasts set forth may not develop as predicted and are subject to change.

2020 GDP and 2020 and 2021 inflation and unemployment forecasts are based on Bloomberg-surveyed economists' consensus. 2021 GDP estimates are LPL forecasts.

Inflation is measured by the Consumer Price Index. Unemployment rate provided by US Department of Labor.



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# 2021 US Market Forecasts—Earnings Rebound May Fuel Solid Gains for Stocks in 2021

2021 US Market Forecasts	2020	2021
S&P 500 Index Fair Value	3,450–3,500	3,850–3,900
S&P 500 Earnings per Share	\$133*	\$165
10-Year US Treasury Yield	1.0–1.5%	1.25–1.75%

Source: LPL Research, Bloomberg, FactSet 11/06/20

\* FactSet consensus estimate

Economic forecasts may not develop as predicted and are subject to change.

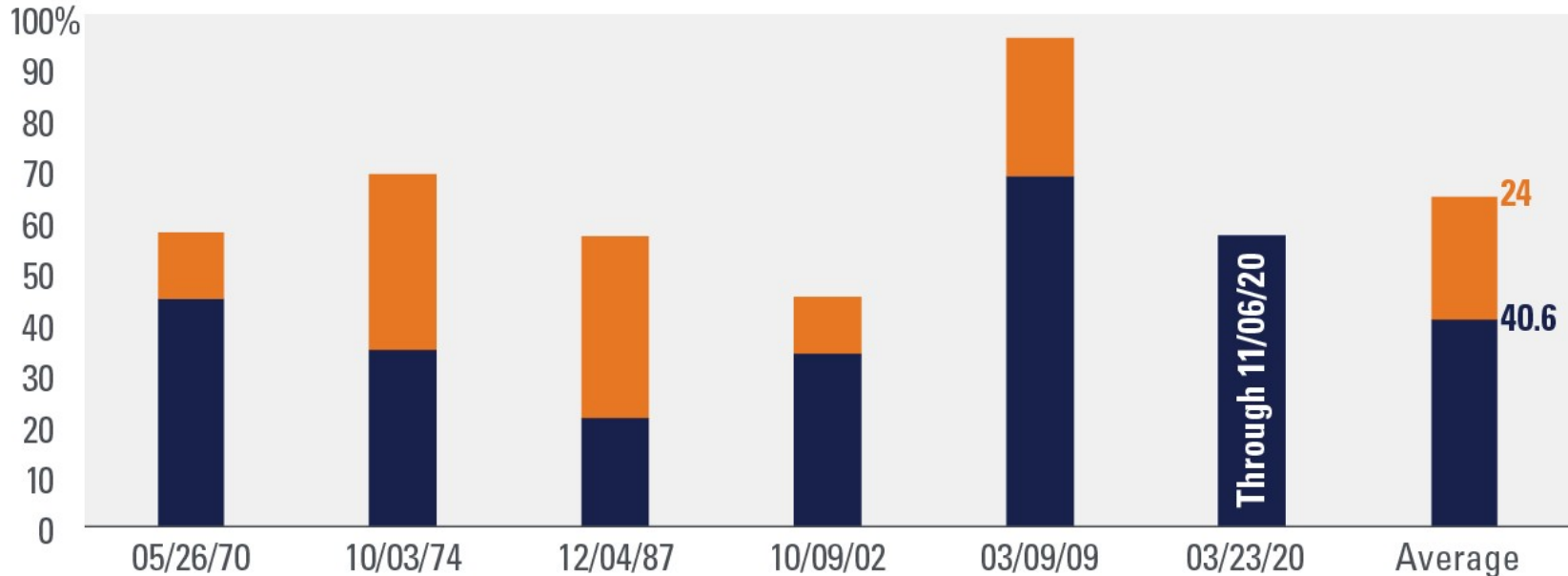


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# New Bull Markets Historically Have Built on Strong First-year Gains

Stock Market Performance Following Major Bear Market Bottoms

- 1 Year After 30% or Greater Decline in Stocks
- 2 Years After



Source: LPL Research, FactSet 11/06/20

Includes returns following declines of 30% or more in the S&P 500 Index since 1970. Year 2 returns include benefits of compounding from year 1 returns. All indexes are unmanaged and can't be invested in directly. Past performance is no guarantee of future results.



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## BONDS



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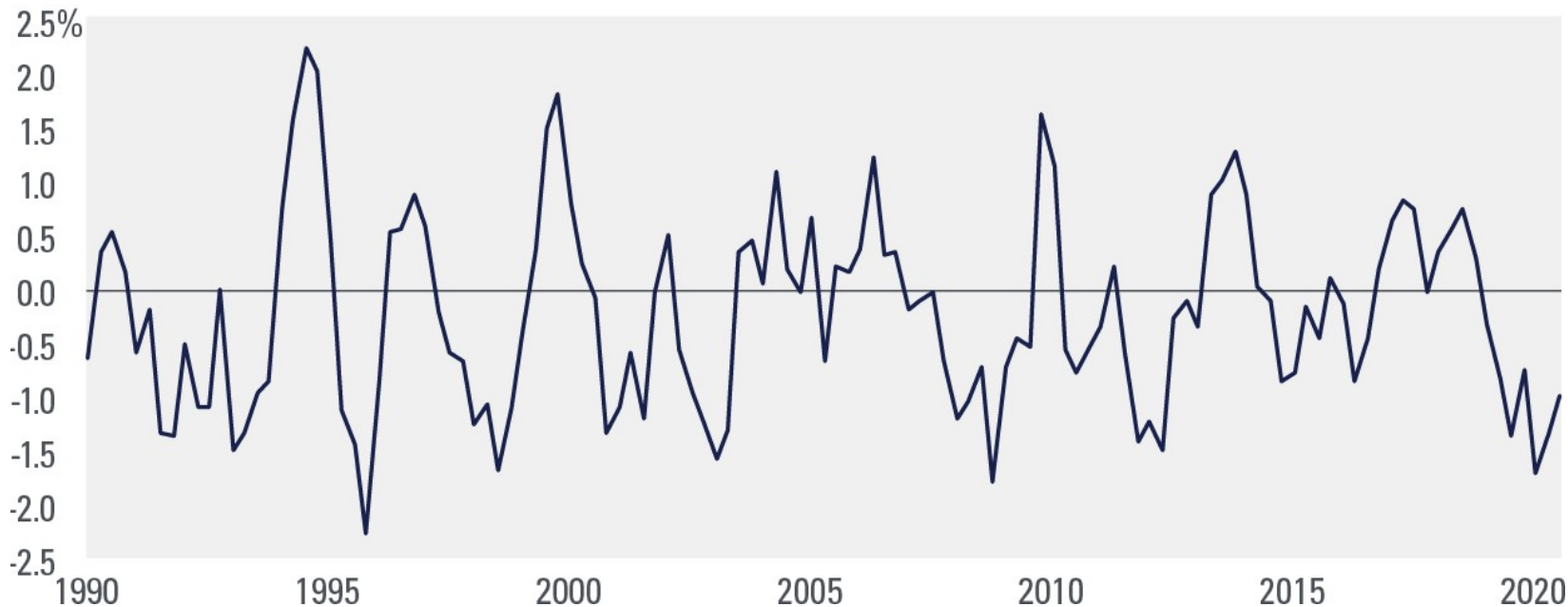
# STAYING IN THEIR LANE



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# Large Declines in US Treasury Yields Have Turned Higher Over the Next Year

● 1-Year Change in 10-Year Treasury Yield (Quarterly)



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Source: LPL Research, Federal Reserve 11/01/20



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# High-Quality Bonds Have Held Up During Equity Market Declines

S&P 500 Index Market Declines (> 10%)		10-Year Constant Maturity Treasury Yield (%)			Return (%)		
Start Date	End Date	Start	Finish	Change	S&P 500 Index	Barclays Aggregate	Treasuries
4/23/10	7/2/10	3.84	3.00	-0.84	-15.6	3.0	4.4
4/29/11	10/3/11	3.32	1.80	-1.52	-18.6	5.4	8.6
5/21/15	2/11/16	2.19	1.63	-0.56	-12.8	2.2	4.1
1/26/18	2/8/18	2.66	2.85	0.19	-10.1	-1.0	-0.9
9/20/18	12/24/18	3.07	2.74	-0.33	-19.4	1.6	2.5
2/19/20	3/23/20	1.56	0.76	-0.80	-33.8	-0.9	5.4
Average				-0.64	-18.4	1.7	4.0

Source: LPL Research, FactSet 11/01/20

All indexes are unmanaged and can't be invested in directly. Past performance is no guarantee of future results. Indexes (from left to right): S&P 500 Index, Bloomberg Barclays US AggregateBond Index, Bloomberg Barclays US Aggregate Government - Treasury Index.



# Fixed income sector returns

GTM – U.S. | 51

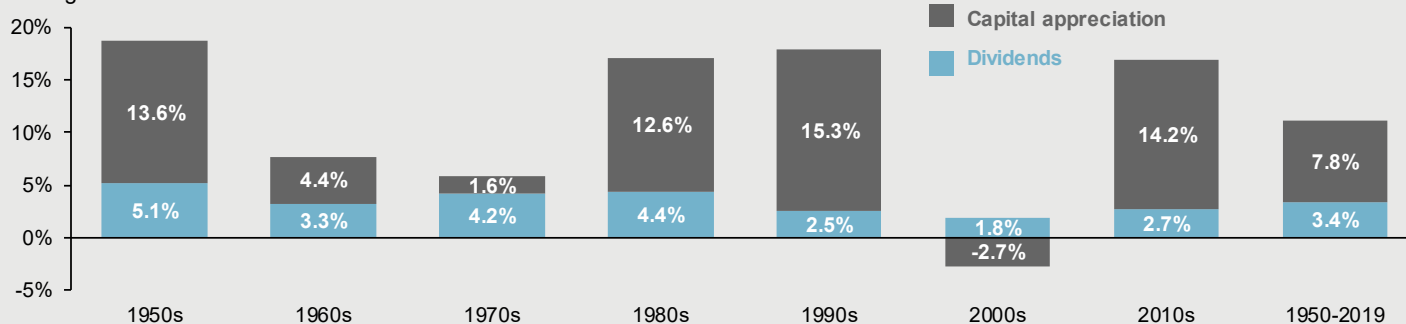
Fixed income

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2006-2020	
	EMD LCL. 15.2%	EMD LCL. 18.1%	Treas. 13.7%	High Yield 58.2%	EMD LCL. 15.7%	TIPS 13.6%	EMD USD 17.4%	High Yield 7.4%	Muni 9.1%	Muni 3.3%	High Yield 17.1%	EMD LCL. 15.2%	ABS 2.7%	EMD USD 15.0%	TIPS 11.0%	Ann. High Yield 7.5%	Vol. EMD LCL. 11.9%
	High Yield 11.8%	TIPS 11.6%	MBS 8.3%	EMD USD 29.8%	High Yield 15.1%	Muni 10.7%	EMD LCL. 16.8%	ABS 1.3%	Corp. 7.5%	MBS 1.5%	EMD USD 10.2%	EMD USD 10.3%	Muni 1.3%	Corp. 14.5%	Corp. 9.9%	EMD USD 6.9%	High Yield 11.2%
	EMD USD 9.9%	Treas. 9.0%	Barclays Agg 5.2%	ABS 24.7%	EMD USD 12.2%	Treas. 9.8%	High Yield 15.8%	MBS -1.4%	EMD USD 7.4%	EMD USD 1.2%	EMD LCL. 9.9%	High Yield 7.5%	MBS 1.0%	High Yield 14.3%	Treas. 8.0%	Corp. 5.8%	EMD USD 8.8%
	Asset Alloc. 5.8%	Barclays Agg 7.0%	Asset Alloc. -1.9%	EMD LCL. 22.0%	Corp. 9.0%	Corp. 8.2%	Corp. 9.8%	Corp. -1.5%	MBS 6.1%	Treas. 0.8%	Corp. 6.1%	Corp. 6.4%	Treas. 0.9%	EMD LCL. 13.5%	Barclays Agg 7.5%	EMD LCL. 5.1%	Corp. 5.9%
	MBS 5.2%	MBS 6.9%	TIPS -2.4%	Corp. 18.7%	Asset Alloc. 7.6%	Barclays Agg 7.8%	Asset Alloc. 7.6%	Asset Alloc. -1.7%	Barclays Agg 6.0%	Barclays Agg 0.6%	Asset Alloc. 4.8%	Muni 5.4%	Barclays Agg 0.0%	Asset Alloc. 9.8%	High Yield 7.1%	Asset Alloc. 4.7%	Treas. 4.9%
	Muni 4.8%	Asset Alloc. 6.2%	Muni -2.5%	Asset Alloc. 16.5%	Barclays Agg 6.5%	Asset Alloc. 7.7%	TIPS 7.0%	Barclays Agg -2.0%	Asset Alloc. 5.4%	ABS 0.2%	TIPS 4.7%	Asset Alloc. 5.3%	Asset Alloc. -0.6%	Barclays Agg 8.7%	Asset Alloc. 6.6%	Barclays Agg 4.5%	TIPS 4.9%
	ABS 4.7%	EMD USD 6.2%	Corp. -4.9%	Muni 12.9%	TIPS 6.3%	EMD USD 7.3%	Muni 6.8%	Muni -2.6%	Treas. 5.0%	Asset Alloc. -0.4%	Barclays Agg 2.6%	Barclays Agg 3.5%	TIPS -1.3%	TIPS 8.4%	EMD USD 5.3%	Muni 4.5%	ABS 4.3%
	Barclays Agg 4.3%	Corp. 4.6%	EMD LCL. -5.2%	TIPS 11.4%	Treas. 5.9%	MBS 6.2%	Barclays Agg 4.2%	Treas. -2.8%	TIPS 3.6%	Corp. -0.7%	ABS 2.0%	TIPS 3.0%	High Yield -2.1%	Muni 7.5%	Muni 5.2%	TIPS 4.3%	Muni 3.8%
	Corp. 4.3%	Muni 3.4%	EMD USD -12.0%	Barclays Agg 5.9%	ABS 5.8%	ABS 5.1%	ABS 3.7%	EMD USD -5.2%	High Yield 2.5%	TIPS -1.4%	MBS 1.7%	ABS 3.0%	Corp. -2.5%	Treas. 6.9%	MBS 3.9%	MBS 4.1%	Asset Alloc. 3.8%
	Treas. 3.1%	ABS 2.2%	ABS -12.7%	MBS 5.9%	MBS 5.4%	High Yield 5.0%	MBS 2.6%	TIPS -8.6%	ABS 1.7%	High Yield -4.5%	Treas. 1.0%	MBS 2.5%	EMD USD -4.3%	MBS 6.4%	ABS 3.4%	Treas. 4.0%	Barclays Agg 3.2%
	TIPS 0.4%	High Yield 1.9%	High Yield -26.2%	Treas. -3.6%	Muni 2.4%	EMD LCL. -1.8%	Treas. 2.0%	EMD LCL. -9.0%	EMD LCL. -5.7%	EMD LCL. -14.9%	Muni 0.2%	Treas. 2.3%	EMD LCL. -6.2%	ABS 3.8%	EMD LCL. 2.7%	ABS 3.4%	MBS 2.5%

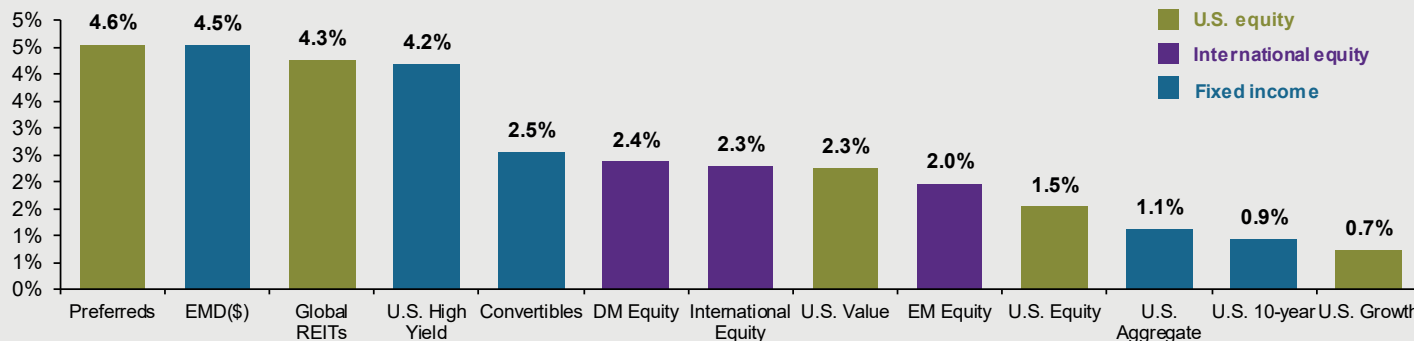
Source: Barclays, Bloomberg, FactSet, J.P. Morgan Global Economic Research, J.P. Morgan Asset Management.  
 Past performance is not indicative of future returns. Fixed income sectors shown above are provided by Bloomberg unless otherwise noted and are represented by Broad Market: U.S. Aggregate Index; MBS: US Aggregate Securitized - MBS Index; ABS: J.P. Morgan ABS Index; Corporate: U.S. Aggregate Credit - Corporates - Investment Grade; Municipals: Municipal Bond Index; High Yield: U.S. Aggregate Credit - Corporate - High Yield Index; Treasuries: Global U.S. Treasury; TIPS: U.S. Treasury Inflation-Protected Notes Index; Emerging Debt USD: J.P. Morgan EMBIG Diversified Index; Emerging Debt LCL: J.P. Morgan EM Global Index. The "Asset Allocation" portfolio assumes the following weights: 20% in MBS, 5% in ABS, 20% in Corporate, 15% in Municipals, 5% in Emerging Debt USD, 5% in Emerging Debt LCL, 40% in High Yield, 10% in TIPS, and 15% in Fixed Income. Planning offered through King Wealth Planning, Inc., a Registered Investment Advisor, and a separate entity.

## S&P 500 total return: Dividends vs. capital appreciation

Average annualized returns



## Asset class yields



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Top) Ibbotson; (Bottom) BAML, Barclays, Bloomberg, Federal Reserve, FTSE, J.P. Morgan, MSCI, NCREIF, Russell. Dividend vs. capital appreciation returns are through 12/31/19. Yields are most current. Preferreds: BAML Hybrid Preferred Securities; U.S. High Yield: Bloomberg US Corporate High Yield; Global REITs: FTSE NAREIT Global REITs; U.S. Aggregate: Bloomberg Barclays US Aggregate; EMD(\$): J.P. Morgan EMBIG Diversified; Convertibles: Bloomberg Barclays U.S. Convertibles Composite; International Equity: MSCI AC World ex-U.S.; EM Equity: MSCI Emerging Markets; DM Equity: MSCI EAFE; U.S. Equity: S&P 500; U.S. Growth: Russell 1000 Growth; U.S. Value: Russell 1000 Value; U.S. 10-year: Tullett Prebon.

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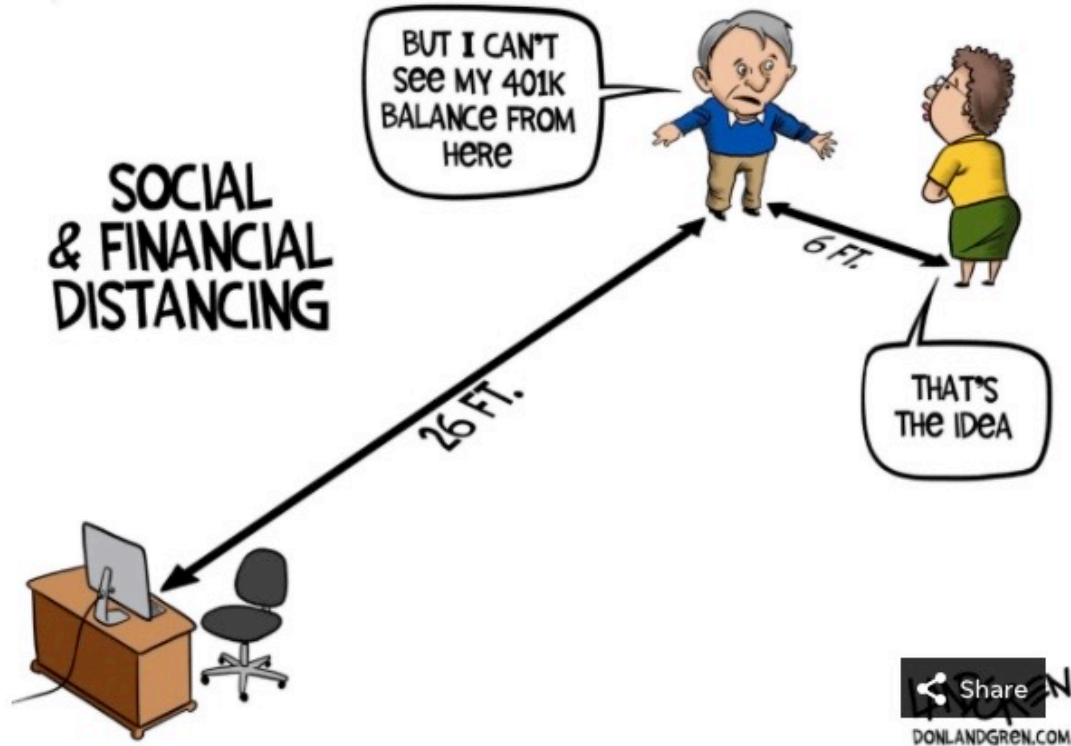


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# THE JOURNEY CONTINUES



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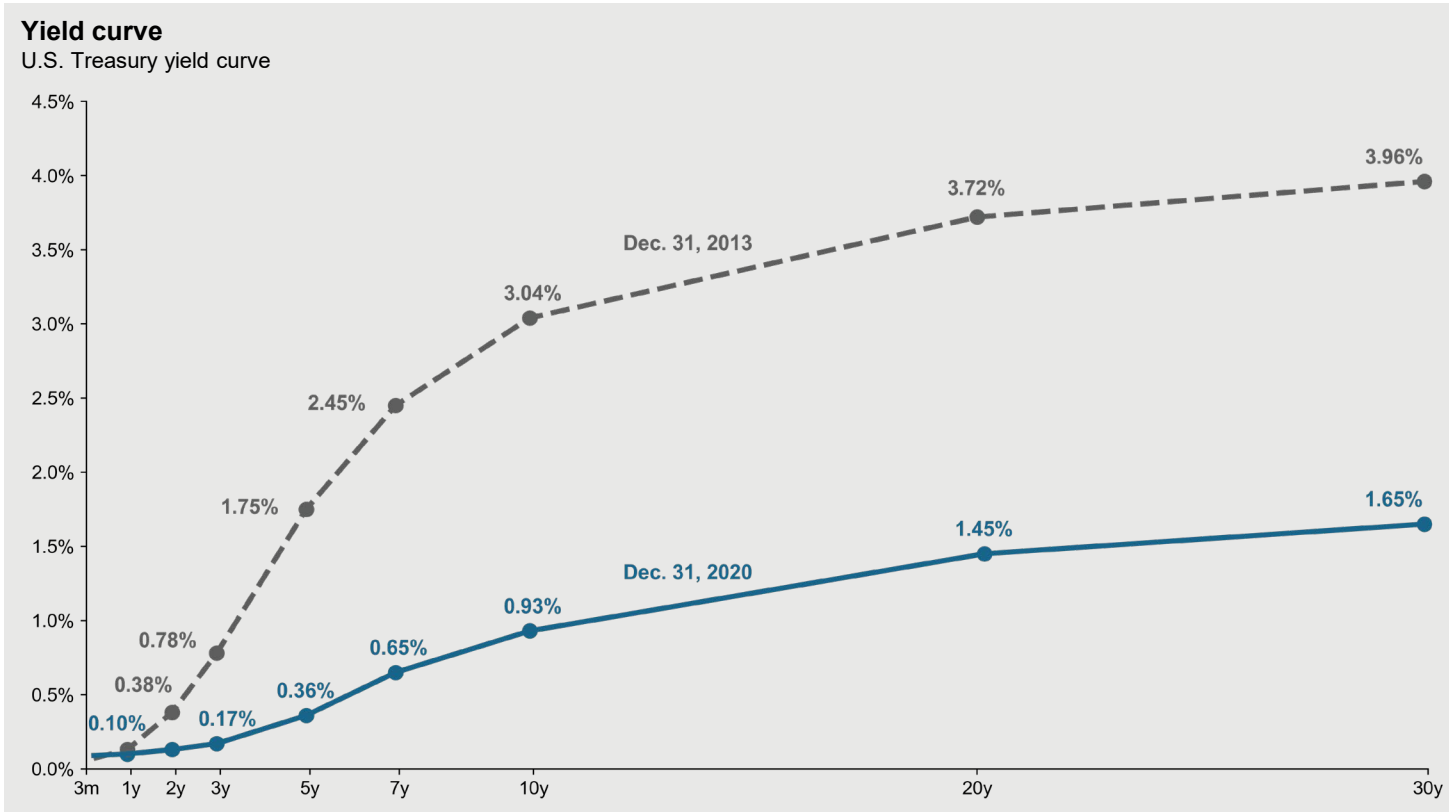


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# Yield curve

GTM43.J.S. |

Fixed income



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.  
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# Fixed income market dynamics

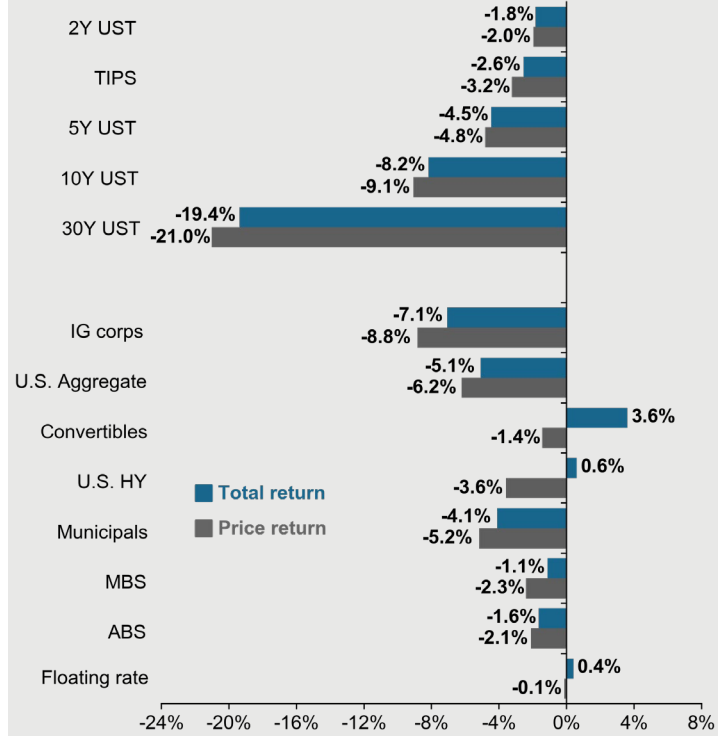
GTM – U.S. | 41

Fixed income

	Yield		Return		Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
	12/31/2020	12/31/2019	2020	2020			
<b>U.S. Treasuries</b>							
<b>2-Year</b>	0.13%	1.58%	3.07%	2 years	0.67	-0.39	
<b>5-Year</b>	0.36%	1.69%	7.26%	5	0.92	-0.35	
<b>TIPS</b>	-1.06%	0.15%	10.99%	10	0.58	0.19	
<b>10-Year</b>	0.93%	1.92%	10.61%	10	1.00	-0.33	
<b>30-Year</b>	1.65%	2.39%	18.72%	30	0.93	-0.33	
<b>Sector</b>							
<b>IG corps</b>	1.74%	2.84%	9.89%	12.3	0.41	0.39	
<b>U.S. Aggregate</b>	1.12%	2.31%	7.51%	8.3	0.85	0.03	
<b>Convertibles</b>	5.04%	5.36%	50.12%	-	-0.29	0.89	
<b>U.S. HY</b>	4.18%	5.19%	7.11%	6.5	-0.26	0.74	
<b>Municipals</b>	1.07%	1.78%	5.21%	13.0	0.38	0.10	
<b>MBS</b>	1.25%	2.54%	3.87%	4.0	0.81	-0.14	
<b>ABS</b>	2.23%	2.87%	3.37%	2.2	-0.01	0.27	
<b>Floating rate</b>	0.54%	2.30%	1.38%	1.6	-0.23	0.45	

## Impact of a 1% rise in interest rates

Assumes a parallel shift in the yield curve

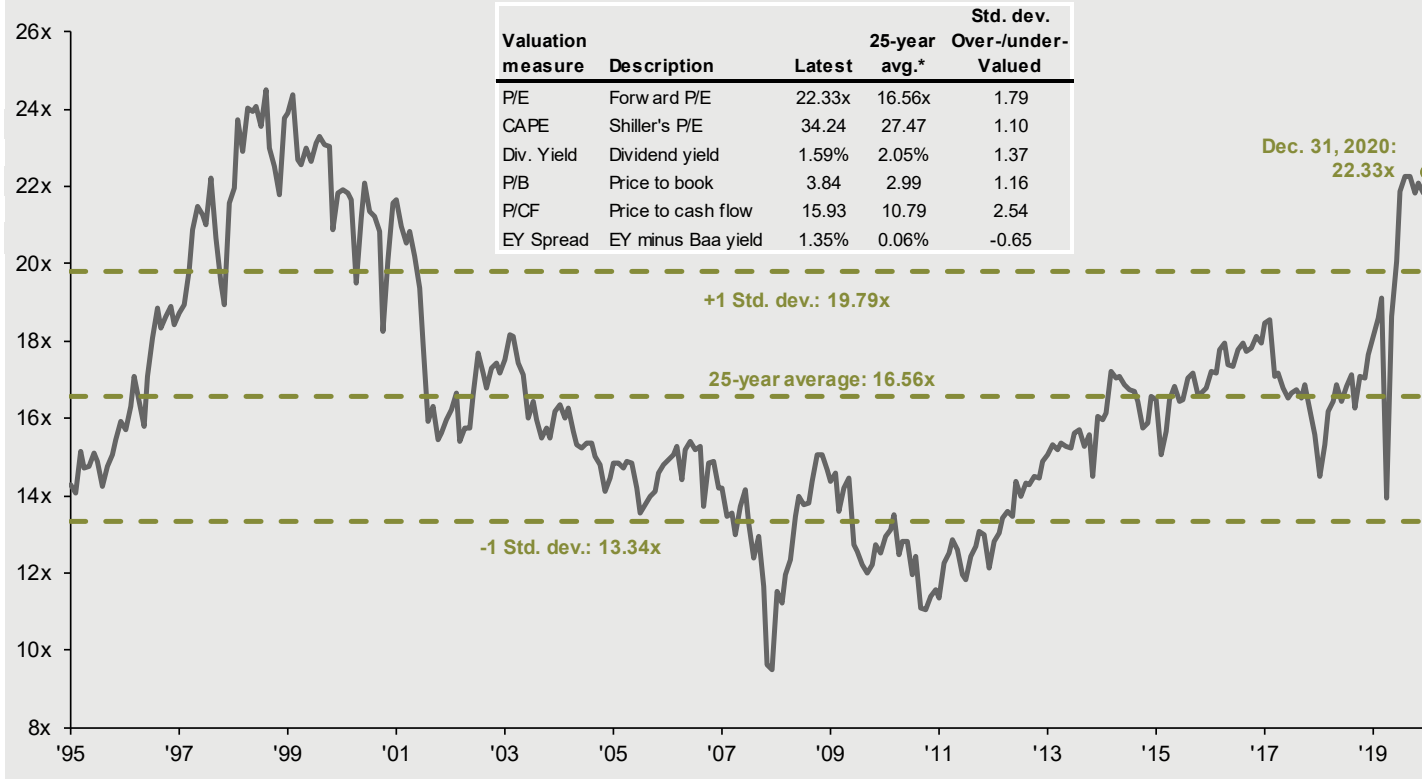


Source: Barclays, Bloomberg, FactSet, SIFMA, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by – U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond; High Yield: Corporate High Yield; TIPS: Treasury Inflation-Protected Securities (TIPS); U.S. Floating rate index; Convertibles: U.S. Convertibles Composite. Convertibles yield is as of November 2020 due to data availability. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield-to-worst. Convertibles yield is based on U.S. portion of Bloomberg Barclays Global Convertibles. Correlations are based on 15-years of monthly returns for all sectors. Issuance is based on monthly data provided by SIFMA. Past performance is not indicative of future results.  
 Guide to the Markets – U.S. Data are as of December 31, 2020.

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Equities

## S&P 500 Index: Forward P/E ratio



Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1995, and FactSet for December 31, 2020. Current next 12-months consensus earnings estimates are \$167. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasonalized corporate bond yield. P/B and P/CF are calculated using the average and standard deviation over 25 years for each measure. King Wealth Planning, Inc., a Registered Investment Advisor, and a separate entity. *Guide to the Markets* – U.S. Data are as of December 31, 2020.

# Returns and valuations by style

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Equities

**10-year annualized**

	Value	Blend	Growth
Large	10.5%	13.9%	17.2%
Mid	10.5%	12.4%	15.0%
Small	8.7%	11.2%	13.5%

**YTD**

	Value	Blend	Growth
Large	2.8%	18.4%	38.5%
Mid	5.0%	17.1%	35.6%
Small	4.6%	20.0%	34.6%

**Since market peak (February 2020)**

	Value	Blend	Growth
Large	1.6%	12.7%	26.8%
Mid	3.2%	12.8%	26.8%
Small	6.9%	18.1%	28.1%

**Since market low (March 2020)**

	Value	Blend	Growth
Large	64.2%	70.2%	84.9%
Mid	82.4%	88.8%	97.1%
Small	87.9%	99.0%	108.2%

**Current P/E vs. 20-year avg. P/E**

	Value	Blend	Growth
Large	17.9 / 13.7	22.3 / 15.4	31.2 / 18.5
Mid	18.2 / 14.3	22.6 / 16.2	39.3 / 20.2
Small	18.0 / 16.8	30.1 / 20.9	76.2 / 38.4

**Current P/E as % of 20-year avg. P/E**

	Value	Blend	Growth
Large	130.6%	144.8%	168.5%
Mid	127.1%	139.4%	194.6%
Small	107.2%	143.6%	198.5%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.

All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period from February 19, 2020 to December 31, 2020. Since Market Low represents period from March 23, 2020 to December 31, 2020. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices with the exception of the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price-to-earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates.

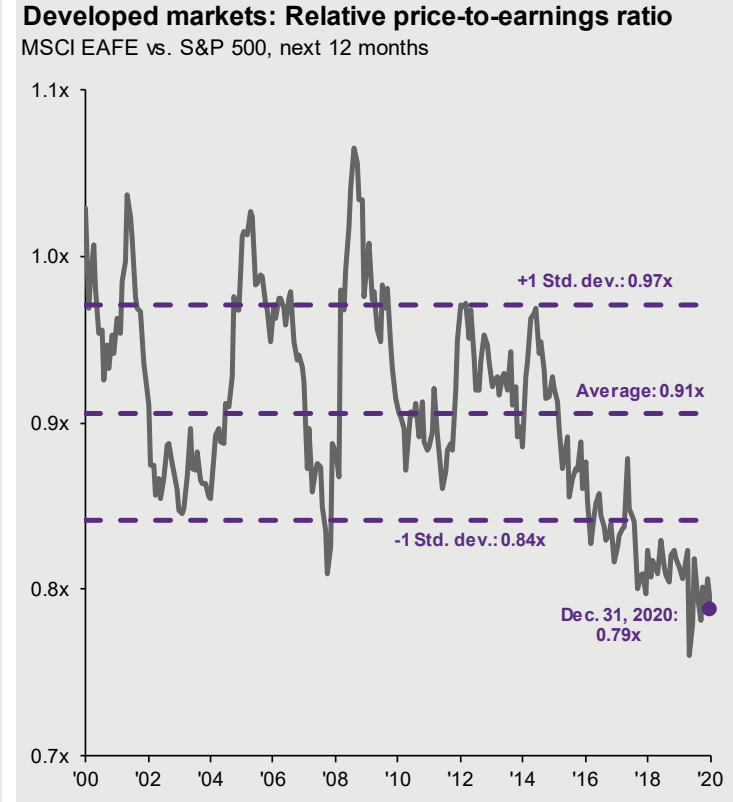
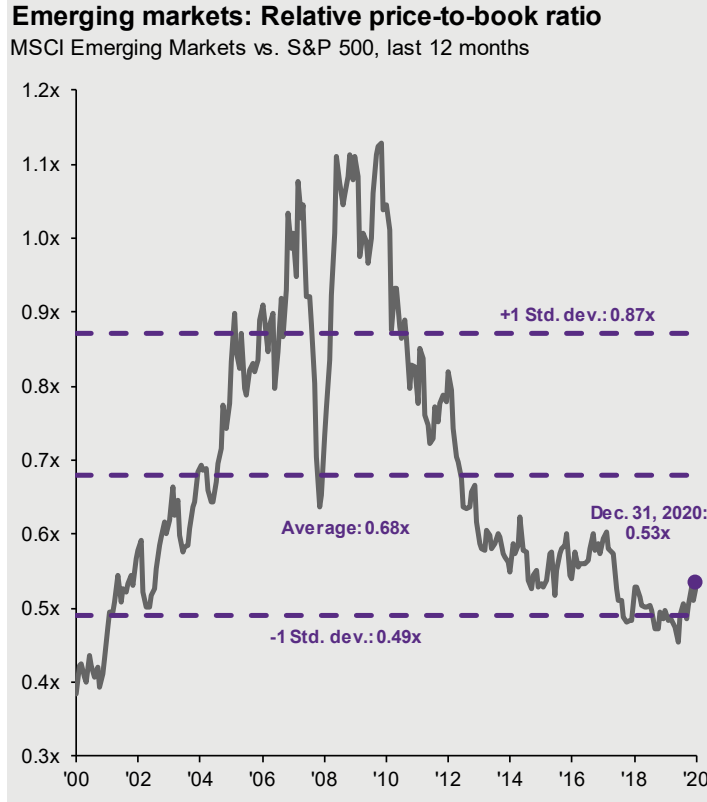
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# International valuations

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International



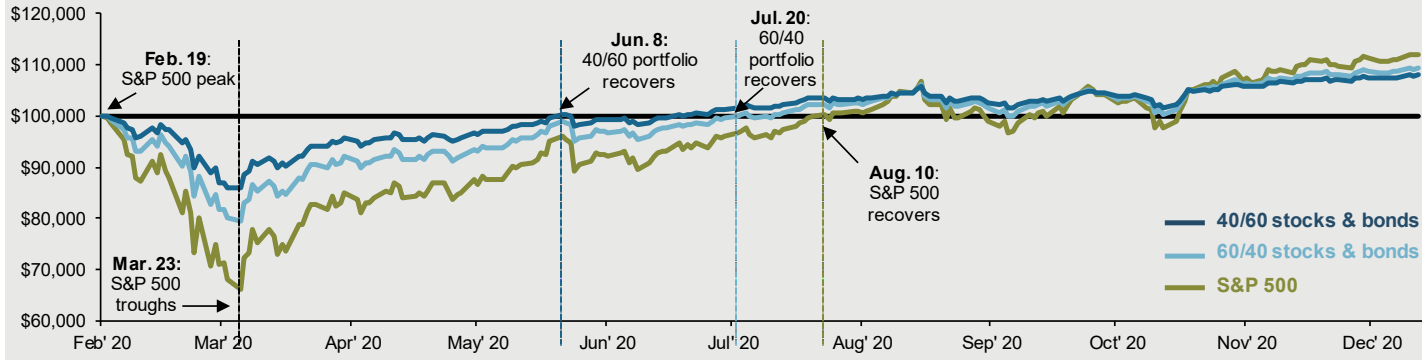
Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.  
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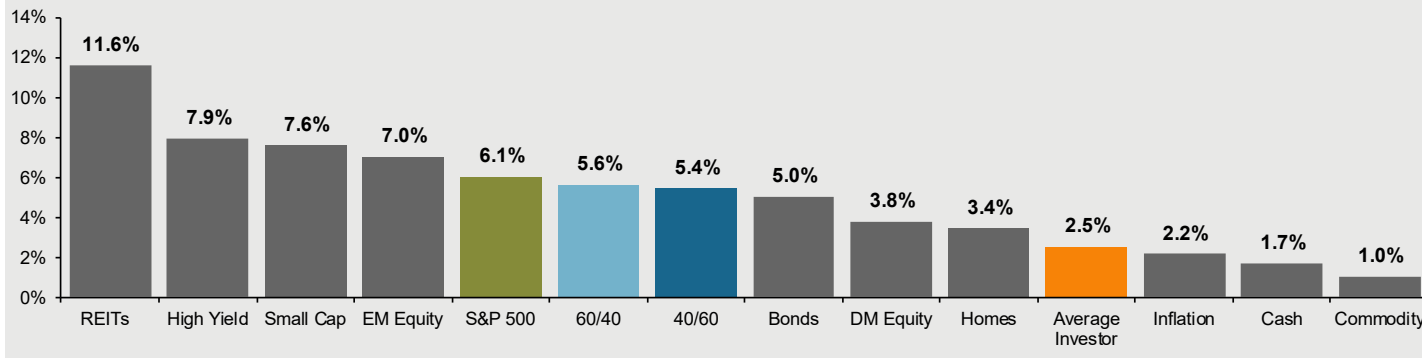
# Diversification and the average investor

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### Portfolio returns: Equities vs. equity and fixed income blend



### 20-year annualized returns by asset class (1999 – 2019)



Investing principles

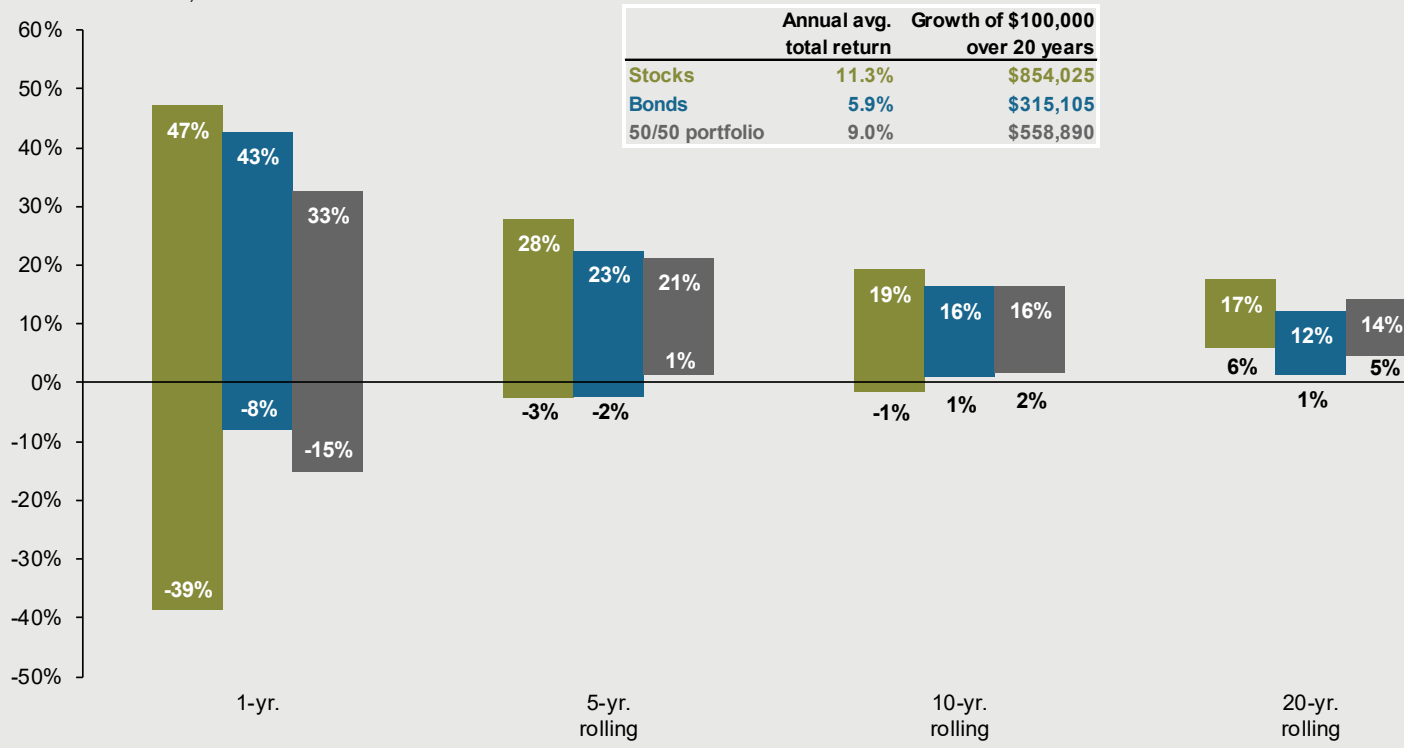
Source: Barclays, Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) Dalbar Inc, MSCI, NAREIT, Russell. Indices used are as follows: REITs: NAREIT Equity REIT Index, Small cap: Russell 2000, EM Equity: MSCI EM, DM Equity: MSCI EAFE, Commodity: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Bonds: Bloomberg Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Cash: Bloomberg Barclays 1-3m Treasury, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/19. See also the Dalbar, Inc. Financial Planning White Paper, FINRA/SIPC. Financial Planning offered through King Wealth Planning, Inc., a Registered Investment Advisor, and a separate entity.

## Time, diversification and the volatility of returns

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### Range of stock, bond and blended total returns

Annual total returns, 1950-2020



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/lbbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2019. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/lbbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2020. *Guide to the Markets – U.S.* Data are as of December 31, 2020.

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All index data from FactSet.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

## General Risk disclosures:

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Investing in foreign and emerging markets debt or securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

## General Definitions:

**Gross Domestic Product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.



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**The PE ratio (price-to-earnings ratio)** is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

**Earnings per share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.SP500

**The Standard & Poor's 500 Index** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

**The Bloomberg Barclays US Aggregate Bond Index** is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

## Equity Risk:

Investing in stock includes numerous specific risks including the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time. The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

## Equity Definitions:

**Cyclical stocks** typically relate to equity securities of companies whose price is affected by ups and downs in the overall economy and that sell discretionary items that consumers may buy more of during an economic expansion but cut back on during a recession. Counter-cyclical stocks tend to move in the opposite direction from the overall economy and with consumer staples which people continue to demand even during a downturn.

**A growth stock** is a share in a company that is anticipated to grow at a rate significantly above the average for the market due to capital appreciation.

A value stock is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

**A Value stock** is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

**Large-cap stocks** are issued by corporations with a market capitalization of \$10 billion or more, and small-cap stocks are issued by corporations with a market capitalization between \$250 million and \$2 billion.



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# Important Disclosures

## Fixed Income Risks:

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

## Fixed Income definitions:

**Credit Quality** is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. Credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade. The credit spread is the yield the corporate bonds less the yield on comparable maturity Treasury debt. This is a market-based estimate of the amount of fear in the bond market. Base-rated bonds are the lowest quality bonds that are considered investment-grade, rather than high-yield. They best reflect the stresses across the quality spectrum.

**The Bloomberg Barclays Aggregate US Bond Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**International debt securities** involve special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets.

**High yield/junk bonds** (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

**Municipal bonds** are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

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