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INVESTMENT SERVICES

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Topics:

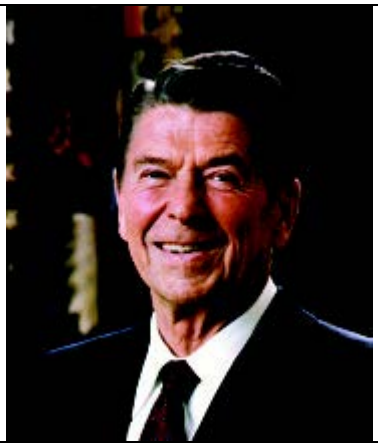
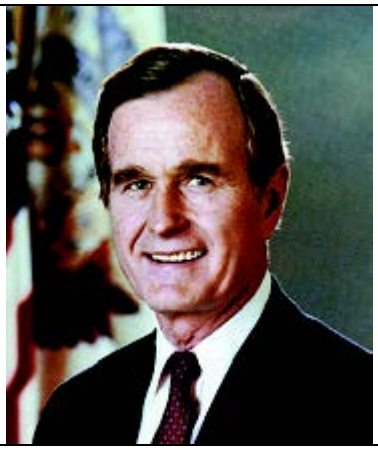
Stock Market Contest 2020 Update

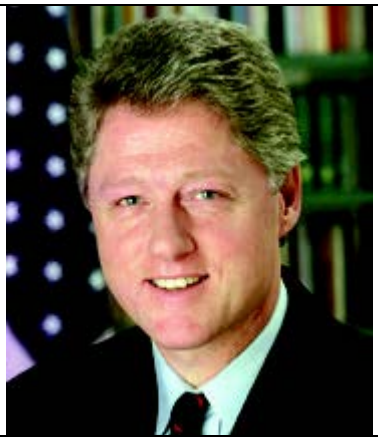
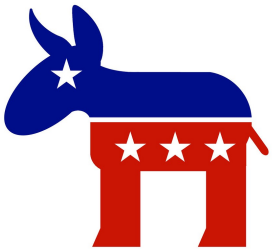
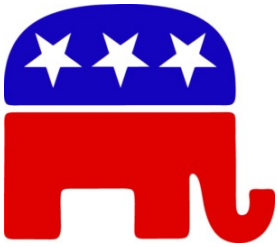
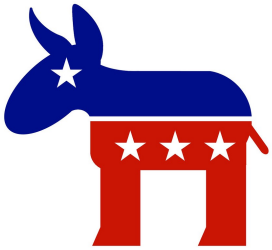
At 27,782, the DOW stands 2.65% below the 2019 year end value of 28,538. That value puts Jack Miller in the lead spot with his guess of 27,777. No offense Jack, but I'm hoping a 4th quarter market rally will knock you out of the winner's circle!

Generally speaking, our contestants this year were an optimistic lot with 73.47% predicting that 2020 would be a positive year for the Dow. Coincidentally, that's not far from the long-term market up vs down averages.

Election Returns

Maybe you've heard. There's an election scheduled for November. Some people are calling it, "The most important election of our lives!" Of course some people are often wrong. I don't mean to discount the opinions of the impassioned electorate, but I do want to make sure that our investors are thinking through the election and the second, third, fourth, etc. level effect. Dire predictions about past Presidents have been generally proven wrong. If history is any guide, the winner of the election will have limited impacts on the long-term US economy and, as a result, the stock market. Here's a short history for review:

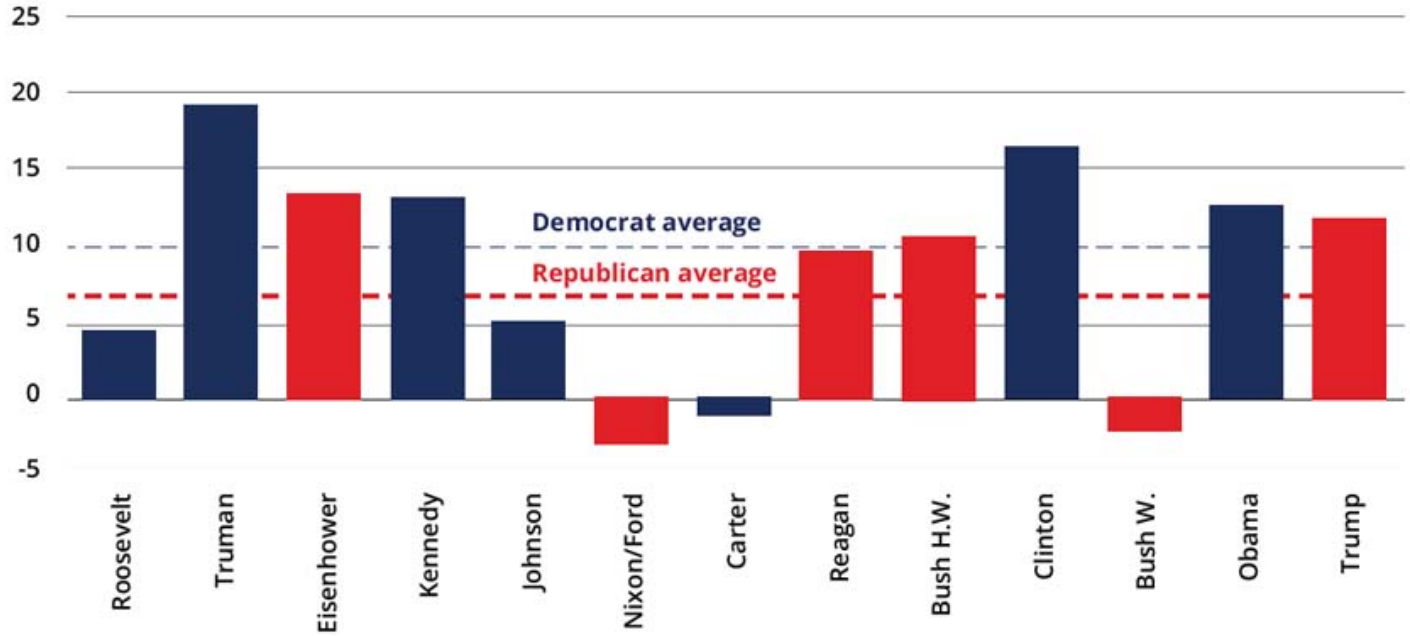
	**Ronald Wilson Reagan** **40th US President** **1981-1989**	
In 1980 His Critics Said:	**Average US GDP Growth**	**S&P 500 Index Average Annual Return**
• Former actor lacks the experience to be president • Belligerence toward the Soviet Union could lead to nuclear war • Reaganomics is dangerous and won't work	3.5%	14.2%
	**George Herbert Walker Bush** **41st US President** **1989-1993**	
In 1988 His Critics Said:	**Average US GDP Growth**	**S&P 500 Index Average Annual Return**
• Not a strong leader like Reagan • Lacks vision ("the vision thing") • Part of the Reagan administration that doubled the national debt	2.2%	15.7%

	**William Jefferson Clinton** **42nd US President** **1993-2001**	
In 1992 His Critics Said:	**Average US GDP Growth**	**S&P 500 Index Average Annual Return**
• Governor of a small state—unproven on the national scale • Tax increases will sink the US economy • Government takeover of healthcare will nationalize 20% of the US economy	3.9%	17.2%
	**George Walker Bush** **43rd US President** **2001-2009**	
In 2000 His Critics Said:	**Average US GDP Growth**	**S&P 500 Index Average Annual Return**
• Running for president because of his last name, not his accomplishments • Tax cuts will only benefit the wealthy • No foreign policy experience—not ready for a crisis	2.2%	-2.9%
	**Barack Hussein Obama** **44th US President** **2009-2017**	

In 2008 His Critics Said:	Average US GDP Growth	S&P 500 Index Average Annual Return
• Inexperienced—only served in the US Senate for two years before running for president • Soaring rhetoric and exorbitant campaign promises are "just words" • Desire for a large stimulus bill and healthcare plan will explode the national debt	1.6%	14.5%
	**Donald John Trump** **45th US President** **2017-Present**	
In 2016 His Critics Said:	**Average US GDP Growth**	**S&P 500 Index Average Annual Return**
• Never held political office • Doesn't speak or act in a way that's presidential • Trade war with China will damage the US economy	2.5%*	12.2%

Looking back further, since 1933 Democratic presidents have on average seen higher market returns than Republican presidents. The chart below covers presidents from Roosevelt to Trump:

S&P 500 Index Annual Real Total Return %

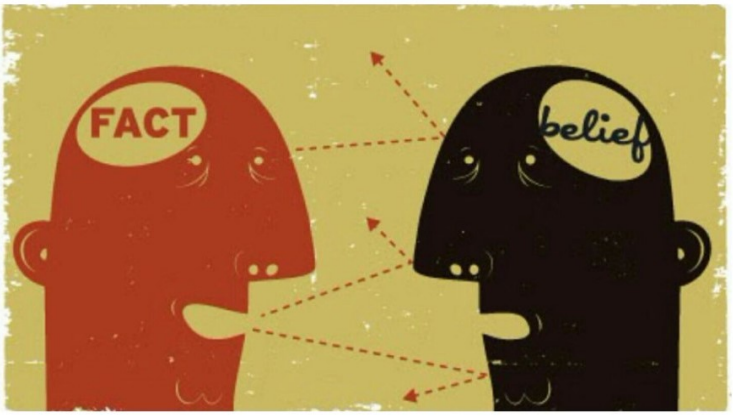


Source: Datastream Refinitive, Robert Shiller dataset, & Schroders
Real (adjusted for inflation) total return from 1st year in office to 7/31 of final year in office so as to exclude the election effect (President Trump's term is shown through 12/31/19).

The problem with drawing any conclusions from this data is that nearly all of this average outperformance advantage can be explained by the boom years under Bill Clinton and the subsequent dotcom bust and Global Financial Crisis under George W. Bush. Excluding these two presidencies, the difference in returns is practically zero. Neither political party is exclusively good or bad for markets. Instead, what matters more is the policies presidents choose to enact and their net impact, which are incredibly difficult to predict. My bet is that the innovative US and global economy will find ways to work regardless of who we elect.

Understanding Behavioral Biases (Part 3)

Excerpts from Jeff Hybiak, CFA at SEM Wealth Management



Why do we do what we do? Often it is because we have fully thought through a decision, carefully weighed the pros and cons, and then objectively made the choice that was right for us. Sometimes however, that was not at all the process! Whether we know it or not, we are often influenced by behavioural biases that short-circuit a thoughtful decision-making process. While some of those shortcuts may be beneficial (saving us time and effort for simple tasks), others may be particularly damaging to us financially. The list of important biases in this area is extensive, but we'll cover a few of the most common biases that are critical for us to recognize and fight against with our investments.

Emotional Biases

Last month we concluded a group we call COGNITIVE biases. This month, we will discuss EMOTIONAL biases. The next group includes:

Overconfidence – This is the most common of the emotional biases. It's also the easiest to understand, but not always easy to see within ourselves. Overconfidence Bias is an unwarranted trust in our own ability to assess situations, predict outcomes, & analyze complex situations. Overconfidence Bias can take two forms: prediction overconfidence & certainty overconfidence. While both have some cognitive characteristics, it is our own emotions that place this in the emotional category, which makes it particularly difficult to overcome completely. A major problem with Overconfidence Bias is the distribution of likely outcomes tends to be both too narrow and skewed too heavily to the positive side. This can really get us into trouble. We tend to assign unreasonably high probabilities of positive outcomes and are "shocked" when they don't come true. Many studies have been performed and my own experience confirms that the longer a market rises, the more overconfidence bias prevails in our assessment of the financial markets. I will never forget what one of my college professors told me — "Don't confuse brains with a bull market". Overconfidence often leads us to add too much risk to a portfolio, which can cause us to panic during times of market stress. Panic is always a bad plan!

Self-Control: We have all experienced times when we had this in abundance and others in which we later acknowledge that we were sorely lacking in self-control. Regret is a hard but effective teacher if we allow it to be. Essentially self-control is the combination of what happens when we do not offset our behavioral biases with a well thought out plan.

Regret-Aversion: Nobody likes to be wrong, which is at the core of Regret-Aversion bias. It is human nature to feel pain when we make wrong decisions. This fear can be paralyzing and can take on a few forms when it comes to investing. The first is based on actions we COULD have taken. The longer we see a decision we didn't make (not buying or not selling) go against us the more painful it becomes. The more painful it is to us, the more memorable this "error of omission" is, which means the more we are sensitive to not making the same mistake again. This often leads to staying out of the market far too long if an investor didn't sell ahead of large losses or staying invested in risky investments far too long if an investor previously missed a "buying opportunity". The second is based on actions we actually took. This "error of commission" has been found to be much more painful to us than an "error of omission" which can lead to being mentally paralyzed in making investment decisions. Investors that sold too early often will refuse to sell regardless of riskiness in the future. Conversely investors that bought into a market at a top are likely to refuse to invest in that market for a significantly long period of time. Regret-Aversion causes us to vow to "never make that mistake again." There are 2 primary consequences of Regret-Aversion Bias:

> **Becoming Overly Conservative:** This often leads to investment results that are not sufficient to meet long-term investment objectives. This is the result of the pain of past losses due to our decisions (buying near the top and/or riding the market all the way to the bottom.)
>
> **Herding Behavior:** That's doing what everyone else is doing. We can be under the assumption that if a lot of other people are investing a certain way, they must know more than we do. This is a psychological way to prevent being "wrong" or at least being perceived as being wrong. The problem is that many people are very often wrong when it comes to handling their finances. We always need to be focused on a long-term plan and to make sure that we have the intestinal fortitude to stick with the plan during difficult times, which are certain to come at some point in the future.

Loss-Aversion Bias - Essentially Loss-Aversion Bias tells us losses are far more powerful than gain psychologically. It makes no sense mathematically, but it is absolutely true emotionally! In a buy & hold stock & bond portfolio, studies have shown investors tend to hold on to their losers far too long under the belief their decision was not a "loss" until they "realize" actually sell the investment at a loss. On the other side, they tend to sell their winners far too quickly out of fear their profits may erode. We often "evaluate" our long-term decisions on short periods of time (often every time we receive a statement or at the end of an arbitrary time like the calendar quarter or year-end.) The "Framing" of the period often does not allow for a fair evaluation of the investment (unless it covered an entire market cycle). Some investments are designed to be "diversifiers" that help limit portfolio downside, while others are designed to provide strong upside, but may have significant downside. The overall portfolio is designed to meet LONG-TERM risk/return characteristics but the time-frame may make either look unfavorable depending on the evaluation period. Investors tend to "Anchor" their account value to the last evaluation period. With that value in mind, they mentally consider that money to be the new baseline for their account (mental accounting). If the account moves below that value the investor may panic and want to lock in the "gains" by moving to "safer" or "better" investments. Again, depending on the time-frame, this will likely lead to an undiversified portfolio that does not come close to meeting the investor's overall risk-return objectives.

Why do we talk about biases? The reason is that biases often urge us to act in ways that are detrimental to our wealth. It is important to see these biases for exactly what they are…thoughts that are likely untrue but at the same time are emotionally compelling. Knowledge is the best bias buster!!!

Stats of the Month

Gloom & Doom – 51% of 1,154 Americans surveyed in early September 2020 fear that the US stock market will decline at least 20% over the upcoming 6 months.

Cash On The Side – Since the beginning of 2020, the size of the money market fund industry in the USA (both taxable and tax-free) has grown from $3.63 trillion as of 1/01/20 to $4.40 trillion as 9/30/20, a YTD increase of $770 billion or $20 billion a week.

Take The Standard – As a result of the expansion in the size of the standard deduction that was part of the "2017 Tax Cuts and Jobs Act," only 10% of tax filers itemized in 2018, down from 30% in 2017.

Under 1 Roof – The pandemic pushed the percentage of adults age 18-29 living with a parent to 52% as of the end of July 2020. Surprisingly, the percentage of adults age 18-29 living with a parent as of the end of January 2020, i.e., before the 1st US COVID-19 death, was 46%.

Large Debt Load – Our national debt has grown from $22.623 trillion on 9/24/19 to $26.786 trillion on 9/24/20, an increase of $4.163 trillion. That's equivalent to adding $11.4 billion of new debt per day, or $475 million per hour, or $7.9 million per minute, or $132,000 per second over the past year.

COVID Jobs Impact – Before the COVID-19 pandemic hit the United States, the number of out-of-work Americans as of 2/29/20 was 5.79 million. As of 8/31/20, the number of out-of-work Americans was 13.55 million. Thus in the last 6 months, the pandemic is in part behind 7.76 million people losing their jobs.

Countdown To Vote – The 2020 elections in the US take place on 11/03/20. Americans will vote for a President, all 435 members of the House and 33 members (out of 100) of the Senate.

Sources: Department of Labor, Investment Company Institute, Pew Research Center, SimplyWise Retirement Confidence Index, Tax Foundation, Treasury Department, US Congress

The Markets

Stock prices dropped in September as investors fretted about stalled fiscal stimulus from Congress, the upcoming election, and of course COVID-19.

US Market Highlights

Consumer Confidence	↑
Jobs	↑
Consumer Spending	↑
GDP	↓
Interest Rates	↓
Taxes	↓
US Stock Market	↓

Global Market Highlights

Brexit	↑↓
Tariffs	?
Oil	↓
COVID Vaccine Progress	↑
MSCI World & Japan	↓↑
Gold, Silver	↓↓
France, Germany, UK	↓↓↓

Here are the selected updated market stats:

Index	9/30/2020	12/31/2019	12/31/2018	12/31/2008	12/31/1998
DJIA	27,782	28,538	23,327	8,776	9,181

NASDAQ	11,168	8,973	6,635	1,577	2,193
S&P 500	3,363	3,231	2,507	903	1,229
MSCI EAFE	1,855	2,037	1,720	1,237	1,405
10 Yr UST Yield	0.68%	1.77%	2.67%	2.48%	4.66%

** Source: Yahoo Finance, MSCI.com

Summary

US tech stocks, the market darlings of 2020, dropped in September as investor sentiment turned negative dragging down market averages. The retreat in the technology sector gathered steam as the month wore on, sending the tech-heavy Nasdaq Composite into correction territory over a three-day span following a recent record high. A correction is defined as a decline of at least 10 percent but not more than 20 percent from a recent high. September did end on a good note as the market cut its losses, surging on the final two days of trading as legislators appeared to reopen fiscal stimulus talks.

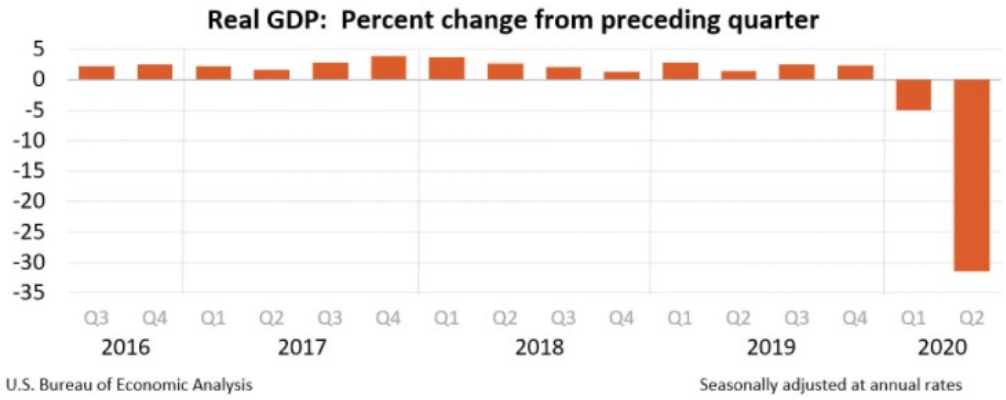
International markets struggled amid more coronavirus cases in Europe and concerns over the tensions between the U.S. and China. The MSCI-EAFE Index fell 2.20% in September. European markets were broadly weaker. France, Germany, and the U.K. all slipped, while Pacific Rim stocks were mixed with Australia falling and Japan notching a solid gain.

Sector Scorecard

All 11 industry sectors closed lower in September, with losses in Communication Services (−6.61%), Consumer Discretionary (−3.15%), Consumer Staples (−3.71%), Energy (−17.56%), Financials (−6.3%), Health Care (−3.87%), Industrials (−2.04%), Materials (−1.52%), Real Estate (−4.05%), Technology (−6.03%), and Utilities (−0.37%).

Economic Indicators:

Gross Domestic Product: The final reading of the second-quarter GDP showed an annualized decline of 31.4%.



Employment: The unemployment rate dropped to 8.4% as employers added 1.4 million jobs in August.

Retail Sales: Retail sales growth slowed in August, rising only 0.6 percent as the supplemental unemployment benefits expired at the end of July. The benefits helped buyers in prior months.

Industrial Production: Industrial output rose 0.4 percent, below economists' expectations of a 1 percent increase.

Housing: Housing starts fell 5.1 percent after sharp gains in the previous three months. Single-family home starts increased by 4.1 percent, but the overall result was dragged down by a 22.7 percent decline in multi-family starts. Existing home sales rose 2.4 percent from July and were 10.5 percent higher than August of last year. Sales of new homes rose to their highest level in almost 14 years, posting a 4.8 percent increase from the previous month.

Consumer Price Index: Consumer prices jumped 0.4 percent in August, led by the sharpest increase in the cost of used cars and trucks in more than 50 years. On a year-over-year basis, inflation rose 1.3 percent.

Durable Goods Orders: For the fourth straight month durable goods orders rose, increasing by 0.4 percent in August. New orders for nondefense capital goods, excluding aircraft, jumped 1.8 percent.

The Fed - The Federal Reserve signaled that interest rates would likely not increase until 2023 following its two-day Federal Open Market Committee (FOMC) meeting that ended on September 16. Fed officials also stressed the importance of additional fiscal stimulus. Fed officials adjusted their outlook for unemployment, predicting it would average between 7 and 8 percent in the final three months of the year. Previously, Fed officials had expected unemployment of between 9 and 10 percent in the final calendar quarter of 2020.

What Investors May Be Talking About in October

Election Impacts – November 3rd is looming large and all investors are rightly concerned. Focusing on the appropriate timeframe (long-term with lifetime investments and short-term to cover near-term spending requirements) is always the right thing to be doing. Thankfully, politicians have a lot less impact on financial markets than what many investors might expect.

Housing - The housing sector has been a bright spot in a challenging year and has seen strong consumer demand thanks to historically low interest rates. Home building and home sales have set new records in recent months, while home builder confidence is at an all-time high. The National Association of Home Builders/Wells Fargo Housing Market Index posted a reading of 83 out of a possible 100 in September, well above its previous record high of 78. Housing accounts for 15 percent of the nation's gross domestic product, so investors may watch for the sector to retain its momentum in the fourth quarter and into 2021.

7 Steps to Organize Your Financial Life

For some of us, organization is always on that list of Goals, New Year's Resolutions, or To Do's. It hangs out there for rainy days when we get some "spare time". Ha! You say. Well this little checklist might be just what you need to get started organizing your financial world. Taking a few minutes each month to monitor your finances can really make a positive difference. Here are a few ideas to help you get started.

✓ **Track your Spending**
Tracking your daily spending is a great way to determine where your money is going. Take a few minutes each day to enter your daily expenses in a pocket notebook, spreadsheet, or app on your smartphone. There are a number of apps that will track this automatically for you.

✓ **Calculate Your Cash Flow**
Cash flow is simply "money in" (income) and "money out" (expenses). Subtract your expenses from your income. The result is your monthly cash flow.

✓ **Create A Budget**
Sticking to a budget can help you keep your spending in check and manage your money in a way that aligns with your goals and priorities.

✓ **Automate Savings and Bill Payments**
Pay yourself first by setting up an automatic savings program. If your employer offers a 401(k) plan, this is an easy way to save for retirement by allowing you to contribute automatically to a 401(k) account. To better handle bill payments, automate them by using your banks' online bill pay or money transfer options.

✓ **Set Up A Filing System**
An effective filing system will help keep your financial records organized. Where possible, "go paperless" so you receive and store documents electronically. Set up a file system for any paper bills or statements you receive in the mail and spend a few minutes organizing them each month.

✓ **Update Documents Periodically**
Check your financial documents annually to make sure that all of your personal information, including emergency contacts and beneficiaries, is accurate and up to date.

✓ **Set Financial Goals**
Set specific, measurable financial goals, whether it's paying off debt, saving a specific amount each month for retirement or reaching an important financial milestone.

*To request a list of resources we personally use to stay organized, reply to this e-mail and Katie will send one your way.

Quotes of the Month

"Every election is determined by the people who show up."
-- Larry J. Sabato

"Simplicity is the ultimate sophistication."
-- Leonardo Da Vinci

"Live out your imagination, not your history."
-- Dr. Stephen Covey

"Vision is the art of seeing things that are invisible to others."
-- Jonathan Swift

Riddle of the Month

The person who built it sold it. The person who bought it never used it. The person who used it never saw it. What is it?

Last Month's Riddle

What time belongs to men twice a day?

Answer:

5:14
A digital clock turned upside down spells "his" twice daily.

Best regards,

Ryan Hobbs, CFP®

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added. If you are new to our E-News, we welcome you and hope you enjoy it.
