Kenneth A. Gilpin CFP

Sound Investments Inc.

2nd Quarter 2021

DJIA 32981 S&P 500 4297

Summary

To recap, ultra-low interest rates and ultra-high government spending helped the U.S. economy not only survive the devastating impact of Covid-19, but to thrive in the aftermath. Individual investors bought a record 28 billion of stock in June and opened over 10 million new accounts this year

Twice a year, Barron's Magazine has a roundtable of leading investing experts and most feel the market was well priced trading at 23 times earnings. A normal multiple is 17 to 18 times earnings. The group also thought that as long as the 10 year government bond stayed in the 1.5%, range it would support the higher trading range. The S&P 500 was up 14.4% in the first half of the year and it could go up another 5 or 6% this year.

This investment letter is mailed quarterly to our clients and friends.

At the Halfway Mark

June ended with major indexes, near all time highs with major indexes up approximately 5 to 7% for the quarter. We've had Extraordinary Gains since the Mar 2020 bear market low, however Market Leadership was anything but stable.

Drive by optimism, related both to the reopening of the economy and massive government stimulus, market leadership made a number of changes. Many areas that thrived during the Covid (especially clean energy) became meaningfully overbought. Value stocks, which are normally composed of financials, energy, materials and industrials, had a great run. In the past 6 months, the Russell 2000 small cap index had a great run up 16%. Unfortunately, the rotation into small, medium and value funds stalled in June.

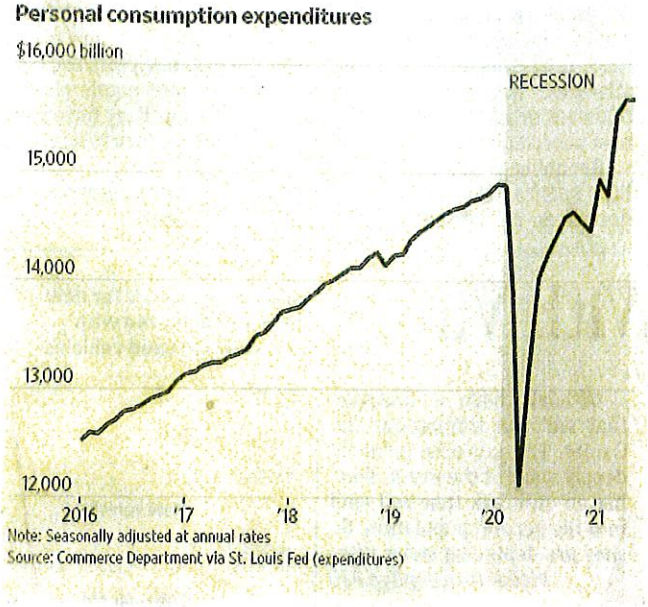
Subsequently, market leadership reverted back to growth stocks featuring familiar names such as Apple, Microsoft ,Facebook etc.

Continued Strong Economy Expected

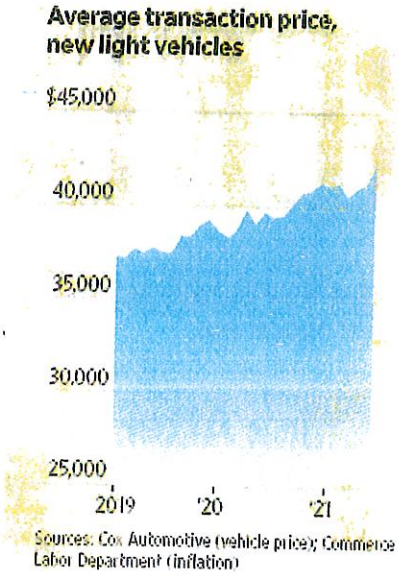
While there is some concern about the Delta coronavirus variant returning, most signs point to continued economic prosperity outlined as follows:

1. The entrepreneurial spirit is alive and well with 4.4 million new businesses started in 2020, the largest number on record.
2. The current job market is the best in decades. The quit rate, which measures the number of workers who quit due to their confidence in getting a better job, is at its highest level in two decades.
3. Record levels of pend-up demand should result in continued economic growth into 2021 as consumers unleash their spending power.
4. Earnings Bonanza Could Dwarf Fed Worries. (see attached article)
5. Most Americans got Richer during the Pandemic with home prices increasing, 401k's up and stimulus checks adding to the total.

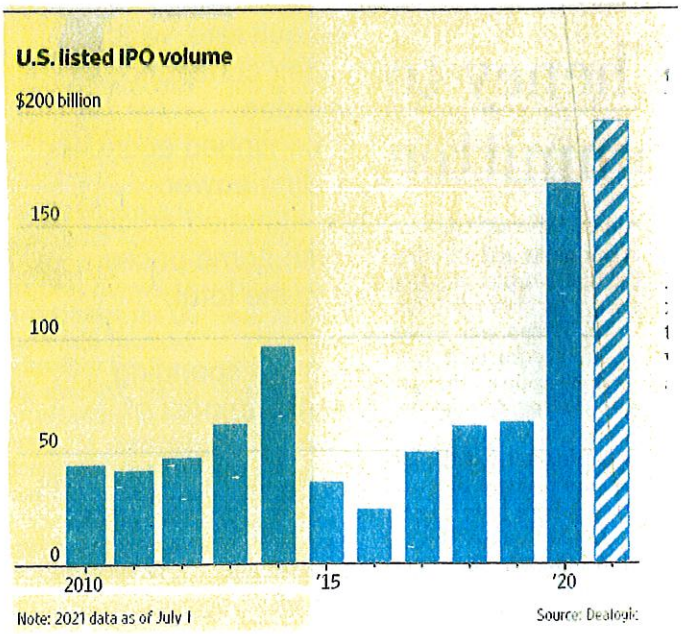
To recap, ultra-low interest rates and ultra-high government spending helped the U.S. economy not only survive the devastating impact of Covid-19, but to thrive in the aftermath. Individual investors bought a record 28 billion of stock in June and opened over 10 million new accounts



Personal consumption has surpassed the pre-pandemic levels which is another positive sign.



The price of a new car has risen 4.5% since before the pandemic, the fastest increase since 1985.



This chart shows the dollar volume of new companies issuing shares through an initial public offering (IPO). This would indicate a healthy market as new companies can raise funds.

this year. Individual Investors' enthusiasm is in contrast to professional money managers growing unease about the market outlook.

Red Hot Economy Expected to Cool

The chief economist at Morgan Stanley advised we are past the peak for growth but expects the economy to grow solidly at a reduced rate in the coming year. Abby Joseph Cohen, of Goldman Sachs, thinks growth could hit 9% in the third quarter and then fade to 6%. She expects a good year in 2022 but expects deceleration later in the year. The chart on the back of this page shows spending which surpass levels prior to the pandemic.

As I write this on July 19th, the rising rates of Covid-19 were raising fears that the recovery will end before it begins as markets tumbled 5.5% in the past 3 days. Nobody knows for certain but we feel that data shows that the vaccines should turn the tide.

OK, the Economy Will do Well but How About the Stock Market?

There is some speculation in the market as 7 of the top 25 companies in the index are trading at very high price to earnings multiples. Twice a year, Barron's Magazine has a roundtable of leading investing experts and most feel the market was well priced, trading at 23 times earnings. A normal multiple is 17 to 18 times earnings. The group also thought that as long as the 10 year government bond stayed in the 1.5% range, it would support the higher trading range. The S&P 500 was up 14.4% in the first half of the year and it could go up another 5 or 6% this year.

Inflation also jumped in the early summer as household spending outpaced businesses ability to keep up. Consumer prices rose 5.4% in June over the last year. As we go forward, we think growth will slow down and give companies more time to work through their order backlog and increase production. Many supply chain bottlenecks effects persist but should be remedied soon. The Federal Reserve Bank calls this situation, Transitory, meaning inflation will go away. Interest rates are a key component of how stocks are valued and we follow this every day.

Conclusion

We think the best course for investors is to hold your ground and accept the equities market short term vagaries so long as the fundamentals remain sound. Our sense is that increased earnings are the ticket to drive the markets higher and to provide broad support.

Once a year I am required by the Security Exchange Commission to offer to send a copy of my ADV part 2 to our clients. This outlines our companies policies and procedures. I would be happy to send it out, or better yet, come by and I will explain it to you. Additionally, please see attached privacy statement.

Individual Investors Pour Record Cash Into Markets

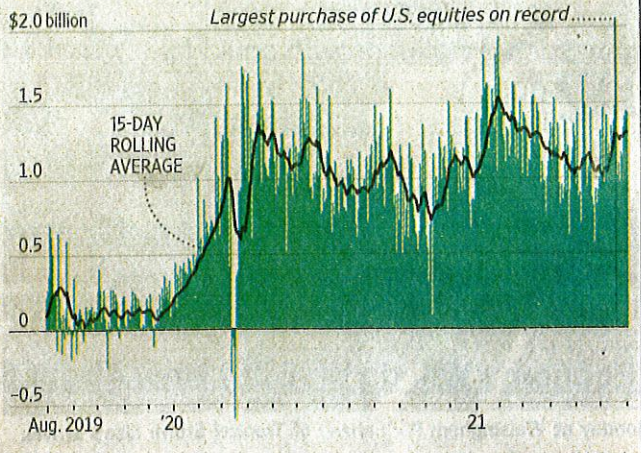
By Caitlin McCabe

Individual investors keep pouring money into markets, even as many of their favorite meme stocks and cryptocurrencies have languished.

In June, individual investors bought nearly $28 billion of stocks and exchange-traded funds on a net basis, according to data from Vanda Research's VandaTrack, the highest monthly amount deployed since at least 2014. That even trumped the amount individual traders spent in January during the first meme-stock frenzy.

The activity underscores the enduring influence of ordinary investors in markets. When the Covid-19 pandemic ushered in a wave of first-time traders, many market observers suspected these investors would retreat when the economy reopened.

Daily net purchases of U.S. equities by individual investors



Note: Data as of July 1

Source: VandaTrack

Instead, individual investors have grown in number: More than 10 million new brokerage accounts are estimated to have been opened in the first half of this year, according to JMP Securities. That is around the total for all of 2020.

Individual investors' enthu-

Please turn to page A4

U.S. Unemployment Claims Reach New Pandemic Low

y Bryan Mena

Worker filings for jobless enefits fell to a new pan-emic low last week and re-umed a monthslong down-ard trend, adding to signs of recovering labor market.

Initial jobless claims fell by ,000 to a seasonally adjusted 54,000 in the week ended une 26 from the prior week's vised total of 415,000, the La-or Department said Thursday.

The drop brought the four-eek moving average, which ooths out volatility in the eekly figures, to 392,750, o a pandemic low. Jobless ims, a proxy for layoffs, are wn about 50% since the first eek of April, but remain ove pre-pandemic levels.

"We are seeing labor-market progress," said AnnElizabeth Konkel, an economist at job-search site Indeed. She added that "we still have just a little bit more ways to go" before unemployment claims reach pre-pandemic levels.

Initial claims were at 256,000 on March 14, 2020, as Covid-19 took hold in the U.S. The 2019 average for claims was 218,000.

Thursday's decline in unemployment claims came ahead of the June U.S. employment report to be released by the Labor Department on Friday. Economists project that employers created 706,000 jobs last month and that the unemployment rate fell to 5.6%. Even with such gains, the labor market would still be around 6.6 million jobs smaller than just ahead of the pandemic.

"There are still many things in the air for this economic recovery to be stable—vaccination rates, the evolution of new strains, the rest of the world's economy," said Alfredo Romero, an economist at North Carolina A&T State University.

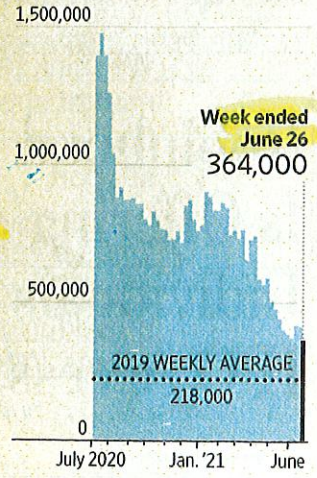
As Covid-19 infections eased, states lifted business restrictions, spurring activity across industries. Consumers began spending and traveling more, helped by government aid distributed earlier in the year. Consumer spending is primed to aid the recovery over the summer. Job openings reached record levels this spring and businesses have ramped up investments in capital.

The recovery has been uneven. While hiring has picked up, it has lagged behind gross domestic product growth as workers remain sidelined because of expanded unemployment benefits, child-care responsibilities and other factors.

Supply-chain disruptions also continue to hobble business. Ford Motor Co. this week said the global computer-chip shortage will force it to cut output at more than a half-dozen U.S. factories.

Benefits distributions are projected to continue falling over the summer as the labor market continues to improve and states cancel enhanced and extended pandemic-related benefits.

Filings for jobless benefits



Note: Seasonally adjusted

Source: Labor Department via the Federal Reserve Bank of St. Louis