SAM NEWS

3rd Quarter Report
October 2020

Remarkable Recovery

Stocks Erase Coronavirus Losses, Risks Still Loom

After being down nearly 35% just over six months ago, U.S. stocks staged a full recovery from the COVID-19 lows during the third quarter. In fact, the S&P 500 and Nasdaq Composite set new all-time record closing highs in August. After experiencing outsized gains from the lows in late March through the August record highs, the stock market had a brief technical 10% correction in September and stocks finished lower for the month.

As we often say in our newsletters, the stock market is a leading economic indicator but there is still a lot of uncertainty regarding the virus and the long-term impact on our economy. U.S. GDP contracted by nearly one third in the second quarter and unemployment spiked to nearly 15%, underscoring the challenges ahead. The ultimate course of the economy largely depends on the progression of COVID-19, and the prospects for future stock market volatility remain high. Will our "V" shaped stock market and economic recovery continue? Please read our SAM Outlook and SAM Strategy below.

3rd QUARTER 2020 INVESTMENT REPORT

Multiple historic U.S. index records were notched in August before stocks suffered a 10% correction in September. U.S. stocks, as measured by the S&P 500 rose 8.9% during the third quarter setting an all-time high of 3,580 on September 2nd. The tech heavy Nasdaq Composite added 11%, small company stocks as represented by the Russell 2000 were up 4.9%, while the DOW 30 gained 8.2% for the quarter. International stocks as measured by the MSCI EAFE Index rallied 4.2%. The Barclays Capital Aggregate Bond Index rose just 0.6% as interest rates remained near all-time lows. Gold finished the quarter at $1,887 per ounce- a gain of 24.2% so far in 2020. During the quarter, gold finally surpassed its previous all-time high price of $1,917 per ounce which was reached back in August 2011. In contrast to gold's break-even ten-year performance, the S&P 500 has had an <u>annualized</u> rate of return of 14.2% from 8/31/2011 through 9/30/2020.

INVESTMENT INDICES

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

	3rd Quarter	YTD	2019
Dow 30	**8.2%**	**-0.9%**	**25.3%**
S&P 500	**8.9%**	**5.6%**	**31.5%**
Nasdaq	**11.0%**	**24.5%**	**35.2%**
Russell 2000	**4.9%**	**-8.7%**	**25.5%**
MSCI EAFE (International Stocks)	**4.2%**	**-8.9%**	**18.4%**
Barclays Aggregate (Bonds)	**0.6%**	**6.5%**	**8.7%**

These are not the rates of return for SAM accounts, but are shown as a historical benchmark for various asset classes. SAM does not guarantee account performance. Accounts may lose value. Information taken from sources believed to be reliable, but its accuracy cannot be guaranteed.

SAM Outlook & SAM Strategy on the flip side

TIME FOR TAX PLANNING

It's Less Than 90 Days To Year-End! Time to start thinking about…

Tax planning: Schedule an appointment with your CPA or tax preparer.

IRA and retirement plan contributions: Be sure to fund by the IRS deadlines.

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

Thanksgiving Day, November 26th
SAM Closed Friday, November 27th
Christmas Day, December 25th
New Years Day, January 1st

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SAM OUTLOOK

There has been an unprecedented government response to the COVID-19 pandemic around the world. Many central banks have embraced a "whatever it takes" approach, which has included slashing interest rates and providing liquidity to financial markets. The world's largest economies have committed more than $9 trillion in spending, loans, and loan guarantees toward countering the negative effects of the pandemic and as of this writing, the U.S. is considering an additional economic stimulus package. The scope of the global policy response to the pandemic, both on a monetary and fiscal basis, far eclipses earlier episodes- well in excess of even the 2008-2009 financial crisis. Additionally, today's aid is more focused on getting the money into the broader system, concentrating on Main Street more than Wall Street and on households and businesses rather than financial institutions. Moreover, while the pandemic is far from over, the banking system has remained solid and has continued to lend, unlike during the global financial crisis.

While the stock market has recovered, risks to the economic recovery certainly remain. First, as students go back to school this fall we will know if it has an impact on the spread of COVID-19 and by early November we will be entering the early weeks of the flu season in the Northern Hemisphere when viruses tend to spread more readily. Secondly, the results of U.S. elections in early November could imply substantive changes in policy or confidence could be shaken if a close election does not yield an immediate result and the outcome is not known for days or weeks. Thirdly, the outcome of the post-Brexit trade relationship with the European Union (EU) will be determined in the next few months. The United Kingdom left the EU on January 31, but no changes to the trade relationship have taken place during the transition period which expires at the end of this year. If a new trade deal is not at or near completion by early November it may be difficult to avoid a “hard” Brexit trade scenario.

Despite the seemingly endless list of issues to be worried about, the U.S. economy is very resilient. Obviously, moving beyond the COVID-19 crisis and getting our economy back up and running is critical. With Operation Warp Speed in full swing, it is hard to bet against a vaccine. According to the U.S. Department of Health and Human Services website “Operation Warp Speed (OWS) aims to deliver 300 million doses of a safe, effective vaccine for COVID-19 by January 2021, as part of a broader strategy to accelerate the development, manufacturing, and distribution of COVID-19 vaccines, therapeutics, and diagnostics (collectively known as countermeasures).” I have a hard time betting against hundreds of the smartest scientists on the planet who are trying to come up with a cure or a treatment, against a backdrop of absolutely streamlined regulations. We expect at least one vaccine to be approved by the end of 2020 and widely distributed by mid-2021. If accurate, that could lift 2021 GDP by more than 5%. Stocks will respond very favorably to any successful vaccine news since that implies that a full economic re-opening is attainable. We expect stocks to continue clawing their way higher as they always have despite being beset by periodic setbacks.

Gifting to charity?

There are major advantages in donating appreciated securities instead of cash. When you donate an appreciated security, you don’t have to pay capital gains tax on the gain, and generally, you get a tax deduction for the full value of the security on the day it is donated. Giving appreciated securities instead of cash can save you hundreds or even thousands of dollars versus a cash gift. See your tax preparer to find out if you should take advantage of this unique way of giving.

RMD’s (Required Minimum Distributions) for IRA’s:

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. We will be mailing out letters to all affected clients soon.

Interesting Facts

Here is a great quote from Marc Levy:

"If you want to know the value of one year, just ask a student who failed a course. If you want to know the value of one month, ask a mother who gave birth to a premature baby. If you want to know the value of one hour, ask the lovers waiting to meet. If you want to know the value of one minute, ask the person who just missed the bus. If you want to know the value of one second, ask the person who just escaped death in a car accident. And if you want to know the value of one-hundredth of a second, ask the athlete who won a silver medal in the Olympics."

UNDER THE PILLOW -Since the beginning of 2020, the size of the money market fund industry in the USA (both taxable and tax-free) has grown from $3.6 trillion to $4.6 trillion as of Wednesday 8/12/20 (source: Investment Company Institute).

ALL THE STOCKS- The total stock market capitalization of U.S. equities peaked at $36.1 trillion as of 2/19/20, fell to $23.4 trillion as of 3/23/20 and has bounced back to $35.6 trillion as of Friday, 9/11/20. (source: Wilshire)

HOUSING STRENGTH- The U.S. housing market is setting records despite the pandemic. The number of existing home sales across the country grew by 24.7 percent to 5.86 million in July compared to the 4.72 million homes sold in June. July also saw the first time the median U.S. home price exceeded $300,000. The median price last month was $304,100, up 8.5 percent year-over-year from $280,400. In June, the median price was $295,300.

SAM STRATEGY

While no two market cycles are identical, they tend to follow similar patterns. This time has been no different, the global pandemic notwithstanding. This was the shortest bear market ever- just 33 days. In the US, there have been six instances since 1930 when stocks experienced market declines of greater than 30%. In every instance, stocks were meaningfully higher 1 and 3 years after the trough. This year, global stocks experienced a full-blown recessionary bear market in roughly 20 trading days. The market trough, as has typically been the case, coincided with extreme volatility, investor capitulation, and dire sentiment globally. By early May, many investors had largely capitulated with trillions of dollars seeking the relative safety of government bonds and cash-like assets. In contrast, we kept our client portfolios fully invested, bought some individual stocks and sectors on sale during the decline, and have reaped the rewards of the full market recovery.

Ultimately, we expect this new budding market and business cycle to be among the longest on record, perhaps even surpassing that of the post-2008 period. A prolonged period of slow growth, low inflation, low interest rates and massive policy accommodations will likely be a period that is conducive to positive performance for both stocks and bonds. Clients should expect volatility along the way, particularly if concerns about re-opening the economy persist. However, we believe that betting long-term against stocks and bonds now would be akin to betting against medicine, science, human ingenuity, and the direction of monetary policy. That is not a bet that we would be willing to make.

We continue to closely monitor the leading economic indicators as they are released and nearly all of those are firmly in expansionary mode. As expected, the standard economic indicators that we closely track bottomed in April and have steadily improved each month since. These positive indicators lead us to stay fully invested in all of our diversified strategies despite any near-term uncertainties. Quarterly corporate earnings will be released again in October and there are early indications that earnings will be strong and that forward company guidance will be positive.

ELECTION JITTERS

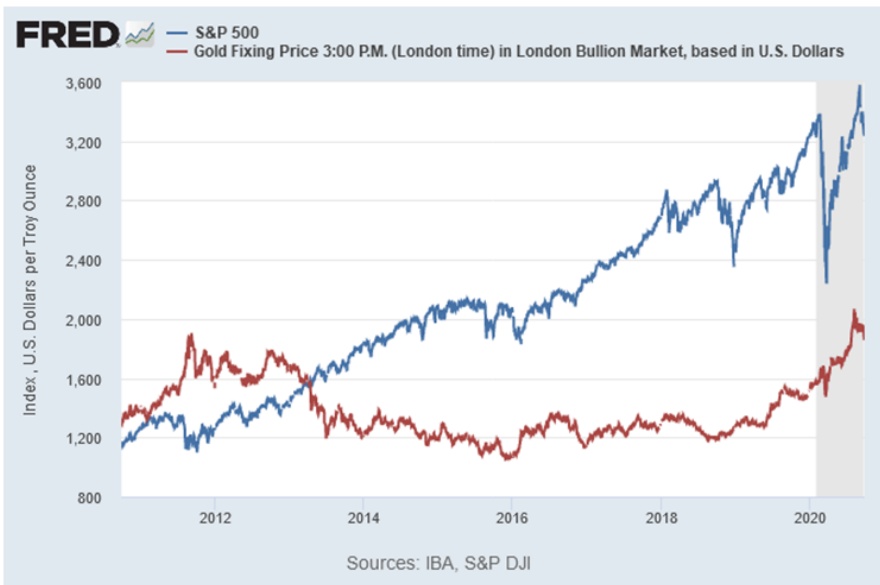
Clients are increasingly calling in and emailing to get our insight on the upcoming election and the potential impact on the stock market and economy. There are many "unprecedented" issues that we are dealing with in 2020 and the presidential election is squarely among them and top of mind among our client base. Presidential elections present investors with what we call single event risk every four years. Given the unusual circumstances surrounding this year's contest, our clients should expect increased <u>short-term</u> market volatility as the election approaches and results are finalized. Elections may bring temporary uncertainty but have little long-term bearing on stock performance.

We could dedicate pages of our newsletter to highlighting the differences in the policies of the two candidates and what *may* stay the same or change based on what party controls the house and senate and how that *may* affect our client portfolios and investment allocations going forward. We believe that this speculation would not be a wise use of our time (or yours) and that maintaining a diversified portfolio and thinking long-term are much more important. We would strongly caution clients against making major portfolio changes or trying to "time" the stock market due to the election. The cause of the present election uncertainty may seem unique, but we have been through other bouts in the recent past - remember the 2000 and 2016 elections? For investors, the key is always the same: Stay focused on what you can control—your personal goals and time horizon, and make sure you have a plan in place to get you there—no matter what life, elections, and markets may throw at you. If you would like to revisit or refresh your long-term planning, please give us a call.

Buy Gold Now?

Along with the election questions, clients have been asking more frequently about buying gold over the last few months as gold prices have re-entered the headlines. Perhaps the "cash for gold" commercials and mailings have come back, or perhaps it is the general nervousness surrounding the virus, upcoming elections, or instability around the world? Gold prices finally climbed to a new closing record for the first time in almost ten years. The precious relic is up over 20% for the year, once again attracting the attention of some investors. The enthusiasm for gold seems to be driven by investors building portfolio hedges in light of a gloomy global economic growth outlook, depressed interest rates, and rising tensions between the U.S. and China. Many investors are also flocking to gold because they think inflation is near, or that the U.S. dollar is doomed. Neither outcome seems likely to us in the near to medium-term.

Personally, I have never been a fan of gold as an investment. Since gold became available to U.S. investors to buy and trade as an investment commodity, it has delivered a nearly +900% return. If that sounds like a solid return, think again: stocks and even U.S. Treasuries vastly outperformed gold over that same time. Even just considering the last ten years, stocks as measured by the S&P 500 (blue line) have zoomed far beyond the total returns delivered by gold (red line), even when taking into account the recent 34% stock decline associated with the pandemic:



Source: Federal Reserve Bank of St. Louis[4]

Not only have stocks and bonds outperformed gold over the long-term, they have also exhibited lower volatility than gold over time. To me, if stocks as a risk asset have consistently delivered superior long-term returns with a lower volatility profile, the choice between stocks and gold is a no brainer.

At the end of the day, many people flock to gold because it is a real, hard asset. Something you can feel, touch. Corporations do not have the same qualities. But at the same time, gold's value as an asset only appreciates based on speculative demand. Gold does not make anything, it does not grow, it does not generate a profit, it does not pay a dividend, and it is taxed less favorably. Companies, on the other hand, can grow, innovate, hire new people, grow more, and generate a steady stream of earnings and dividends for investors over time. In my view, that's why they appreciate more over time, and are ultimately a wiser long-term investment.

In the current climate, uncertainty can leave many investors, especially those nearing or in retirement fearful of what is to come. This can cause investors to look to commodities like gold to hedge against risks, but we would put this in same category as market timing and would advise against it.

We sincerely appreciate your continued trust and confidence during this challenging year. Sending new clients our way is the best possible compliment we can receive. If you know of someone who may benefit from our service, please do not keep us a secret. There is no cost to meet for an initial consultation.