



2020 3rd Quarter Newsletter

People keep asking me why the stock market is doing well considering the Covid-19 Pandemic and the economic downturn. No one fundamentally knows why the stock market behaves in a certain way in the short run. Parts of the stock market are thriving, but other parts are struggling. I will offer my humble opinion as to what is going on, but in the short run, we don't know. The level of uncertainty with Covid-19 infection, vaccines and treatments coupled with a hotly contested election and the unevenly growing economy may have created a volatile stock market.

The tech markets and large growth stocks have seemed to lead the stock market increase over the last several months; especially companies with large cash positions able to operate and provide services utilizing remote employees. Airlines, travel and entertainment, retail, and manufacturing are struggling. This creates uncertainty and market volatility. While this ambiguity does not feel good (like eating Brussel sprouts for some children), it is good for those who take a long-term approach to investing to meet their own goals and objectives. It allows them to invest in quality equities, bonds and other investments; while rewarding them for having patient investment strategies.

If you have lost loved ones, your job, or your enhanced unemployment benefits/health care, not much seems to be doing OK; however, we continue to work with our clients who are struggling and offer support any way we can. Several have mentioned their emergency fund was financially lifesaving and mentally comforting. Please always call us if you need any support. I am often in the office 10-12 hours these days, so I remain available to help.

So, is there any good news? At least for the economy (if you have a job). The US economy continues to improve after April's decline. The US Bureau of Statistics announced on 10/2/2020, that the September unemployment rate for non-farm payrolls dropped to 7.9%. (<https://www.bls.gov/news.release/empsit.nr0.htm>). This is substantially below the April, 2020 unemployment rate (14.7% - US Government Bureau of Labor Statistics - reported May 13, 2020) but above the 4.4% March number mentioned on May 13, 2020. It does represent a significant improvement and the fourth month of employment gains. The economy continues to work its way out of the Covid-19 induced recession. Clearly, many people are still unemployed or underemployed, especially in certain industries such as the airline industry. As you may already know, I met my beloved wife of 30 years, Christa, while working in the airline industry at People Express Airlines. Our hearts and support go out to our friends and clients in the airline industry, along with many other struggling industries and companies.

However, the desire of most people and companies to safely get back to work when possible has been an inspiration to us all. The front-line workers have helped keep us going and they will continue to set the example of what can be accomplished in tough times. I would also add (as I have done in the past) that the Federal Reserve and relatively quick fiscal stimulus packages have helped the US economy expand quicker than most countries in terms of GNP growth and decline in unemployment. China also seems to have an uptick in economic growth due to the government stimulus injected into their system.

I found an article that might be interesting to you. I share these articles for you to think about. However, no one should invest in anything unless the investment is specifically meeting their individual goals and objectives. Always call us individually if you want to discuss your goals.

<https://www.capitalgroup.com/individual/insights/articles/5-realities-weak-economy.html>

There is another group of people that have not been mentioned much in the news. Like their parents or grandparents after WWII, they are starting businesses at record rate. Most will fail, but some will create new and very successful businesses. I am especially heartened by the entrepreneurial drive and enthusiasm of the millennials I meet in my business, travels, and classes. I don't always understand their business models at first, but I am learning as they patiently explain them to me! If you have an idea and need a sounding board, please call me. I have been part of many new small to large business ventures and have enjoyed helping our clients and friends be successful. I believe small and medium sized companies will be the ones to drive the unemployment rate down and create millions of jobs in the future, although there is no guarantee of this. Please see the article below.

<https://www.wsj.com/articles/is-it-insane-to-start-a-business-during-coronavirus-millions-of-americans-dont-think-so-11601092841> (WSJ Sept 26, 2020-Gwynn Gilford and Charity Scott)

Furthermore, low interest rates, higher savings rates, and household formation of millennials have led to a housing boom in the United States. While some commercial and city residential real estate is struggling, the overall tight market and residential real estate appreciation trend is strong in many areas of the country. Perhaps commercial real estate will be transformed into residential units, like warehouses occurred when I moved to SOHO in 1981. I am not sure I can find a \$200 per month SOHO rental anymore.

Vaccines: Many vaccine candidates have reached stage 3 trials. This does not mean they have been approved, but it does mean that several promising candidates are significantly along in the approval process. Whether they are effective remains to be seen, but we seem to be making considerable progress in getting to the finish line. Also, I have read that many firms working on these vaccines with government help are making numerous doses of potential vaccines and storing them to speed up the delivery of the vaccine, if their vaccine is eventually approved. I don't know when that will be, but I do know that many of my clients in this field tell me that their counterparts are working non-stop to produce vaccines and treatments until the vaccines are approved. While this is somewhat comforting news, there is also an exciting trend in the field of medicine and treatment. That is, there seems to be a noteworthy increase in innovation and breakthroughs in the medical field.

One of the articles I read, said that something like a portable medical tricorder such as in Star Trek may very well be available in the next 10 years!

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<https://www.capitalgroup.com/advisor/insights/articles/innovation-transforming-health-care.html>

JOBS: What has been interesting to me is that the US economy has been creating and bringing back manufacturing jobs from overseas since 2010. This is partially due to the rising costs of production in China, non-tariff trade barriers, and extended supply chains. This has accelerated since the passage of the Tax Act of 2017, which incentivized companies to bring manufacturing back to the US. The difficulty with overseas manufacturing and supply logistics has created a situation where the cost benefit equation seems to have shifted towards more domestic production of consumer end use products. This is even showing up with global companies producing products such as German car manufacturers building cars in the US and American car manufacturers building plants in China. Locally, farm to table food chains are part of this trend.

The ELECTION: So how do we invest given the election uncertainty? I DO NOT KNOW with any certainty. I have included links to articles that have analyzed the stock markets during and after election years. Past performance is never any guarantee of future performance, so don't invest based on these articles. However, these articles just point out some longer term historical PAST trends despite which side won. I know the stakes and emotions are high on all sides but we are all going to get through these times and Covid-19, and come out on the other side.

<https://www.capitalgroup.com/individual/insights/articles/how-elections-move-markets-5-charts.html>

<https://www.capitalgroup.com/individual/insights/articles/us-political-change.html>

Sincerely Yours,



Steve Wetzel

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Sources: Wall Street Journal, Capital Guardian Group website, Standard and Poor's Global, Morningstar, Barron's, Financial Times (London), US Department of Commerce Bureau of Economic Analysis, US Government Bureau of Labor Statistics, Various Federal Reserve Data sources, Inc. publications.