

Q2 2020 Letter to Shareholders

As we continue to take precautions surrounding the COVID-19 Pandemic, we look to review the second quarter of 2020. In our previous letter we discussed how most of us wished we had moved to cash prior to the COVID-19 led bear market which occurred in Feb/March of this year. We discussed how increasingly difficult, if not impossible it is to time markets, and how time IN the market is much more important than TIMING the market. We had difficult conversations with many of our clients where we encouraged them to hang on through one of the most violent market pullbacks we've ever seen and asked them to remain optimistic about long term market returns. Well here we are at the end of the second quarter and those investors that remained in their seat were almost instantly rewarded.

Now, we don't add the above paragraph to prove that we were right. No, rather to point out again that markets can and will continue to be unpredictable. To be quite honest, we would have thought you were crazy if you told us that US markets would rebound 22% in Q2 but here we are. Furthermore, the rebound in equity markets was felt globally as we saw International Developed, Emerging Markets, and Global Real Estate up 15%, 18%, and 11% respectively.







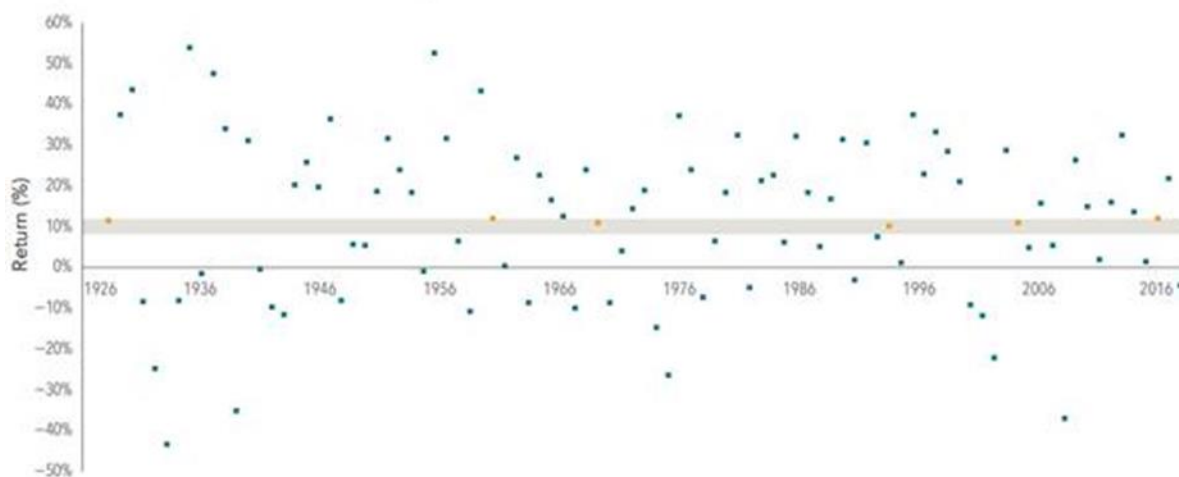
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
2Q 2020	22.03%	15.34%	18.08%	11.17%	2.90%	1.76%
						
Since Jan. 2001						
Avg. Quarterly Return	2.1%	1.4%	2.7%	2.3%	1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.0%	-2.7%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2016 Q4	2015 Q2

Figure 1 Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

So, what happened to the volatility that we saw in Q1? Well to put it plainly, it never left. We are always concerned with downside volatility but are always happy to see upside volatility which is what we've seen over the last three months. The annualized daily volatility of the stock market this year is close to 50%. For comparison purposes, the standard deviation of daily returns in 2019 and 2018 were 12% and 17% respectively.¹ Further, there was not a single daily gain of 4% or more from 2015-2019. This year there have been *eight* such moves including five days with gains of 6% or greater.¹

This may seem unexpected; however, we can always expect volatility on an annual basis. Since 1926, the US stock market has returned 10% per year on average, but the path to 10% has been bumpy. As seen in the chart below returns in any given year have ranged from as high as 54% to as low as -43%. In fact, the S&P 500 had a return within +/- 2% points of this 10% average in only *six* of the past 95 calendar years.² As an NBA fan, this uncommon average of stock market returns reminds us of the uncommon average associated with LeBron James. LeBron is one of the greatest players of all time and has averaged 27 points, 7 assists, and 7 rebounds a game during his entire 16 year career, but has yet to finish a game with exactly 27-7-7.³

Exhibit 1: S&P 500 Index Annual Returns, 1926–2018



In US dollars. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

One might think markets would perform poorly with the unemployment rate over 11%, GDP decline of -5% for Q1, and continuously rising COVID-19 cases, however we have obviously seen the opposite to be true. Have you found it puzzling when a bleak economic report emerges, only to be accompanied by a surge in equity markets? You are not alone. Q2 2020 has provided numerous examples where we saw this apparent disconnect to be true. One thing to remember, is that markets are always forward looking, meaning current equity prices reflect the future expectations of corporate cashflows which are key in determining a stock's value. For example, if markets expect future economic conditions to worsen then we can expect a negative reaction in equity markets well in advance of when we observe the impact on cashflows. Ongoing market returns are then typically dependent on how economic outcomes compare with the consensus view. If an economic result is not as bad as the consensus view, poor economic news can be greeted with a positive stock reaction.

¹Ben Carlson, "The 2020 Stock Market By the Numbers", A Wealth of Common Sense, June 7, 2020

² Dimensional Fund Advisors, "The Uncommon Average: Long-Term Context on Annual Returns", MyDimensional, May 2, 2019

³ Daston Arman, "LeBron Has Averaged 27-7-7 For 15 Years. Why Hasn't He Had a 27-7-7 Game Then?", Medium, August 10, 2018

2020 has provided us with a flurry of news that has impacted not only financial markets, but also our personal lives now and most likely into the future. What news bomb will be next? We do not know. How will markets perform the rest of the year? We do not know. What we do know however is that markets reward long term investors who stay in their seat during turbulent markets. The metaphor that is said frequently at our office is, “your portfolio is like a bar of soap, the more you touch it, the smaller it gets.” In addition, it is important to remember that time in the market is much more important than timing the market and to stay focused on what we can control: Saving, Spending, Risk, and Asset Allocation. These things combined with a general understanding of long-term markets, will typically result in a more comfortable and successful investment experience.

As always, we thank each and every one of our clients for the trust you have given us over the last thirteen years as it has been a blessing to grow with you, and see how your lives have changed over this time. We sent the announcement recently, but in the event you have not heard, effective June 29, 2020 Evans Financial Partners has become Evolve Advisor Group. While Ryan was extremely proud of his family name, the integrity, hard work, and goodwill that has been passed along to him by generations of his family, we felt it time to change things up a bit to better reflect our roles as advisors, our industry and our commitment to each other. So, with Evolve Advisor Group, we look to the next 20 plus years building an independent advisory group of dedicated professionals committed to providing better outcomes in every stage of our client’s lives.

Please jot down our new email address’s and come visit us at our new website:

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