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ALBION FINANCIAL GROUP

Guiding Clients
To A Lifetime of
Good Decisions

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Happy New Year!

As we enter our 40th year in business, and in recognition of the privilege our work affords us, we want to report to you that a portion of our annual giving for 2021 was done on your behalf to the Utah Food Bank and the Crossroads Urban Center.

We hope you enjoy the information contained in the following letter. John Bird shares a foundational experience from his youth, revealing the power of good advice. Jason Ware makes sense of last quarter's market movements and explains his economic expectations moving forward. Then Patrick Lundergan describes the conundrum of legacy digital assets and offers some strategic succession suggestions. Read through to the end for recent personnel changes to our Investment and Operations Teams.

We look forward to serving you this new year and the next forty!

\- **The Albion Team**

FROM JOHN BIRD'S DESK

We just wrapped another year with several significant economic, political and social evolutions that changed how we live and work in ways we are still trying to understand. I could spend paragraphs summarizing the many events that occurred this year, the lessons learned, and the brighter futures for which we hope. I could remind us all about the constant in our lives which is Covid and how we've come a long way, but still have a road ahead. But, instead, I'll share a more personal story that gives

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a line of sight into why I work every day as CEO of Albion to serve our clients and help them work to achieve their goals.

Several decades ago while touring colleges in the Northeast my father and I found ourselves in a hole-in-the wall Italian restaurant in Ithaca, New York. The owner was an engaging guy and when he learned my dad was a banker asked “what should I do with my money?” I, being sixteen at the time, expected pearls of wisdom about high flying investments. But that’s not the direction my dad went.

“Are you married?” he asked. "Do you have children?”

“Yes.”

“Do you have life insurance? Disability insurance?” asked Dad.

Over the next few minutes my father, on the fly, laid out a financial plan for this man. Begin with emergency reserves – even more relevant for a business owner which he of course was. Insure against low probability high consequence events: Life insurance and disability insurance. Talk to an attorney and draft wills for you and your spouse and trusts as well if that’s a match for your circumstances. Set up a schedule to pay down your debts. When you have done all those things look for tax efficient investing vehicles which due to the creation of IRA accounts a few years earlier was a new possibility. Finally, after building all those pieces begin investing your after-tax dollars in a quality diversified portfolio.

The man had expected a couple of off-the-cuff stock tips which I’m sure, as he was just making conversation, he would have forgotten in an instant. Instead he was thoughtful for a few moments, asked some follow on questions in a far more contemplative tone, thought a bit longer, thanked my dad and moved off to the next table. In minutes my dad helped this man change his perspective on the tool we call money; I remember it vividly several decades later.

"Ultimately I am working to help my boys see money as a tool, neither good or bad, not something to revere or fear."

Now in addition to guiding clients along this path I have my own children to attend to. My son has a nineteen-year-old friend who is an active day trader and this has my son thinking that he'd like to "earn an income from his investments." My role is to encourage that thinking while helping him set realistic and attainable expectations around how much income his assets can generate. I also work to encourage him to find a profession he enjoys – one he can engage in and gain fulfillment from for decades.

Ultimately I am working to help my boys see money as a tool, neither good or bad, not something to revere or fear. I hope to help them take a step back to assess their financial lives in the context of who they are, what they value, and what path they think they'd like to follow.

The restauranteur unexpectedly comped our bill and thanked my dad for sharing his advice. For most of us our path to a profession is complex with a lot of twists, turns, and serendipity. I cannot tie my career to this event but I'm sure it had an impact. Good advice helps people. Thank you for allowing us to help you along your own path.

ECONOMY & MARKETS

Oh, how quickly things can change.

It was but a mere quarter ago that we observed (emphasis added), "as for Covid-19, the more transmissible Delta variant took hold this summer pushing a steep rise of infections and slowing the economic reopening." Suddenly, we have Omicron. Early indications suggest Omicron can multiply three to five times faster than the already quick spreading Delta. If confirmed, that confers an "R naught" (R0) of fifteen to twenty for this variant – on par with measles' wildfire-like proliferation. Omicron's sheer number of genetic mutations is staggering, about fifty in all including a constellation of over thirty on the spike protein alone, the part of the virus that encounters human cells and is the prominent target for the immune system. Compare that with ten in Alpha, twelve in Gamma, and nine in Delta. What's more, there are perhaps fifteen changes on the receptor binding domain (RBD) portion of the virus' spike. RBD is the short immunogenic fragment from a virus that binds to a specific endogenous receptor sequence (like ACE2) to enter host cells. A high number of mutations here is arguably of high consequence as it increases the likelihood of evading immunity.

Yet despite the seemingly worrisome paragraph above, somehow things haven't really changed at all.

Economies remain open. Companies are largely doing well. And financial markets, having seen these viral waves play out before, are buoyant. OK, Omicron is more like a flood than a wave given its R0, but the effect on our collective psyche at this point is the same. We're learning that this is the nature of the pandemic: we make major scientific, clinical, and economic advancement, all while the 24/7 new cycle's ability to shock becomes dulled. It also helps that our vaccines still mostly protect against severe disease, especially when boosted, and that study after study show Omicron produces a milder illness than prior strains (despite its many mutations). Put together, we're learning to live with this stuff – perhaps hitting the more endemic stage of this new normal – and it shows.

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As was mentioned, commerce remains open. Specifically, here in the US the economic expansion is strong and durable. As we presaged in our last letter, third quarter real GDP took a major step down from the prior quarters but was still positive (+2.3%). The fourth quarter is literally ending as I write this and component data that feeds into GDP math suggests that the October through December period likely grew by +6 to +7%. If correct, full year 2021 will be just shy of +6% greater over 2020 – a boom we almost perfectly forecasted one year ago before it became consensus. Other measures of economic wellbeing continue to reassure. The labor market will have added almost 6.5 million jobs, with rising wages, and unemployment is now at 3.9%. Meanwhile aggregate consumer mood and household net worth sit at levels consistent with continued progress, and our choice of high-quality leading indicators imply further prosperity in the year ahead. On balance the American economy appears to be on solid ground including corporate profits, now at record levels.

This all sounds great, and it is … save for one item – inflation. That's right, since the spring general prices have gone up. A lot. But like our 2021 call for the best real GDP in nearly forty years, this development also does not surprise us. Since late-2020 we've explained across media interviews, Albion conference calls, and in these pages this current bout of inflation and our expectation around how long it may last (hint: to be measured in quarters, not months). Though not without its moments of disquiet, our view remains unchanged – inflation should cool throughout 2022 and into 2023. This assessment is based primarily on three factors. First, the cyclical factor of demand normalizing while supply chains sort themselves out. Second, the structural factor of unbroken secular disinflationary forces ranging from aging global demographics, technology adoption, and altered consumer habits (post-2008) prioritizing value. And third we have the statistical piece, that is "base effects" were a tailwind for inflation this year and they become a headwind next year. If accurate this augurs well for not only providing relief to consumer budgets, but also its impact on the Jerome Powell Fed. Indeed, better behaved inflation should afford some breathing room regarding tightening monetary policy. While we're on the Fed, the December FOMC confab saw an acceleration of winding down their bold asset purchase program ("the taper"). At the new pace, by March our US central bank will no longer be a net accumulator of Treasury and MBS securities. This policy makes sense as the Fed's balance sheet has swelled to nearly $9T in assets since the pandemic began (i.e., about doubling pre-pandemic levels); an extraordinary response that's no longer warranted. Moreover most now expect as many as three rate hikes in 2022, an outlook financial markets are taking in stride. And they should, for history teaches us that it's not the first set of hikes that kill the expansion and bull market. But rather, it's often the last hike where they turn the screws just a little too tight. We are a long way off from that.

Within the context of these conditions, we remain sanguine on the economy and markets as we ring in the New Year. The business cycle is in good shape – suppose about half the growth rate of 2021 – and profits should hit yet another high watermark in 2022 save for recession knocking them off course, a low probability unless the virus has something callous to say about it. Too, if our inflation outlook and Fed cadence behave then the conditions for a decent environment for stocks seems intact. Nonetheless, after such strong returns this year, not to mention in the previous two, we find it prudent to modulate one's hopes over the medium-term. We consider it reasonable that US stocks shift over to an "earnings driven" regime as rate hikes restrain P/E multiples. This doesn't mean bears will roar. In fact, streaks like the one we're currently on often persist. But it may feel more challenged; its magnitude lessened. Do not fear this type of trajectory, it's a normal and healthy part of markets.

Notwithstanding the preceding text, prediction is hard… especially about the future. The only constant is change. Therefore, we will continue to manage your portfolios governed by unwavering fundamentals underpinned by our core philosophy of finding and owning great companies / investments for the long-term. Quality securities that can tolerate a range of possible outcomes. Thank you for your continued trust in us. Happy 2022!

PLANNERS CORNER

Digital Afterlife

The average American has around twenty-seven online accounts, all with different passwords. So, what happens to our emails, social media accounts, tax software logins, photos, cryptocurrency, and monthly subscriptions when we pass away or become incapacitated? In this article, I will address the Revised Uniform Fiduciary Access to Digital Assets Act (RUFADAA), and its role in protecting your digital assets. I will also look at actionable steps to take now, regardless of federal or state protection, to manage your online accounts should you become unable to do so.

RUFADAA

The Revised Uniform Fiduciary Access to Digital Assets Act is a law that provides the executor of an estate, or attorney, access to someone's online accounts after they pass away or become incapacitated. Someone in this role is often called a fiduciary. The law took the powers given when overseeing tangible assets and sought to include digital assets as well. RUFADAA's purpose was to provide a framework and organized hierarchy for a fiduciary handling digital assets. To best prepare for the inevitable, you need to understand this hierarchy and your role in managing it.

Companies like Google, Facebook, and Apple have an option to add a "legacy contact" to their profiles. Adding a legacy contact is like adding a beneficiary to an IRA in that it will take priority over what is elected in a Will when settling an estate. Of course, the legacy contact does not own these digital assets, but they are granted limited authority on the account and the ability to cancel or close it.

Not all online services have tools like the legacy contact. If the online custodian does not have a legacy contact, your legal documents such as a Will or Power of Attorney can grant access to a fiduciary of your choice. Your legal documents can provide access to, or restrict access from, all your online accounts. Remember that if you have a named legacy contact with an online custodian, this designation will supersede what is written in your legal documents.

When there are no legal documents or legacy contacts in place, each account is handled according to the company's terms of service agreement. The goal is to avoid this cumbersome and frustrating process.

Next Steps

Consult an Attorney - The handling of digital assets can differ from state to state. Specific advice on such matters should be discussed with a licensed attorney. We do not give legal advice but are privileged to collaborate with amazing attorneys and would be happy to provide a recommendation if needed. An attorney will be able to assess your goals and determine the best way to structure an estate plan according to your wishes.

Add Legacy Contacts - Adding a legacy contact to your Google, Apple, and Facebook profiles is a quick and straightforward way to make sure that someone you trust can effectively manage or close your accounts when you cannot. Each online custodian has a slightly different process for adding a legacy contact. Generally, it is found in your privacy and security settings. A Google search of "how to add a legacy contact on Google/Facebook/Apple" will help answer this question.

Compile a Username and Password List - If you want your executor to have maximum access to your digital assets, you can compile a list of login details with instructions on handling each account. Any list of this nature should be kept secure. Details on where to access the list should be provided to those who need it. An estate planning attorney can best inform how to manage and secure such a list.

ALBION COMMUNITY

After a long tenure with Albion Jon Larsen is moving on to new opportunities. Jon joined Albion at a time of significant growth and helped us navigate those challenges while working directly with several Albion client families to ensure our investment work was an exact match for what they needed. He leaves Albion in great shape; the depth and breadth of our team is well positioned to seamlessly support our company and our clients well into the future. We have valued Jon's diligence and caring and wish him well on his next endeavor.

Our long-time technical and software guru, Wayne Burdick, has also moved on. One of his roles at Albion – and his favorite part of the job – was programming our software packages to build custom capabilities and reports for the team. He was offered a position as a full-time programmer by one of our software vendors where he will now develop the same type of capabilities for a range of firms. While we will miss him we were delighted to bring Trey Vandiver on board as our IT Specialist. Trey has been a friend of Albion for over twenty years and years ago before we had in-house technical support Trey would help us out with technology related issues. His deep skillset and familiarity with Albion has allowed him to seamlessly integrate with all of us at Albion. Welcome Trey!