BEARING
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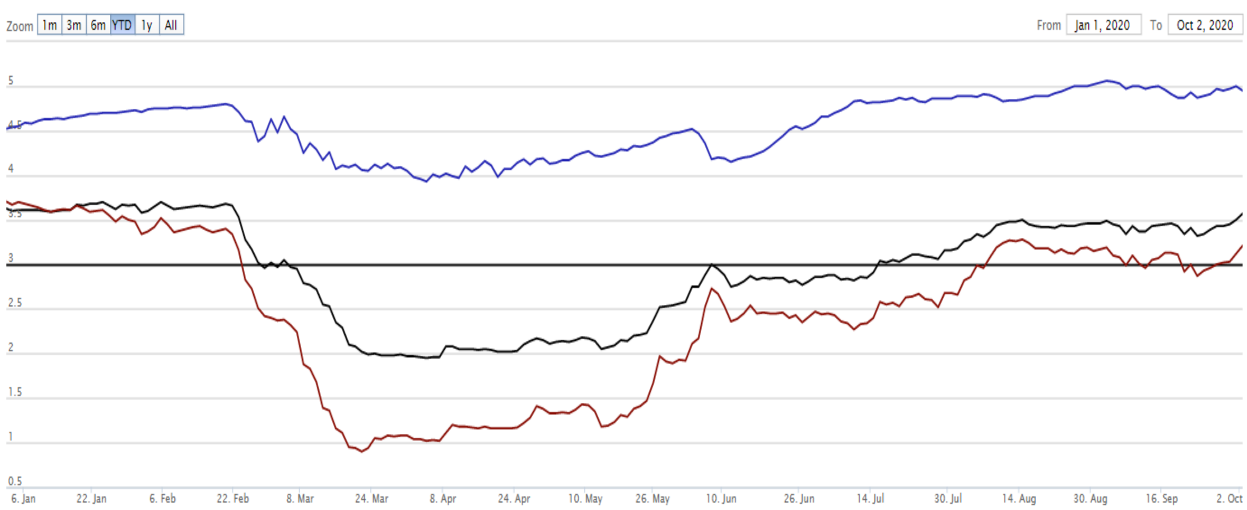
Dear Client:

The weekend came and Summer is just gone! The calendar is telling me it's time to send out quarterly reports. But where did the time go? There was no time for sunburn, sleeping-in, or watching first-run movies in a cold movie theatre.

A lot has happened over these past 12 weeks. If any family member or friend of yours has been affected by this pandemic, my heart goes out to you. Under the cloud of Covid, we've been tending to your account(s) and learning advanced concepts focused on Tax Planning, Retirement Planning, Estate Planning and new Federal Regulations. All this to make your financial plans more comprehensive and fine-tuned for performance.

I can't remember when I was ever busier on the job; probably due to the repeated waves of change. **Here's how looking back shows the real picture of the markets and how they behaved so far this year:**

Since the market lost over 30% of it's value during a 30-day span late in the first quarter, the 3 major stock market indexes[1] trudged back up close to their previous peaks and then tailed off a bit. Interesting in hindsight is how the different stock types fared during the comeback. The graph below charts how U.S. Large Cap, Mid Cap and Small Cap (mutual & exchange-traded) funds ranked[2] over this year:



____Blue line: Large Caps ____Black line: Mid Caps ____RED line: Small Caps

[1] The Dow Jones Industrial Average ("DJIA"), the S&P500 and the Nasdaq Composite
[2] Ranks based on performance & relative strength (5= highest; 1=lowest) of three broad asset classes—as provided by Nasdaq, DorseyWright & Associates (10/04/2020)

The graph above shows significantly how weak the Midcap and Smallcap Equity funds scored[3] throughout the spring and summer months. Smallcap and Midcaps scored 0.90 & 2.02 respectively, while Largecap equity funds floated above the fray (mostly ranking above 4.0).

The Current Picture: Concerns are expressed daily in the headlines over the usual issues: trade tensions, economic and now health & political uncertainty. With the national election less than a month away it's not uncommon for some clients to ask us what we're seeing; what we're thinking and how we're responding. Each of our clients are unique, so let me start by stressing the importance that I:

- Entertain a wider-than-usual range of possible outcomes when attempting to assess and prepare for how markets move in the near- and intermediate terms,
- Keep inventory of the most relevant factors influencing how changes may occur and the appropriate time frame(s) over which to discount (plan) for them, and
- Remain agnostic in regard to political bias.

Opinions may vary on whether this election qualifies as "<u>the most important election of our lifetime</u>", but here are some facts that may move us toward solid ground (& hopefully away from fear):

> **"Since 1926, Republicans have held the House, Senate & Presidency for 13 years. In those years the market returned an average of 14.52% per year. There has also been 34 years of unified Democratic government. In those years, the market returned an average of…14.52%"[4],**

Remember that new Presidents "inherit" some of the effects of the economy from their predecessor. If there's a new administration taking over, it's reasonable to expect that taxes and regulations are likely to change to fit new priorities of an incoming administration, but 4 years is a drop in the bucket….

The real drivers of our free-enterprise system, governance and growth will continue to be:

1. The Federal Reserve Bank
2. The U.S. Economy
3. Thousands of businesses across America, and
4. Millions of individuals (consumers)

Monetary and fiscal policy proceeds on a precarious path toward more devaluation of the U.S. Dollar—It will take a herculean effort and begrudging discipline to change that trend noticeably over the next 4 years.

In addition to the factors I outlined above, I like to address another one, called ***"UNCERTAINTY"***…

There are "tell points" in public markets that are calculated to measure expectations out into the future. One of these indicators is called a "Volatility Index" (also known as "the VIX"). This index trades within the stock market to represent expectations of the magnitude of stock price changes (usually 30 days into the future). In my words, it's a reflection of the cumulative "unknowns" that people feel concerning a yet unidentified outcome. The "unknown" may not necessarily be negative (or positive), it just shows up in the indicated value of that Volatility Index (uncertainty).

My reason for bringing this up is that ***<u>fixating on a short-term investment outcome isn't advisable when you're investing funds for the purpose of creating & preserving your wealth over the long haul</u>*****.**

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[3] According to NasdaqDorseyWright's fund scoring system
[4] Source: Stansberry Research, September 25, 2020.

Here's a simple illustration (an investing fairy-tale) of what can (and does) happen when a person makes investment decisions based on basic human nature[5]...

Romeo is a "do-it-yourself" investor who watches the news ceaselessly. He has a few years before retiring from his job, so he wants to get the most out of his 401k account. Here's how Romeo managed his portfolio during the national elections of 2016:

#1- September 30, 2016 (See point located on chart above) - Feeling uneasy about the stock market (S&P500 @ **2,164**) and the upcoming election on November 6, 2016, Romeo decided to reduce his equity (stock fund) holdings by ½. In this case, he reduced his fund holdings ($200,000) by $100,000, so he held $100,000 of stock funds into the election period & kept the rest in cash.

#2- On the Friday before election day (11/4/16) the stock market (as measured by the S&P500 Index) had fallen in value, to **2,085** (a drop in the value of the S&P index of more than 3.65%). Romeo felt good about reducing his equity holdings.

#3- Feeling concerned over the turmoil immediately following the election, and seeing higher levels of market volatility, Romeo was convinced the market would deteriorate further. The market went up at such a quick rate that he decided to wait for a pullback to get his 401k money back into the market.

From the time when Romeo sold 1/2 his stock fund holdings, to the point where the market bottomed out - lasted about **35 days**. Counting the date of the market bottom, to the point where Romeo re-invested his stock fund dollars (12/12/16), was **38 days**. And the value of the S&P500 Index was **2,264**.

THE RESULT: Trading on Romeo's instinct—deciding to sell out of ½ his then current holdings—with the intention to get back into the market later, left him with fewer dollars than if he had taken no action at all. Here are my calculations:

[5] This is a fictitious, hypothetical situation which uses market benchmarks as a reference point for estimating performance assumptions. It is not an investment recommendation. Outcomes and illustrations per each investor are unique and cannot be relied upon when implementing personal investment strategies. Mathematical outcomes may appear inaccurate, due to rounding of the index values.

Selling ½ of his stock funds and holding in cash:

Value on 9/30/2016	Value on 11/04/16	Value on 12/12/16
$200,000	$196,350	$204,621

Had he simply kept the funds invested for that 10-week period:

Value on 9/30/16	Value on 11/04/16	Value on 12/12/16
$200,000	$192,700	$209,243

If Romeo only had a longer-term plan, based on knowable facts, and a better plan for making Offensive-versus-Defensive strategies, he'd have been $4,622 richer going into the New Year (2017). The irony here is that Romeo actually intended to be "conservative" with his money.

We've been stridently attempting to reach out to all our clients this season to keep them updated on our actions and observations over the market. If we haven't connected with you yet, please feel welcome to call us. It's important that we review and update your Investment Profiles with you - and address any other specific matters needing attention before the (tax) year ends.

Words cannot express my gratitude for the trust you've placed in us. Know that we still apply systematic assessment of the markets & their risk levels. We'll continue to manage client portfolios based on a rules-based system. We'll have both hands on the rudder as we sail out of 2020 and into a prosperous New Year.

Very truly yours,

Scott Bussy
Managing Director/CCO