the financial planner

GOLDMAN LANCASTER, INC.
REGISTERED INVESTMENT ADVISOR

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The Markets

In numerous discussions over the last handful of years we opined on the state of the ongoing economic expansion and addressed concerns about forces which could potentially trigger its end. While it is profoundly difficult to identify a specific trigger ahead of time, we have steadfastly held the conviction that the catalyst would be nothing like that of the previous recession; which as we know was unchecked mortgage lending amid ultra-low interest rates leading to an unsustainable rise in home prices and excessive leverage among financial institutions.

Even though borrowing did not go out of fashion in the years following the 2008 financial crisis, legislators, regulators, and the banks themselves all reacted in ways that bolstered the financial system and made another financial crisis far less likely.

Since we ruled out that potential trigger, we had to come up with others. Market pundits nearly always include terror attacks and geopolitical problems as possible exogenous factors which could derail an otherwise comfortable ride to continued growth. Laymen tend to favor domestic political shifts as a likely catalyst, particularly when power shifts from one side of the aisle to the other.

The most common cause for recession is not related to politics and it is not an unexpected event out of the blue. Most usually, recessions are the product of an economy doing too well. Demand outstrips supply and prices begin to creep up. On guard against inflation, the Federal Reserve withdraws reserves from the banking system to raise the short-term borrowing rate. Higher interest rates make new projects less desirable for businesses, and managements lose enthusiasm for capital expenditures. Business begins to slow, and layoffs follow. Only when price pressures abate does the Federal Reserve reverse course, sowing the seeds for the next recovery and expansion. Our best guess was that the next recession would resemble this playbook, with a

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What's New?

As is required each spring, we recently submitted our annual ADV filing to the Securities and Exchange Commission. The ADV brochure describes our services, fees and conflicts of interest among other things.

If you would like a copy of it or our privacy policy, please call or email us at your convenience.

We'll be happy to forward you one.

Interest Rate Update

From Barron's 5/25/2020	Now	1 Yr Ago
Prime Rate	3.75%	5.50%
3-Month T-Bill Rate	0.13%	2.39%
5 Year CD - National Avg.	0.64%	1.39%
Fannie Mae 30 Yr. Fixed Conventional Mortgage	2.26%	3.58%

Financial Markets Scoreboard

Index Returns	**April 2020**	**Q1 2020**
Dow Jones Industrials	+11.22%	-22.73%
Standard & Poors 500	+12.82%	-19.60%
M.S. EAFE (Developed Markets Foreign Stocks)	+6.54%	-22.72%
M.S. EM Free (Emerging Markets Stocks)	+9.18%	-23.57%
Barclay's Capital U.S. Aggregate Bond	+1.78%	+3.15%
Barclay's Capital US Corporate High Yield Bond	+4.51%	-12.68%

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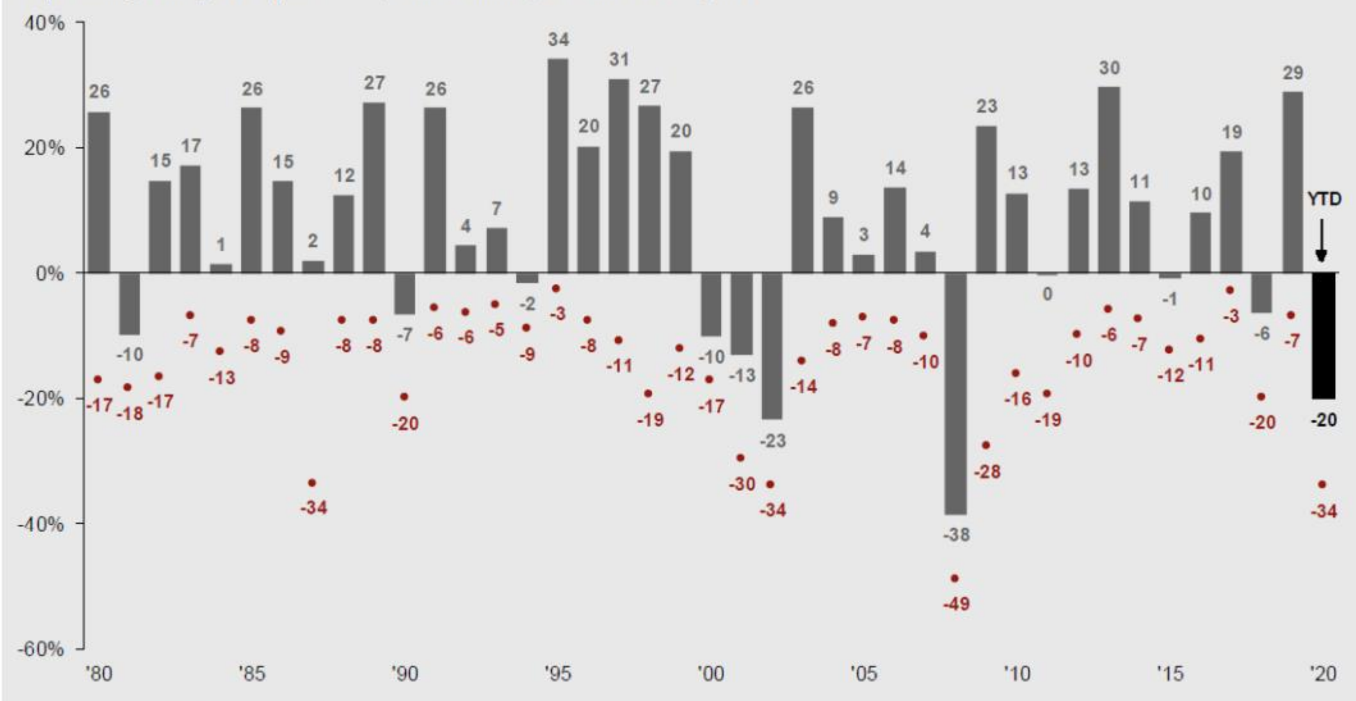
THE PERSPECTIVE PAGE
STOCK MARKET DECLINES ARE NOT UNUSUAL EVENTS

While the cause and timing were certainly a surprise, and the speed of the actual fall was truly shocking, no student of finance could have been astonished that our long running bull market ended with a crash. Like all good things, bull markets eventually come to an end. Historically, markets go down as well as up. That's because risk and reward go hand in hand.

Even when markets are rising, it is never a straight line up. As is illustrated in the chart below, intra-year declines are extremely common. Over the last 40 years, the S&P 500 has dropped 13.8% from peak to trough at some point during each calendar year. But, as the grey bars illustrate, the S&P 500 has generated a positive return in 30 of those 40 years, regardless. Of course, we must offer the reminder that past performance is no guarantee of future results, and there is always the risk that markets will fall and not recover within an investor's investment time horizon, and that investors may lose money.

As we discuss in our *Markets* article, as of this writing markets have made a surprisingly powerful recovery off the March lows. The jury is out as to the near-term course of the pandemic and markets' reactions to new developments. What is also unknown is the potential longer term effects of current fiscal and monetary policies. Unlimited fiscal deficits and monetary interventions are having a tonic effect on markets presently, but we don't know whether these actions are sowing seeds for future instability. It may be years before we discover the limits of fiscal and monetary largesse, and learn whether the effect will be painful levels of inflation eroding incomes, stagnant growth and deflation leading to falling asset values, or episodes of each.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%.
Guide to the Markets – U.S. Data are as of March 31, 2020.

J.P.Morgan
Asset Management

Markets *(Continued from page 1)*

twist...low interest rate policies have generally endured for two decades now, and low rates have encouraged all manner of borrowing. Even as individuals with mortgages retrenched after the '08/'09 debacle, the federal government and large corporations continued to take on additional debt, taking advantage of ultra-easy market conditions and wilting concerns about government deficits. As a result, the ratio of overall debt relative to the size of the global economy has reached heretofore unseen levels, and we have taken the view that the economy has grown dependent on low rates. Why? Because in an overly levered economy with excess production capacity, it does not take dramatically higher interest rates to pressure debt-laden firms and cause retrenchment.

A few years ago, the Fed embarked on an effort to "normalize" the short-term borrowing rate, which had been sitting near zero since 2008. By late 2018 the rate had been pushed above 2%, which of course is not high in historical terms. Even so, it appeared that it might be too high for our economy, which was sputtering throughout 2018. In the fourth quarter of '18 stock market investors reacted, pushing the popular indices down by nearly 20% in under two months. The Federal Reserve responded, backing off its "hawkish" push to raise rates and then reversing course and starting a new rate cutting cycle in early 2019. By the end of 2019 the effects of "dovish" monetary policy were contributing to a reacceleration in the economy, and after being cautious on the economy throughout 2019, we were coming around to the notion that we wouldn't have to worry about recession at all in 2020.

Enter COVID-19

Domestic markets ignored the threat of the novel coronavirus until mid-February, then reacted violently. By mid-March markets were becoming disjointed, and fearing the worst, policymakers reacted. The Federal Reserve cut interest rates to zero again and announced plans to increase its lending facilities in order to potentially inject up to $6 trillion of additional liquidity into markets, extending its reach even farther outside the banking system and again expanding its influence over markets. As of mid-May, the Fed's balance sheet has expanded by about half that amount.

On the fiscal side, the federal government passed three different bills in reaction to the crisis, altogether calling for over $2 trillion of new government spending to support institutions and aid individuals and businesses harmed by the pandemic.

Policymakers nearly unanimously deemed such efforts as necessary, because the chilling effect of the virus and the shutting down of large segments of the global economy are as dramatic as anything seen since the Great Depression in the 1930's.

While smaller in scope, similar fiscal and monetary actions have been employed across the globe. Economists at Deutsche Bank estimate that the global stimulus response so far exceeds $9 trillion. Against a backdrop of massive fiscal and monetary support, equity markets are seemingly "looking through" abysmal economic developments and have recovered a significant percentage of the declines suffered between mid-February and mid-March. These liquidity injections have provided fuel for optimism concerning the reopening of businesses and announcements of advancements in therapeutic and vaccine treatments to push prices higher, outweighing concerns over the plunge in economic activity and surge in unemployment caused by the pandemic.

We remain optimistic that we will overcome the virus. Technological advancements and the sheer scale of resources being committed to solutions make it a virtual certainty. The question is the timeline, and how successful - or not - we are in overcoming the perils in the meantime. When the virus flared in the US in early March and shutdowns began, we contemplated a recovery path similar to that seen in Asian countries...in other words, that over a one-or-two-month period a broad shutdown would slow the spread of the virus sufficiently to enable its containment even when activity began to ramp back up. With new cases still averaging over 20,000 per day across the US as of late May and a population that has developed "COVID-fatigue" we remain concerned that the road to recovery may still have some potholes, for the country at large and for investors as well.

THE PERSONALS

I don't recall exactly when it was that I last put gas in my car.

The COVID-19 lifestyle has meant different levels of disruption for different people. For some, changes in daily routine have been relatively minor. For others, say those with school-age children, the changes have been both stark and challenging. And of course, for some of those unlucky enough to get sick with COVID, the episode has been hellish or worse.

I count myself among the most fortunate.

We run a paperless office, and our phone system works over the internet, so working from home is very doable for the entire staff. And with only five employees in an amply sized office, we have the ability to work in the office without worry of contracting the virus. Even so, we instituted a flex schedule, and every day either Mike or Carol have been working from home. I too have been working from home on most days the last couple months, and must admit, once I gave myself a license to do so, I like it!

Paradoxically, mandated isolation seems to enhance our communal impulses. For Maria, the initial response to stay-at-home orders was to step up an already ambitious cooking regimen. Not to mention, chaos at the gates can make one question why they're saving that special bottle of wine. As a result, we ate very well in the first four weeks of shelter-in-place!

But combining a steady diet of great meals with a sweatpants lifestyle is a dangerous proposition. I recognized right away that if I was to continue fitting into my real pants I would need to keep up some type of exercise routine, and the elimination of nearly all reasons to leave home has turned walking the dog on a beautiful afternoon into a highpoint of the day!

If there's a true winner in our household, it's Harrison, our one-year old Boston Terrier. Because of the pandemic, he is very rarely left alone in the house these days, and our walks have gotten very regular. We get out for an hour or so virtually every day, and cover good ground. When he starts to feel it's walk-time, he lets me know, regardless of whether I happen to be nose-deep at the computer or on the phone.

We're off!

We've been ambitious walkers, too. Harrison and I can proudly say that over the last couple months we have walked to and from the office on more than one occasion: a six-mile roundtrip. Once there, Harrison has zero skills to assist our professional efforts but he is an excellent mascot and raises moral with his friendly and infectious energy. That's infectious in the best sense, by the way!

THANK YOU!

...to the following clients and colleagues for showing your confidence in me by referring your friends, family members, associates and clients to me during the last three months…

Shan Sundar, Jim Austin,
Denny Ponso
&
Barbara Cowan

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