April 2021

THE ADVOCATE

The Invisible Hand?

Cravens & Co.
WEALTH MANAGEMENT

April 2021

PRINCIPAL

Wayne Cravens
wcravens@cravensco.com

CHIEF INVESTMENT OFFICER

Woody Welch
wwelch@cravensco.com

RELATIONSHIP MANAGERS

Sandra Wilson
swilson@cravensco.com

Jennifer Cross
jcross@cravensco.com

SUPPORT STAFF

Guthrie Lattanzi
glattanzi@cravensco.com

TECHNICAL ADVISORS

Tyler Atkinson, JD

Sam Sandlin, CPA

Taylor Asberry, CPA

Matthew Curtis, JD

LOCATION

1080 Interstate Dr.
Cookeville, TN 38501
931-528-6865
Fax 931-646-3619

Table of Contents

A Note from the Principal

"Here comes the sun, and I say It's all right." The Beatles

Spring is upon us. I've always marveled at how sunshine and the flowers of spring can lift the mood of not just an individual but of a whole society. When paired with COVID-19 the past winter has been the stage for much sorrow, and restraint. As the economy opens up and normal life returns I encourage you to take some time, maybe even set a timer for an hour, and contemplate what parts of your experience during the COVID-19 isolation that you wish to retain, and which parts you wish to remove. We can't change the past but we can change today and impact the future. Life is full of challenges, but also opportunities.

We are using the title of this issue, "The Invisible Hand," along with the scribbles of a hand that may or may not know what it is doing, as an acknowledgment that many forces are impacting the financial and economic decisions before us that are unknowable. These forces influence our decisions on how to approach investment management. We have always seen value in diversifying by asset class (stocks, bonds, alternatives), and by investment strategy. Currently, we must tilt away from bonds due to the lack of yield and therefore potential return. We have also chosen to emphasize skill-based active management as opposed to passive or indexed investing. We have not done away with using DFA's version of passive investing because we still find merit in their low-cost approach, but we have increased investments with managers who have the flexibility to adjust to current conditions. This seems prudent in an environment where both the invisible hand of markets and the visible hand of governments are at work in ways that will not only have intended results but likely also unintended consequences.

As always, we hope you will let us know if you have thoughts, questions, or if we can help in any way. We also hope you will share this and all of our commentary you find helpful. Thank you for allowing us to serve you.

Wayne H. Cravens is the President of Cravens & Company Wealth Management.

Email: wcravens@cravensco.com

The Invisible Hand

Woody Welch
Chief Investment Officer

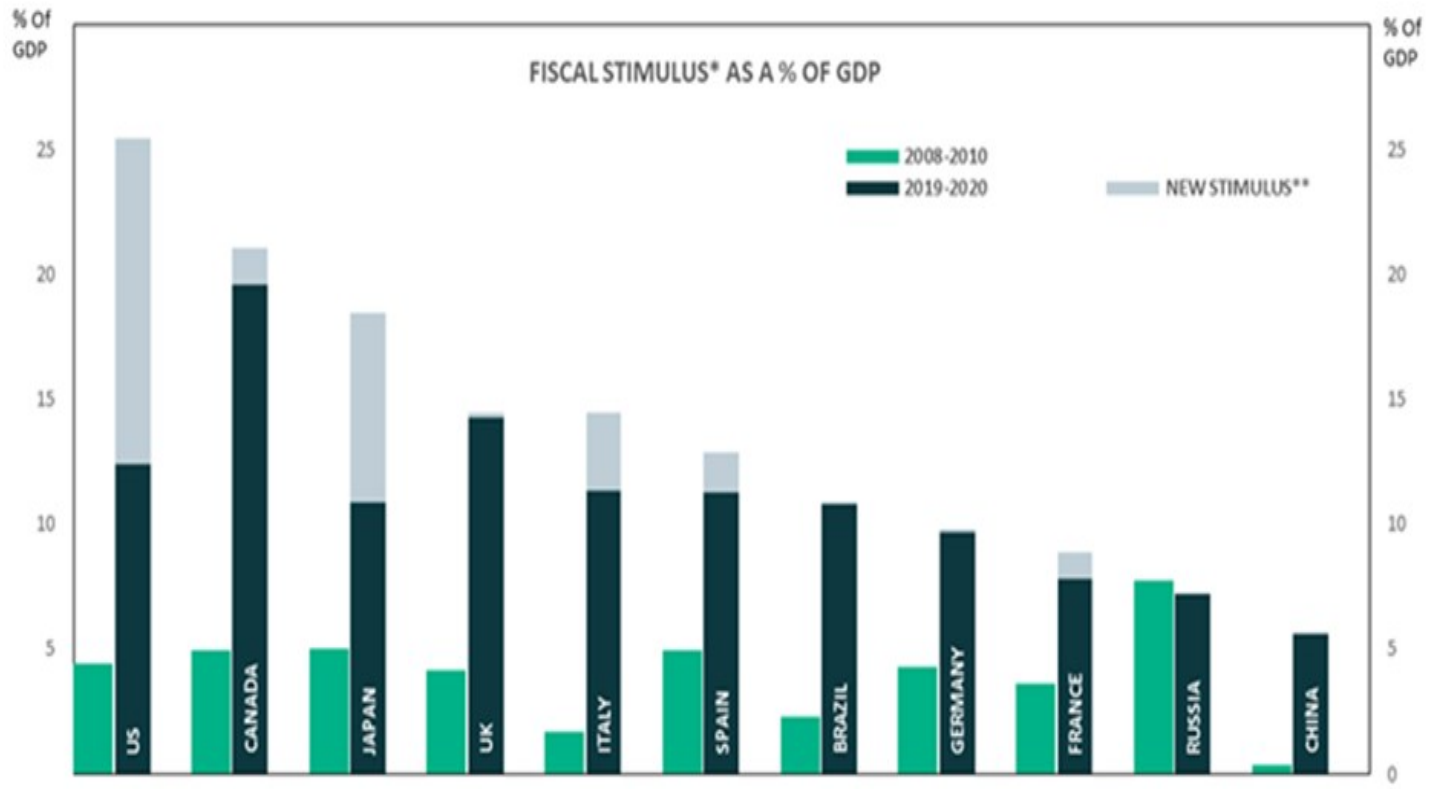
Adam Smith described the opposing, but complementary forces of self-interest and competition as the invisible hand. While producers and consumers are not acting with the intent of serving the needs of others or society, they do. When you work, your goal is to earn money, but in the process, you provide a valuable good or service that benefits others and society. The amazing part of this process is that there is very little government control. The bread you buy at the store arrived as the result of hundreds of self-interested people cooperating without a government bread agency managing production at each step along the way. The farmer grew the grain, the mill prepared the flour, the bakery produced the bread, the truck driver delivered the bread to the grocery store, the grocer stocked the shelves and sold the loaf to the consumer all without a Government Secretary of Bread Production telling any of them what, where, when, or how much to produce. It's as if they were being guided by an invisible hand that guided resources to their most valued use.

The opposite of the invisible hand is the government encouraging and discouraging activities. The passage of the $1.9 trillion American Rescue Plan (ARP), when combined with the prior two pandemic-relief fiscal packages passed in March and December 2020, equates to more than 25% of GDP. This is roughly 5x the fiscal response during the 2008 financial crisis.

Not all of the $1.9 trillion will be immediately spent; a meaningful portion will go into household savings and paying down debt. But the ARP should still produce a big short-term boost to GDP growth. However, the effect will be temporary as the relief programs expire later this year. Without additional stimulus, the positive fiscal growth impulse this year will turn into a fiscal drag next year.

President Biden also introduced the American Jobs Act, a $2 trillion jobs and infrastructure plan that the president plans to pay for with several proposed tax changes:

- Raise the corporate tax rate to 28%
- Increase the global minimum tax paid to 21%
- Impose a corporate minimum tax on book income
- Eliminate tax benefits for the oil and gas fossil fuels sector



* CALCULATED AS THE ABSOLUTE VALUE OF THE CHANGE IN OVERALL BALANCE (NET LENDING/BORROWING AS % OF GDP). EXCLUDED LOAN GUARANTEES AND QUASI-FISCAL STIMULUS.
** NEW STIMULUS PLANS REVEALED AFTER OCTOBER 2020, INCLUDING: THE US' $2800 BN OMNIBUS BILL & BIDEN RESCUE PLAN, JAPAN'S THIRD RELIEF PACKAGE WITH $385 BN IN DIRECT FISCAL SPENDING, CANADA'S PROPOSED $78 BN STIMULUS PLAN OVER THE NEXT THREE YEARS (ASSUMING SPEND EVENLY), UK'S $6.2 BN NEW LOCKDOWN STIMULUS, ITALY'S $53.9 BN BUSINESS AID & STIMULUS, SPAIN'S $13 BN SMALL BUISNESSES AID, BRAZIL'S $ 8 BN EXTENDED FEDERAL CASH TRANSFER PROGRAM, AND FRANCE'S $24.3 BN BUSINESS AID PLAN. ADDITIONALLY, ITALY, SPAIN, GERMANY AND FRANCE'S NEW STIMULUS ALSO INCLUDE COMMITMENTS FROM THE EU RECOVERY GRANTS (EXCLUDING LOANS).
SOURCE: IMF FISCAL MONITOR (OCTOBER 2020) AND BCA CALCULATIONS.

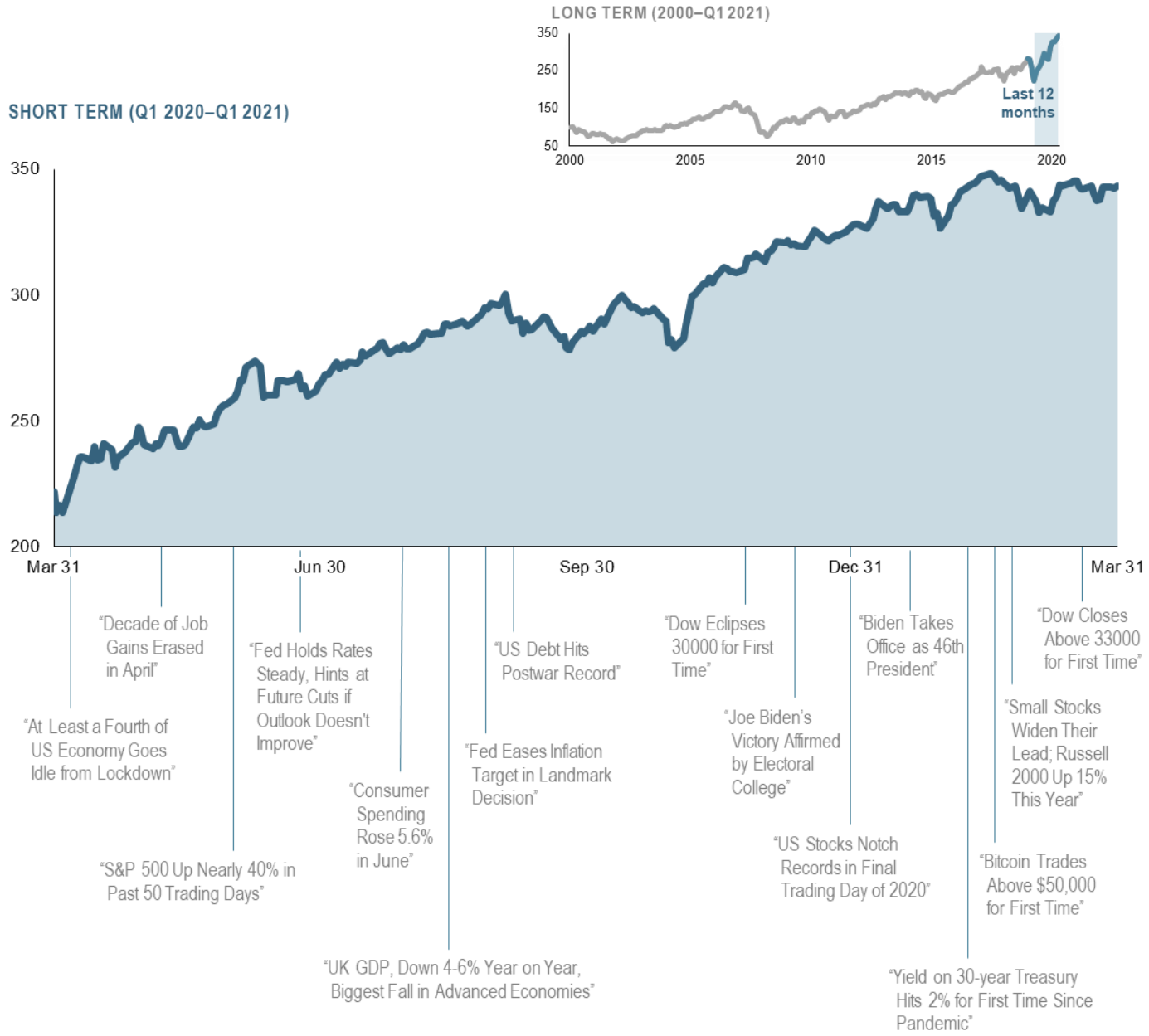
- Increase corporate tax enforcement

The American Jobs Plan broadly focuses on infrastructure restoration and maintenance, climate change, and job creation, largely through tax incentives.

In addition to the fiscal stimulus, the Federal Reserve is providing monetary stimulus by actions that artificially reduce interest rates. These actions have a significant impact on economic actions by corporations and individuals. What is not clear is what the impact will be in many areas of the economy. The expected growth in business activity is the current focus, but the potential impact on inflation, the value of the US Dollar, commodity prices, real estate prices, and investors' willingness to take on risk are all issues that require consideration and influence how we invest your portfolio.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Market Review

Woody Welch
Chief Investment Officer
Jennifer Cross
Investment Analyst/
Relationship Manager

1st Quarter 2021

Global stocks continued to power upward this quarter from their pandemic bear market low on March 23, 2020. While the "meme" stocks (like GameStop) and the social media-fueled speculation behind them caught investors' imagination earlier this year, we think the recent "reflation rotation" will be the more enduring equity market trend: For a couple of quarters now, equity investors have been betting on more economically sensitive small caps and value stocks and eschewing large caps and previously high-flying growth stocks.

The reflationary winds tore through the bond market as well. The prospect of higher growth and higher inflation caused interest rates to jump. The 10-year Treasury yield more than tripled from the historic low it set last August.

Investment Outlook

The primary variables that will determine the direction of the economy and markets remain COVID-19 developments and the fiscal/monetary policy response. These currently imply a base case for a strong economic rebound, particularly in the United States but also globally. This will support the fundamentals underpinning higher-returning asset classes (stocks, credit sectors of the bond market)—as long as interest rates do not move sharply higher.

Substantial progress has been made on the vaccine rollout. Ninety-three million Americans have received at least one dose. At the current vaccination rate, experts estimate the United States could achieve herd immunity by late summer. Daily new cases, hospitalizations, and deaths from COVID-19 have plummeted. We are not out of the woods yet. There is still a risk that we will open up too early or that new infectious variants could prove resistant to the current vaccines. But overall, the light at the end of the pandemic tunnel certainly appears brighter.

Controlling the pandemic will enable us to start getting back to normal lives, boosting economic activity. Growth forecasts had already reflected a rebound. Now they are being revised higher with the massive American Rescue Plan Act fiscal stimulus signed into law. The Federal Reserve forecasts the U.S. economy will grow at its fastest pace since 1984. Economic growth should feed into company earnings. The Wall Street consensus expects S&P 500 earnings to grow over 40% in 2021.

Even so, the Fed continues to reiterate that it will not preemptively raise interest rates. It intends to wait till it sees inflation above its 2% target for an extended period of time, a new policy that suggests this economic cycle has plenty of room to run. The Fed has to taper its asset purchases first, which are still going strong at $120 billion per month, before they even think about raising rates. We take the Fed at its word that it won't be raising rates anytime soon.

So high economic growth, strong earnings growth, but low interest rates? Equity investors couldn't ask for more. A bull market has roared to life. The main threat is our old friend valuation risk. However, shorter-term, historically high valuations need not impede it with all the other positives in place. Stocks remain reasonably attractive relative to bonds, and we are giving this argument greater credence in our scenario planning.

Speaking of bonds, longer-term interest rates have risen in anticipation of a higher-growth, more inflationary environment. That has hurt bond investors this year. Though, we have felt less of an impact as we were significantly underweight to core bonds to protect against just this occurrence. While rates could rise further leading to greater bond price declines, they should stay con-

tained unless inflation spikes up and stays higher …

What About Inflation

Inflation has been at the top of investors' list of concerns lately. Governments all over the world have passed large fiscal stimulus packages in the wake of the pandemic. The United States takes the cake: Congress has spent the equivalent of 25% of GDP on the emergency in a single year and may spend even more with an infrastructure plan on tap. That is a lot of potential pent-up spending. Add in an expected economic rebound from the pandemic, and the Fed doing everything it can to stoke a healthy level of inflation, and investors and consumers are understandably worried about maintaining their purchasing power. An inflation spiral would be bad for stocks, bonds, and pocketbooks.

In the coming months, we will in fact see year-over-year inflation increase, most likely to the 3%-plus range. But this is largely due to prices rebounding from the pandemic lows. However the market reacts to this well-expected data, we want our clients to know that what really matters is meaningful, sustained inflation. That could be the catalyst to raise inflation expectations further. Even the fear of inflation can work as a self-fulfilling prophecy. If consumers think future prices will be higher, they will increase their spending today. Increased near-term demand raises prices for goods and inputs across the economy. Eventually, workers will demand higher wages to compensate for higher inflation. Then businesses must raise prices to offset higher labor and input costs and off the wage price spiral goes. It's critically important that the Fed anchors inflation expectations before price trends get out of control.

The jury will still be out even after the next couple of months as to whether this higher inflation will be transitory or the beginning of a longer-term trend. Some points to consider:

- GDP growth will sharply rebound this year, but we might not be close to full employment for at least a few years. Wage spiral inflation can't really take hold as long as there is slack in the labor market.
- On the other hand, the industries which have been hit hardest by the COVID-19 shutdown are very labor-intensive. If hospitality and entertainment come back fast and strong, the labor market may surprise.

- The size of the fiscal stimulus that's been issued is staggering, but it is a one-time injection. The fiscal impulse will turn into a fiscal drag next year. Also, not all of it will be spent or spent right away. A meaningful portion will be saved and some will go to paying down debt.

- Offsetting structural disinflationary forces such as demographic trends and technology adoption have not gone away or, in the latter's case, have accelerated during the pandemic.

- A key contributing factor to inflation levels seen in the 1970s was the "oil embargo." The current domestic oil production resources make hyperinflation an unlikely outcome.

- Opinions on inflation certainly vary but we find it hard to reconcile the increased money in circulation with prices returning to normal. Famed economist Milton Friedman once said, "Inflation is blamed

on many things. But it has only one cause: It is a monetary phenomenon. Inflation occurs when the quantity of money increases faster than the quantity of goods. Why does the money supply increase? Very often, it does so to enable the government to pay its bills without raising taxes." We are currently engaged in a test of this proposition.

At the backend of our five-year horizon, a potential broad, long-lasting shift to stimulative fiscal and monetary policies could trigger a return to an inflationary "regime" we haven't seen since the 1970s. If that comes to pass, we could see the negative correlation between stock and bond prices that has been so beneficial to investors switch to a positive correlation, as happened back then. In that world, stocks and bonds move up and down together; bonds don't provide the diversification they normally do, challenging asset allocators.

Closing Thoughts

As the macroeconomic regime evolves, we will tactically, but prudently, adapt and adjust our portfolio exposures based on our assessment of risks and potential return. But today, we believe the most likely scenario over the next year at least is a reflationary one.

This reinforces our strong belief that what has worked so well for decades—simple portfolios consisting of U.S. stocks and bonds—won't work nearly as well over the next five to 10 years. We expect many of the asset markets and market sectors that have been laggards over the past five to 10 years to continue their rebound. Reflation favors non-U.S. stocks and more cyclically sensitive or value equity sectors. Reflation also increases the potential for rising rates and inflation, both negative for core bonds. We are already accounting for this in our portfolio positioning. Our portfolios tilt toward non-U.S. stocks and cyclical/value stocks. And we have diversified into flexible asset allocation strategies (Risk Managed), and flexible bond strategies (Multi Sector Income).

If you have thoughts or questions about any of the information we've shared or any other subject, please don't hesitate to call us. We are grateful you allow us to serve you and your family, and we will continue to make every effort to justify the trust you've bestowed on us.

Sincerely,
Your CCA Investment Team

Cryptocurrency Speculation: A Case of FOMO?

Woody Welch
Chief Investment Officer

Cryptocurrencies are back in the headlines, with high-flying returns that attracted investor attention. Tesla CEO Elon Musk tweeted support for Bitcoin, and a few of the largest university endowments have begun to endorse cryptocurrencies as potentially viable investments. In times like these, with growing concerns about potential U.S. dollar devaluation and increasing inflation, investors often turn their eye to alternative options for hedging these risks. Given that cryptocurrencies are gaining broader acceptance, it is not surprising to see some investors considering whether they deserve a place in portfolios. So where do cryptocurrencies fit in?

Bitcoin Is a Speculation, Not an Investment

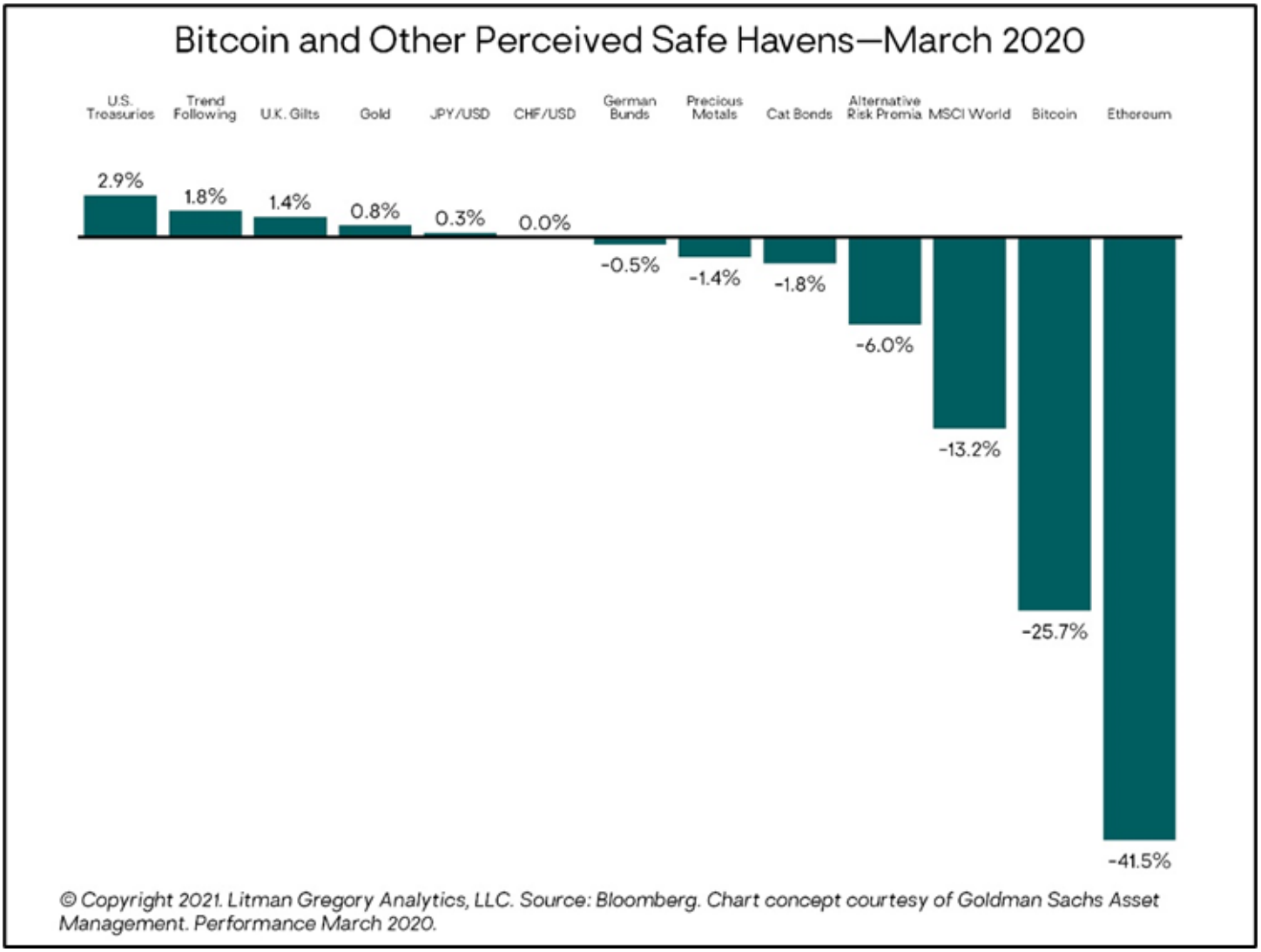
For clients concerned about a falling U.S. dollar or inflation, we believe our current approach to protecting against those risks (diversification, scenario planning) is both more effective and reliable. For context, our investment framework revolves around a fundamental approach to building globally diversified portfolios across asset classes, each serving a distinct role in the portfolio (some targeting the aforementioned risks):

Global stocks provide a source of long-term growth (and some inflation protection) and U.S. dollar devaluation protection (from exposure to non-U.S. stocks).

High-quality fixed-income can provide protection during periods of equity market stress and deflation.

Hybrid investments like flexible bond strategies and floating-rate loans exhibit qualities of the first two: some capital appreciation potential (and some potential inflation protection) but with less short-term downside than stocks.

Alternative strategies and assets can provide diversified sources of return and protec-



tion to reduce a portfolio's overall volatility (there are also tactical options available to us in this category if we feel the need for greater protection against unexpected inflation).

As fundamental investors, we invest in assets that we can reasonably value; that offer transparency and defined liquidity; and finally, that we can be confident are subject to a reasonable amount of regulatory oversight and legal protection to minimize the risk of price manipulation. We have a very difficult time applying any of these criteria to cryptocurrencies. Based on our current understanding, there are reasonable scenarios where the price of Bitcoin, at some point, could go to zero. As a rule, we don't tend to favor investments that have zero as their downside! Even as currencies, cryptocurrencies fail to meet the requirements to be a reliable "store of value" or "unit of account."

At this point, we see cryptocurrencies as a speculation:

- Bitcoin has acted more like a speculative "risk-on" asset than a safe haven (see the chart on the next page).

- Bitcoin is extremely volatile and has suffered multiple massive drawdowns during its short-lived existence.

- And given its volatility, Bitcoin will likely be an extremely difficult investment for most people to stick with.

Speculating can be a fun game for some people with some small portion of their money. But we aren't hired to speculate with the assets our clients have entrusted to us. And we don't need to own Bitcoin or play the cryptocurrency game to achieve our clients' investment goals.

As the capital markets continue to rally and valuations get increasingly stretched across nearly all asset classes, thus muting future returns, investors have inevitably cast a wider net. More speculative investments have lured investors after delivering spectacular short-term returns, including cryptocurrencies, special purpose acquisition companies (SPACs for short), and "meme" stocks. At times, these have been driven higher by an army of retail investors, fueled by zero-cost trading and information that is quickly shared via social media.

These spectacular returns have reintroduced the age-old, dangerous behavioral risk: FOMO, or the Fear of Missing Out. FOMO can tempt investors to take risks beyond what they would normally consider acceptable in search of incremental return. This behavior is often reinforced by reports that "smart money" endowments are making these same investments (likely in small size, limiting downside). Our guidance to clients and investors broadly is to regularly revisit your risk tolerance and return objectives and ensure that your portfolio remains well aligned with these objectives. If you find yourself lured into taking increasingly risky positions, we ask that you take a hard look in the mirror and ask yourself whether you are falling victim to FOMO.

Rains Foundation Golf Tournament

Our dear friends,

Steve Rains established The Rains Foundation to help deserving students from the Upper Cumberland attend college. In the years since its inception, the foundation has provided over $300,000 in scholarships to 168 students from Cumberland, Fentress, Morgan, Pickett, and Putnam counties (all connected to the Rains family). Steve was very proud of this.

With the help of a great many employees from Progressive Savings Bank, the Foundation hosted an annual golf tournament (sometimes two) which was the primary means of raising funds for scholarships. Since Steve's death, his wife, Emily, and the Rains Foundation have continued to carry out the mission that he began. Unfortunately, due to COVID, the 2020 tournament was cancelled.

This year, we plan to continue with the annual Golf Tournament fundraiser after having to cancel the event last year due to the COVID-19 pandemic. It is our pleasure to carry on the Tournament in 2021 while also carrying on Steve's goal of supporting kids from the Upper Cumberland.

If you would like to play, sponsor, or help with this event, please reach out to us through the contacts provided below:

Cravens & Company Advisors: 931-528-6865
info@cravensco.com
mark.norman@smartbank.com
glattanzi@cravensco.com

Your Financial Advocate

You have goals you want to achieve… places you hope to go… things you want to do… people you desire to spend time with.

These dreams have motivated you over the years to work hard and to sacrifice.

Fully realizing your dreams also takes planning and execution to get them "over the top".

Whether you aspire to…

> ...travel the world with your spouse…
> …spend more time on hobbies like flying, cooking, or wine collecting…
> ...live on a ranch in the country or a cabin in the mountains…
> ...create a legacy for your children and grandchildren…
> ...support the charities and causes that you hold dear...

We can help you create and execute a comprehensive plan for financial success. One that will give you the confidence to spend your free time on the other things that are important to you.

At Cravens & Company, our mission is to help successful individuals and their families realize and enjoy their life goals. We are an SEC registered fiduciary that combines holistic planning, personalized investment management, tax and estate strategies, and business planning with a proactive, solutions-oriented mindset. The result is a formula and a culture centered on your success; however you define it. In the complex world in which we live, we believe anything less is inadequate. Since 1996, we have been serving the specialized needs of: family businesses and their owners, professionals, and successful retirees. Over the years, our firm has changed and matured, evolving from a model where the individual advisor acts alone in all areas of the client relationship to an ensemble of functional specialists who collaborate on finding creative solutions to our clients' unique issues.

While prudent investment advice is a foundational component of our service, we passionately believe we best serve our clients by bringing all facets of their financial life into view simultaneously. Armed with a complete understanding of their overall situation and working in conjunction with our technical advisors as well as those of our client, we can develop effective solutions that are holistic in their application.

Our goal is to provide each client with the leadership, relationship, and creativity needed to allow them to achieve their life's goals and, even more importantly, the confidence to enjoy the journey. After all, what is the point of all the work and worry if you don't get the satisfaction of realizing the results?

At Cravens & Company, we have a team that is by design, ready to work for you. If you have complex financial issues and/or desire a relationship of this type, please contact us to arrange an introductory meeting. We can be reached at 931-528-6865 or online at www.cravensco.com.

Cravens & Co.

Disclosures

Advisory services offered through Cravens & Company Advisors, LLC, an SEC Registered Investment Advisory Company. Securities offered through and advisory services may also be offered through, FSC Securities Corporation, an Independent Registered Broker/Dealer. Member FINRA/SIPC. Not affiliated with Cravens & Company Advisors, LLC.

Investing involves risk including the potential loss of principal. Investing involves risk including the potential loss of principal. International investing involves additional risks including risks associated with foreign currency, limited liquidity, government regulation, and the possibility of substantial volatility due to adverse political, economic and other developments. The two main risks associated with fixed income investing are interest rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risks refer to the possibility that the issuer of the bond will not be able to make principal and interest payments. Investments in commodities may entail significant risks and can be significantly affected by events such as variations in the commodities markets, weather, disease, embargoes, international, political, and economic developments, the success of exploration projects, tax, and other government regulations, as well as other factors. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Please note that individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors only and do not necessarily reflect the views of FSC Securities Corporation. There can be no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis do not represent the actual or expected future performance of any investment product.