

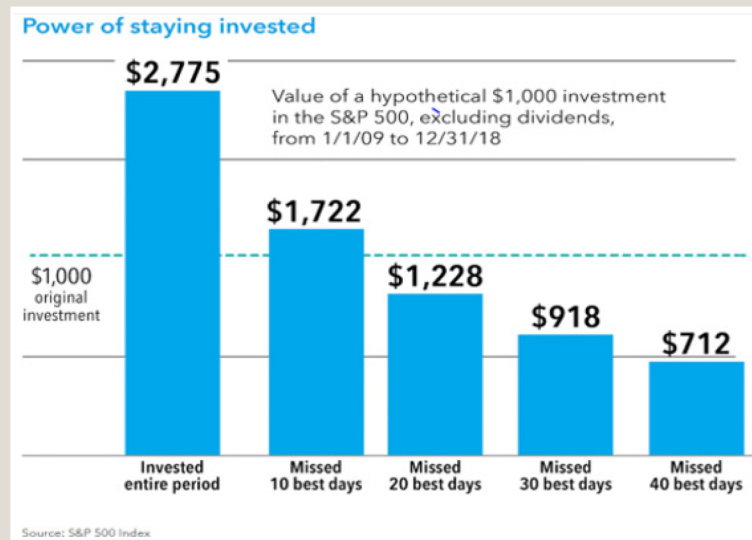


Investing Fundamentals

Summer greetings and our best wishes that you and your family are safe and healthy, and getting outdoors to enjoy the warmer weather. With all of the news and facts reported, we know that at times the information flow is overwhelming. This quarter we return to some basic, fundamental details about our investment process and underlying factors from which we begin our analysis, highlighting two areas: Timing and Demographics.

Timing The Market vs. Time In The Market

Knowing precisely when is a "good time to invest" gets a lot of attention in the press but is of less importance to us than the time frame one has for a given investment. The chart below starts at a pretty dark time, the middle of the '09 financial crisis and the decade that followed, and tracks a hypothetical investment in the S&P 500 stock index. By staying fully invested over that period, the index grew from an initial value of \$1,000 to \$2,775. However, if you tried to time the market and happened to miss the best 10 days over that market cycle, the hypothetical investment would have only grown to \$1,722, and missing even just the 20 best days (2 days a year!) over a decade would have resulted in less than 1/2 of the investment growth. Who could know, in advance, which specific 10 days over a decade, would turn out to be the best? That is a great example of why "time in the market" is so important. Timing for us is much more about length of time one plans to be invested for. As an investor, you "earn" your returns when you ride through market storms. We build in a fair amount of flexibility to our portfolios, by allowing for a cash buffer, by closely monitoring expected income and cash reserves for pay-



outs and other needs - this is why we regularly ask about your cash position. Since "time until expected need" is so critical, a material change in those plans can create issues, although we certainly understand some changes are outside of investors' control. Investments left undisturbed will almost certainly do better than those where significant changes are requested every other year or more frequently.

Demographics

Another area of critical importance to us when making asset allocation decisions are the overall population and corresponding economic trends that are observable. Who is working, buying homes, cars, traveling, etc. is often defined by generational preferences. Below we examine just a few characteristics of the four largest generations in

Continued inside...

Joe Theuer, Summer Intern

We are pleased to introduce you to Joe Theuer, our Summer Intern at Sterling Financial Group, Inc. Joe is completing an industry analysis for us, attending client meetings, participating in projects for our investment committee and assisting with general office activities. He is a rising senior at Tufts University in Boston, where he will complete a Bachelor of Arts degree in Economics next spring. Outside of his academic work, Joe is a varsity goalie on Tufts' Division III lacrosse team, which won the 2019 New England Small College Athletic Conference championship and appeared in the NCAA tournament. Joe grew up with his family in Southern California and attended Loyola High School where he also excelled at lacrosse and was a multi-year All-American goalie. Please welcome Joe to our team for this summer - he is our 7th intern over the years and we are energized and enthused to help launch the next generation into careers in finance.



Continued from front cover...

America today, which can provide some clues as to the direction of consumer trends and the overall economy.

1. Baby Boomers, are those born after WWII between 1946-1964 (now age 55-74), currently represent about 27% of the population or 68 million people here in the United States. They are either entering their peak earnings years, are about to retire or may have already retired. Many are business owners or self-employed individuals with no clear plan or path to wind up or transfer their life's work.

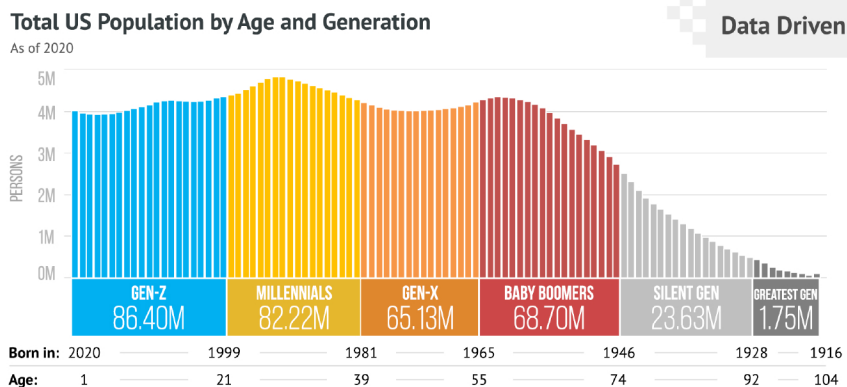
2. Gen X (my age group), born between 1965-1981 (now age 39-55) has of course the best taste in music – as all generations think they do! This group, at 65 million, is sometimes referred to as the sandwich generation since they are frequently caring for aging parents while still raising children. Gen X is thought of as an autonomous group since many were raised in households where both parents worked full time outside the home and thus the description “latch-key” children.

3. Millennials, also known as Gen Y, generally born between 1981-1999 (now age 21-39), is the nation's 2nd largest cohort at 82 million. This group was raised in a computer age, was shaped by 9/11, and imprinted by the great recession of 2008/09. Their advanced education is often accompanied by large student loans, and although many predicted they would not embrace home ownership, the data on that topic is changing as they form new households and begin families.

4. Gen Z, or those born between 1999-2020, are the current students in elementary and high school and most college students, encompassing about 86 million Americans strong. They grew up playing on their parent's phones/devices, receiving their first mobile phone at around age 10 - truly a “native digital” mindset. They bank and transact most things online, communicate via new and ever-changing apps, watch their millennial counterparts struggle under debt loads, and seem interested in saving more and borrowing less.

There can be differing interpretations as to exactly when each generational line stops and another starts, however the above description and graphic below can provide an overview of how demographers describe these large groups. As Americans, we account for nearly 330 million people, and with consumer spending representing some 2/3 of all economic activity, we believe it is very important to understand how these different generations are participating in the economy.

- Michael Hatch, CFP®, MBA, JD



The CARES Act Overview

By Kody Brown, Financial Analyst

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed on March 27th of this year, initiated a \$2 trillion economic relief package for the American worker and business alike. According to the U.S. Department of the Treasury, “The CARES Act provides fast and direct economic assistance for American workers, families, and small businesses, and preserves jobs for our American industries.” The package can broadly be broken into four main sections:

Assistance for American Workers and Families

Every American household should expect to receive \$1,200 for each adult whose income was less than \$75,000 (or \$150,000 for joint filers) in their most recent tax filing year. Households with dependents under the age of 17 should expect to receive \$500 per child, for a maximum of \$3,400 as a family of four.

In addition, all required minimum distributions from qualified retirement accounts such as IRA's are optional for the calendar year 2020.

Assistance for Small Business

The Paycheck Protection Program (PPP) allocates funds to small businesses for up to 24 weeks of payroll costs and utilities. These loans may be forgiven if properly allocated following SBA lending parameters

Preserving Jobs for American Industry

The Employee Retention Credit offers a tax credit of up to a 50% credit on up to \$10,000 of wages incurred from March 13th, 2020 to December 31st, 2020.

The Payroll Tax Deferral permits employers and self-employed individuals alike to defer the employer share of the Social Security tax, which must be paid back within two years – half required by the end of 2021 and the second half by the end of 2022.

Assistance for State and Local Governments

Funds of \$150 billion went out to support state and local governments for the purpose of combating the fiscal and monetary effects of Covid-19. Local Government, Transportation and Infrastructure, and Education programs all received funds to combat the lasting ramifications of extended closures.

The CARES Act is only one of several governmental responses to the unprecedented impacts of the Covid-19 virus and resulting economic shutdown. We have already spoken to many of you; as always please give us a call to discuss your unique situation.

Irrational Exuberance 2.0: Bounce, Gut Check, Swoosh

By Berkeley Harrison, CFA

The phrase “irrational exuberance” was used by Alan Greenspan in late 1996 during the dot-com boom of the 1990s; it was interpreted as a warning that the stock market might be overvalued given an apparent disconnect between stock performance and underlying fundamentals, such as profitability. We may be experiencing Irrational Exuberance 2.0 right now, as our stock market has rallied back to near January 2020 levels, despite the highest unemployment figures since the Great Depression. While we are not in the business of making short term market projections, the sudden, sharp market increase has certainly grabbed our attention.

The US stock market, measured by the S&P 500 index, dropped 34% from its all-time high on February 2020 in reaction to the Covid-19 lockdown and related economic downturn. Then the market roared back, rising nearly 40% during a 50-day period ending June 3rd, 2020, the biggest 50-day **bounce** ever. In support of such an upswing, there were record stimulus measures from the federal government and the Federal Reserve and many states showed actual declines in Covid cases and began to reopen their economies. We have also witnessed an astonishing number of global pharmaceutical companies in partnership with government entities working on all phases of medical treatment. Lastly, consumers so far appear resilient and the unemployment rate surprisingly fell during May. Despite these positive developments, many questions remain.

The Covid-19 crisis has already shaken some venerable US corporate names, a real **gut check** for investors. For example:

- Starbucks announced on June 10th that it was closing 400 locations permanently.
- Hertz, the largest US car rental company, filed for bankruptcy in late May.
- Retailers JC Penney, Neiman Marcus and J.Crew, as well as energy companies like Diamond Offshore Drilling filed for bankruptcy in recent months.

In addition to these corporate developments, unemployment could remain persistently high. The Official Unemployment Rate was as low as 3.5% in February of this year but stood at 13.3% at the end of May and a broader measure (U-6) stood at 21.2% by the end of May. The stimulus relief checks of roughly \$1,200 per person (for incomes below \$75,000) were a way for the federal government to mitigate the financial strain caused by the Covid-19 crisis but are scheduled to run out by the end of July. The re-opening of states from their “safer at home” mandates has varied by state and the full impact of the lockdown and gradual reopening won't really be assessed until August / September, when all restrictions are expected to be lifted, and of course many are worried about a second wave of cases with a full re-opening.

In a recent speech (June 12th, 2020) Fed Chair Jerome Powell indicated he could foresee a “long and uncertain road to full recovery”. Market pundits have been trying to predict the shape of the economic recovery, including a sharp V but having grown up in Beaverton, Oregon, (long-time headquarters for Nike), I was amused that their iconic Nike **swoosh** brand symbol is now the preferred economic recovery shape. There are no easy answers with gradual re-openings varying by state and a virus we are still trying to grapple with. Pleasant surprises are always welcome, but the next few quarters could be bumpy, looking at both the economy and the stock market. Please contact us if you would like to discuss your portfolio and the appropriateness of its account allocations.

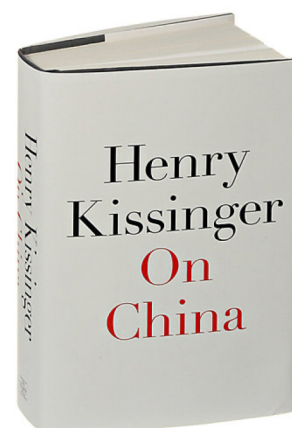
Book Review:

On China

By Henry Kissinger

By Michael Hatch, CFP®, MBA, JD

This 2011 book by Henry Kissinger is a terrific resource to understand not so much the current state of affairs in China but a review from the time of emperors through modern times, including culture, economics and geo-politics. Kissinger, a true statesman of the 20th century, has written a first-hand account over the several decades he helped shape our engagement with China in the 1960's and 70's. Of particular fascination to me, the book starts off on page one with a description of the centuries-long conflict with India over their shared border in the Himalayas, an unresolved conflict in the news even now. Zhou Enlai, Premier of China for many years often stated “the helmsman must ride with the waves”, and nowhere is that concept more evident than this border issue. I highly recommend the book – not as any kind of political statement but solely to gain a better insight into this important region of the world.





225 South Lake Avenue, Suite 600
Pasadena, California 91101

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Our Favorite Podcasts

- **STREETWISE** with Jack Hough of Barron's Magazine
A concise review of current investment topics, usually with a specific industry focus or trend each week. Jack Hough is a terrific writer and I look forward to his fun and informative podcasts.
- **The Long View** by Morningstar
Financial planning and investment podcast which typically includes a special guest interview each episode.
- **The Lonely Idea** by CalTech
Hear from CalTech faculty members on various science, engineering and even financial topics.
- **Wine For Normal People**
A sommelier takes a deep dive into various wine topics, in a straight-forward, approachable way.

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