SAM NEWS

2nd Quarter 2020 Report
July 2020

The Economy Begins Reopening

A New Bull Market Has Begun

After bottoming on March 23rd, large U.S. stocks have rallied an astounding 38%- technically entering a new bull market (up 20% or more from the low point). The DOW 30 had its best quarter since the first quarter of 1987 and the S&P 500 had its best quarter since the fourth quarter of 1998. <u>We have now been in a new bull market longer than we were in the most recent bear market.</u>

Many uncertainties remain about the virus and the reopening of our economy, but the sentiment has been improving with daily COVID-19 deaths waning nationally, better treatments, more testing and tracing, and the promise of an eventual vaccine. The U.S. economy is beginning to slowly re-open state by state, county by county, city by city, and industry by industry. We believe that the purposeful shutdown of our economy in response to the pandemic medical crisis will not have a long-lasting impact and our economy will re-accelerate over the coming quarters. Please read our "SAM Outlook" and "SAM Strategy" below.

2nd Quarter 2020 INVESTMENT REPORT

U.S. stocks, as measured by the S&P 500 rose 20.5% during the second quarter ending down just 3.1% for the first half of the year. The tech heavy Nasdaq Composite added 30.6% topping the 10,000 level and ended the quarter with a year-to-date <u>gain</u> of 12.1%. Small U.S. company stocks as represented by the Russell 2000 were up 25.4%, while the DOW 30 gained 18.5% for the quarter. International stocks as measured by the MSCI EAFE Index also advanced 14.2%. The Barclays Capital Aggregate Bond Index rose 2.9% as the Federal Reserve put interest rates on hold for the foreseeable future. Gold finished the quarter at $1,800 per ounce- the highest level since 2011.

INVESTMENT INDICES

All numbers listed are total returns (including dividends) and are percentage gains or losses.

	2nd Quarter	Year-to-Date	Since 3/23 lows
Dow 30	18.5%	-8.4%	38.8%
S&P 500	20.5%	-3.1%	38.5%
Nasdaq Composite	30.6%	12.1%	46.6%
Russell 2000	25.4%	-13.0%	43.8%
MSCI EAFE (Int'l stocks)	14.2%	-12.6%	31.5%
Barclays Capital Aggregate (Bonds)	2.9%	6.1%	5.3%

Annual Review Appointments Continue

We are continually setting client telephone and Zoom online review appointments. If we have not "met" this year and you would like to set an appointment, please call our office toll-free at 877-658-5193 and we will schedule with you right away. We hope to begin meeting with clients in person again as virus restrictions are lifted.

Upcoming Stock Market Holidays

Independence Day, July 3rd
Labor Day, September 7th

SAM Outlook and Strategy on the following pages.

SIERRA ASSET MANAGEMENT
Serving Central California

40312 Junction Dr./PO Box 2389
Oakhurst, California 93644
PH: 559-658-5193
Toll Free: 877-658-5193
www.SierraAM.com
Email: info@SierraAM.com

SAM OUTLOOK

As we covered in our first quarter newsletter, the stock market will *anticipate* better news and will bottom well before the crisis is over. Stocks rally and continue to rise as the light at the end of the tunnel begins to look more like a beacon. This has occurred countless times throughout our economic and stock market history. The last bear market bottomed in March of 2009 even though the recession did not officially end until the third quarter of that year. Prior economic recessions and crises have followed the same pattern. This pattern is due to the fact that the stock market is a discounting mechanism and investors are always looking *ahead* to what future corporate earnings are anticipated to be.

Two of the most venerable pieces of stock market wisdom are “don’t fight the Fed” and “don’t fight the tape.” The U.S. Central Bank has lowered short-term rates to zero and has indicated that rates will stay near 0% through 2022. It is providing unlimited market liquidity and is making unprecedented asset purchases to stabilize our economy and capital markets. This means that stock market bears are not just fighting the Fed, but a nuclear armed Fed. No one knows how long the current bull market will last, but there is a lot of liquidity and backstops in place and the “tape” has been very strong based on the very broad stock rally from the lows. If the economy is able to reopen safely within a reasonable amount of time, our economy may rebound faster than many may believe. It will not be “different this time” as we covered in our 1st quarter newsletter.

Over the coming months the coronavirus will still be with us, of course. But hopefully we will have more successful treatments, better testing and tracing, a vaccine, and much greater herd immunity. Life may not be completely normal again, but I believe it will be pretty close. I believe that we will fly, cruise, stay in hotels, eat in restaurants, and shop in malls. We will attend concerts, sporting events, business conferences and Broadway plays. I am convinced that humans were not wired to shelter at home or not be around friends and family for long periods of time. Statistically, roughly seventy percent of U.S. GDP (gross domestic product) comes from consumer spending. It will not be overnight, but we should see consumers continue to leave their homes and spend money out in the real economy again- especially if there is an effective vaccine. Consumers drive the U.S. economy, the economy drives corporate earnings, and corporate earnings drive stock prices.

SAM STRATEGY

As your advisor, one of the main functions that we have performed during this difficult time is keeping our clients calm, invested, and focused on their long-term investment goals. Despite the unprecedented volatility, fear, and uncertainty we only had a few clients insist that we liquidate their portfolios despite our urging to remain invested. At the lowest point (March 23rd), stocks were down around 31% for 2020 and now stocks are only down 3.1% as measured by the S&P 500. We continue to emphasize textbook portfolio diversification and ***time in the market*** rather than ***timing the market***.

As a refresher, the core of our client portfolios is invested in larger, S&P 500-type corporations. By mentioning that, I want to remind our clients that you are invested in some of the world’s most financially sound companies. The majority of these companies have weathered the COVID-19 pandemic well and many have actually flourished in this environment (think Amazon, Zoom, Clorox, Walmart, Netflix, Teladoc, etc.). In many ways, the spread of the Coronavirus has given larger well-capitalized companies- particularly technology companies and big box stores that were allowed to stay open- an advantage over their main street competitors. While I have tremendous sympathy and empathy for main street businesses, your favorite local store, beauty salon, or coffee shop that has had to close temporarily is not representative of your stock portfolio investments.

Continued on page 3

2020 RMD Suspension

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, recently passed into law includes a number of measures designed to stimulate the economy. One provision allows retirees to forgo taking Required Minimum Distributions (RMDs) from IRAs or 401(k)-type plans this year. You are still welcome to withdraw retirement funds at your discretion, but there are no Required Minimum Distributions for 2020. If you have specific questions about your individual situation and affected accounts, please do not hesitate to call our office.

Mortgage Rates at Record Lows

Mortgage rates hit <u>all-time</u> lows during the quarter as the Fed reduced interest rates to zero in response to the COVID-19 pandemic. If you have not reviewed your current mortgage rate and term in a while, now may be a great time to do so. As a general rule of thumb, a reduction of your mortgage interest rate by 1% through refinancing may make sound financial sense- especially if you are able to match or reduce the number of years you have remaining on your home loan. You will need to take all of the upfront costs of the loan into account and from there you can weigh the costs and hassle of obtaining the loan versus the economic benefits. We are happy to review any home loan refinance proposals that you receive as part of our service to you.

We are all hopeful that our local small businesses will be able to re-open soon and thrive once again because they are truly at the heart of our country's economy.

During the brief stock decline, we were able to do some selective re-balancing of portfolios and put some idle client cash to work. Clients that added new money to existing accounts or established and funded new accounts during the short-lived bear market decline have already been rewarded with higher than average rates of return due to the large recovery in stock prices. As Warren Buffet famously said, "Be fearful when others are greedy and greedy when others are fearful." In other words, buy low! This is very difficult to do when the world feels like it is falling apart around you and you are fearful for your own health and safety. We are continuously reviewing our holdings and our overall allocations and are always considering new investment opportunities- especially during bear markets. We appreciate your continued trust and confidence in these unusual times. Stay safe- this too shall pass.

INTERESTING FACTS

NEVER GOING BACK- Before President Trump declared a national emergency to combat the COVID-19 virus on Friday 3/13/20, just 3.6% of American wage and salaried employees worked from home 5 days a week (source: Department of Labor).

NOT INFLATION, BUT DEFLATION- The Consumer Price Index (CPI) fell 0.8% on a month-over-month basis in April 2020, its largest monthly decline since December 2008. The last calendar year in which inflation was negative, i.e., deflation, was 1954 or 66 years ago (source: Bureau of Labor Statistics).

HALF A YEAR-The shortest US recession in the last 100 years was the 6-month economic downturn that ran from January 1980 to July 1980 (source: National Bureau of Economic Research).

RAPID RECOVERY- The market was up 37.7% as of June 3 in the 50 trading days since the bear market bottom. This was the strongest 50-day rally in history. In the seven times the market has risen 25% or more in 50 days, the stock market has always been higher six and 12 months later.

GREAT TIME TO BUY- The average interest rate nationwide on a 30-year fixed rate mortgage fell to 3.15% on Thursday 5/28/20, the lowest ever recorded in US history. That means home buyers would pay just $430 per month in "principal and interest" payments for every $100,000 borrowed (source: Freddie Mac).

DOLLAR IS KING- 61% of the world's foreign exchange reserves, i.e., cash holdings of central banks around world, were held in US dollars as of the end of calendar year 2019 (source: International Monetary Fund).

We sincerely appreciate your continued trust and confidence during these challenging times. If you know of someone who may benefit from our service, please pass along our contact information. As always, there is no cost for an initial consultation.

USPS Informed Delivery

Have you ever wondered what will be in your physical mailbox today or will be coming soon? Try signing up for the USPS Informed Delivery program at www.informeddelivery.usps.com or just search online for USPS informed delivery. The enrollment process is simple and you will soon be viewing digital images of your mail through daily emails or through the USPS dashboard. There are other great features as well, like having your mail held at the post office while you are on vacation- all with the click of a mouse.