



Mid-Quarter Investment Market Commentary – 3rd Quarter 2020

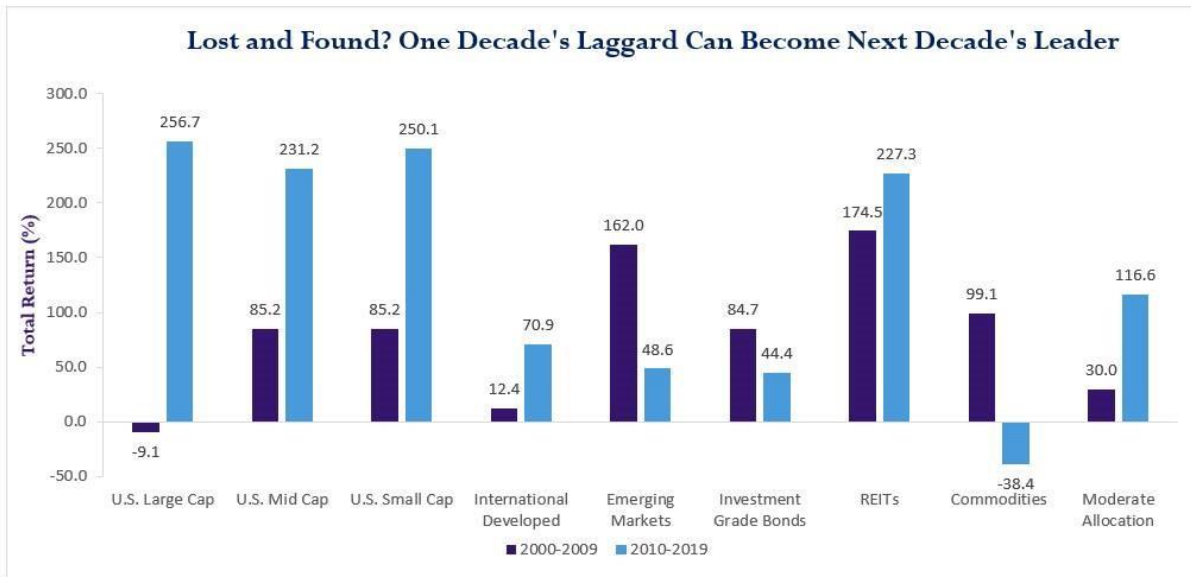
September 9, 2020

We made it through Labor Day—if you had told me on March 13 that I would not be back in the office meeting with clients by today, I would NOT have believed it. Yet here we are, continuing with remote work. Similarly, the idea that investment markets would be near flat for the year by the end of summer would also have drawn doubt. With all that is going on in this extraordinary time, I sincerely hope you found some relaxation and respite over the summer months.

As 2020 has reminded us all, anything is possible. With a presidential election approaching and so many unknowns regarding COVID-19, we need to prepare for considerable uncertainty in the months and years ahead. However, while this uncertainty feels heightened, we know it is always prudent as investors to prepare for volatility.

Part of how we help you with this is in the design of our managed portfolios balancing broad diversification with defensive strategies to help soften and mitigate volatility. Additional to investment design is in properly preparing for investment fluctuation through intentional allocations to cash savings. Lastly, the emotional aspect of volatile markets can make it difficult to “stick to your plan,” and the value of behavioral coaching has shone in these recent months. With volatility muted over the last few years, I feel as though downturns like these are tests of the fortitude of our financial fitness.

As the US Presidential election comes into focus (an already usually volatile time for investments), I would expect market swings to increase—as they have over the last 10 days. But let’s take stock in the tremendous market movement experienced this year: the S&P 500 has rallied over 50% since its March 23 low. One concern on this rally is its narrowness, with investors primarily focused on the technology sector. While this can sometimes lead us to want to pile into a favorite sector, history shows market leadership can change as time moves on.



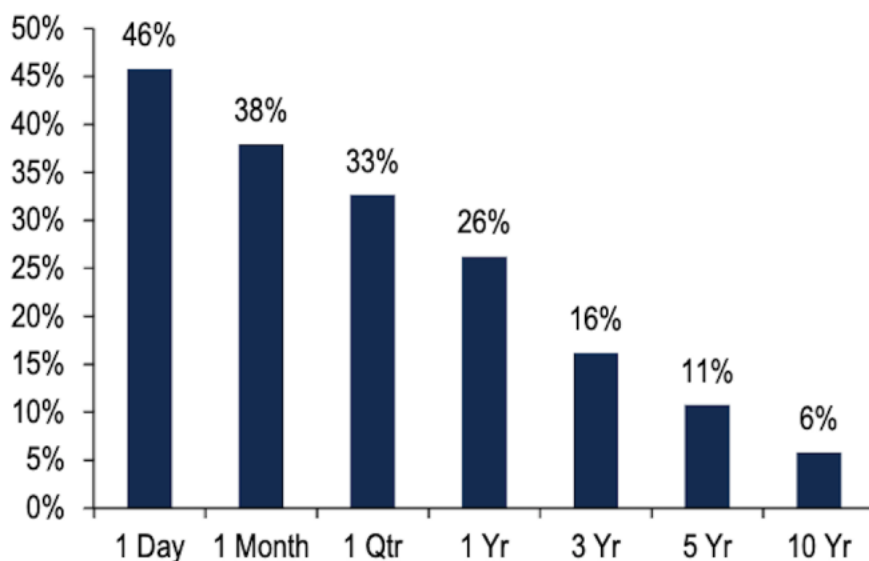
Source: Cetera Investment Management, Morningstar, Standard & Poor's, MSCI, BloombergBarclays, ICE BofA, FTSE Russell, and Bloomberg. The Moderate Allocation is composed of the following indexes: 36% Russell 3000 (U.S. equities), 24% MSCI EAFE (Intl Developed), 37% BbgBarc Aggregate Bond (Investment Grade Bonds), and 3% ICE BofA U.S. 3-Month Treasury Bills (cash proxy). Returns are cumulative and include dividends and interest.

Despite lingering caution regarding the pace of economic recovery, elevated investment valuations, and the unknowns around the virus, the consensus from many of our sub-advisor partners is that unprecedented monetary and fiscal stimulus have already been too strong for a return to a prolonged down market. Recent market action appears to be a re-evaluation of investor optimism and a course-correction, rather than a new bear market.

With volatility and uncertainty comes the emotional reaction by some to consider "sitting this one out"--the idea that we should consider exiting the market and re-entering at a later time in an effort to side-step market concerns. The truth is that intra-year losses are almost always experienced due to headline trading issues. It's for this same reason that we always stress liquid cash as your best hedge against market movement. While it hasn't earned much in recent years, liquid cash allows your investments the runway needed to experience a probable return. The chart below shows the probability of negative returns on the S&P 500 over various lengths of time since 1929. Probabilities for positive investment experience increase considerably as time horizon lengthens.

Chart 1: As time horizons grow, equity losses plummet

Probability of negative returns, based on S&P 500 total returns from 1929-present



Source: S&P, Bloomberg, BofA US Equity & Quant Strategy

Keep this in mind: for investors, attempting to side-step market downturns is not just knowing when to sell. You have to make two calls correctly—when to sell *and* when to buy. And getting either of these calls wrong can be devastating.

The September to November time frame is traditionally the most volatile time of year for the markets, and that will surely be compounded by the uncertainty surrounding the election and COVID-19 this year. Remaining disciplined in a well-diversified investment strategy and thinking long-term are the constant challenges—especially as we continue to see a disconnect between valuations of geographically diversified publicly-traded companies and the “micro-cap” businesses we see struggling on Main Street.

As always, I am available to discuss your current situation and how the economy and markets have impacted your financial plans. Risks do change. Market conditions change every day. More importantly, your goals and risk tolerance may change over time. Regular planning updates are crucial.

We appreciate your continued partnership.

Sincerely,

Jason

Jason Vitucci, CFP®, EA
Financial Advisor

Market Movement

Asset Class Performance Year to Date through September 4, 2020

| | |
|--|---------|
| Dow Jones Industrial Avr. (US Large Cap) | -1.42% |
| MSCI EAFE (Developed International) | -8.18% |
| MSCI Emerging Markets | -1.36% |
| Barclays Agg Bond (US Corporate Bonds) | +6.76% |
| Crude Oil | -34.87% |
| Gold | +27.00% |

The Social Distancing Recovery Dashboard is published by Cetera Investment Management weekly & posted to our blog twice per month. It illustrates measurements of various economic data as the economy begins to re-open & recover.

| Social Distancing Recovery Dashboard | | | | | | | | | | | | |
|--|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|--|
| High Frequency Metric | Pre-Shutdown (March 7) | Jul 18 | Jul 25 | Aug 1 | Aug 8 | Aug 15 | Aug 22 | Aug 29 | Sep 5 | 1-Week Change | 4-Week Change | |
| Driving Mobility Tracker (Level) | 118.8 | 138.3 | 138.6 | 140.2 | 142.0 | 144.1 | 142.7 | 136.7 | 139.9 | ↑ | ↓ | |
| Public Transit Mobility Tracker (Level) | 101.1 | 51.7 | 51.5 | 52.5 | 53.0 | 54.7 | 56.0 | 55.5 | 56.8 | ↑ | ↓ | |
| Walking Mobility Tracker (Level) | 116.0 | 123.4 | 122.6 | 124.4 | 127.9 | 133.0 | 138.6 | 134.4 | 135.6 | ↑ | ↑ | |
| Airport Travelers vs. 1 Yr. Ago | -10.3% | -74.4% | -74.7% | -73.8% | -72.8% | -71.3% | -70.7% | -71.2% | -63.8% | ↑ | ↑ | |
| Restaurant Reservations (U.S.) vs. 1 Yr. Ago | -4.7% | -61.9% | -61.6% | -58.5% | -56.9% | -53.7% | -50.2% | -47.2% | -49.6% | ↓ | ↑ | |
| Restaurant Reservations (California) vs. 1 Yr. Ago | -5.6% | -72.6% | -70.1% | -66.5% | -63.1% | -61.8% | -62.2% | -57.1% | -56.7% | ↑ | ↑ | |
| Restaurant Reservations (New York) vs. 1 Yr. Ago | -8.4% | -76.4% | -77.3% | -74.8% | -74.8% | -69.7% | -65.3% | -64.3% | -66.9% | ↓ | ↑ | |
| Restaurant Reservations (Florida) vs. 1 Yr. Ago | -6.7% | -60.1% | -59.5% | -58.7% | -56.6% | -50.0% | -47.6% | -34.4% | -24.2% | ↑ | ↑ | |
| Restaurant Reservations (Texas) vs. 1 Yr. Ago | -1.7% | -62.3% | -60.3% | -54.1% | -50.7% | -47.4% | -44.2% | -41.9% | -46.5% | ↓ | ↑ | |
| Weekly Unemployment Claims (Millions) | 0.21 | 1.31 | 1.42 | 1.44 | 1.19 | 0.97 | 1.10 | 1.01 | 0.88 | ↑ | ↑ | |
| Weekly Same Store Sales vs. 1 Yr. Ago | 6.0% | -5.5% | -7.5% | -8.7% | -7.1% | -3.4% | -2.8% | 0.6% | 4.6% | ↑ | ↑ | |
| Weekly Mortgage Application Index (Level) | 280.7 | 305.4 | 310.9 | 306.1 | 300.7 | 306.6 | 308.9 | 310.2 | 309.6 | ↓ | ↑ | |
| New York Fed Weekly Economic Index | 1.42 | -6.96 | -7.60 | -7.20 | -6.76 | -6.07 | -6.15 | -5.31 | -4.41 | ↑ | ↑ | |
| High Yield Bond Spread (End of Week) | 5.64% | 5.74% | 5.29% | 5.16% | 5.06% | 5.26% | 5.25% | 5.00% | 5.13% | ↓ | ↓ | |

Sources and Notes: Cetera Investment Management, FactSet, Apple (Driving, Public Transit, and Walking Mobility), Transportation Security Agency (Airport Checkpoint Passenger Traffic), OpenTable (Restaurant Reservations), U.S. Employment and Training Administration (Weekly Unemployment Claims), Johnson Redbook Service (Same Store Sales), Mortgage Bankers Association (Weekly Mortgage Application Purchase Index), Federal Reserve Bank of New York (Weekly Economic Index), Bank of America Merrill Lynch (High Yield Bond Spread). The 7-day average is used for metrics that are daily (Driving Mobility, Airport Travelers, and Restaurant Reservations). Data is pushed forward 1-week for the following metrics because there is a 1-week data release lag: Unemployment Claims, Same Store Sales, Mortgage Application Index, and New York Fed Weekly Economic Index. For the 1-week and 4-week change, an up arrow indicates the metric is improving and a down arrow indicates the metric is weakening.

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High quality investments are investments in securities issued by companies with the propensity for higher than average characteristics including higher and more consistent profitability, stronger balance sheets, and higher dividend growth. The primary diversifiable risk is opportunity risk.

International investing is an investment strategy where investors chose global investment instruments. International investing can be accomplished utilizing a variety of investment vehicles including, but not limited to, ETFs, American Depository Receipts, or a direct investment in a foreign stock exchange. Diversifiable risks include, but are not limited to, political risk and currency risk.

Bonds are a type of debt instrument issued by a government or corporate entity for a defined period of time at a fixed interest rate. Bonds may be subject to unsystematic risks including, but are not limited to, call risk and reinvestment risk. High yield bonds, or junk bonds, will be subject to an even greater degree of these risks as well as subject to the credit risk. Commodity instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargo, tariffs, and international economic, political, and regulatory developments.

A client's risk budget is derived from the client's specific answers to a risk assessment, which establishes the client's financial goals, ability to handle risk, and overall investment time horizon. The individual client risk budget is expressed as a percentage of the risk of a well-diversified equity portfolio. CLS Investments & Tower Square Investment Management contributed to this commentary.

Please remember that diversification and asset allocation do not guarantee a profit nor protect against loss in a declining market. They are methods used to help manage risk.

The Dow Jones Real Estate Indices are part of the Dow Jones Global Indices* family, a comprehensive yet investable index series that provides 95% market capitalization coverage of 51 countries. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The DXY is the U.S. Dollar Index. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The MSCI Small Cap Index target 40% of the eligible Small Cap universe within each industry group, within each country. MSCI defines the Small Cap universe as all listed securities that have a market capitalization in the range of USD200-1,500 million.