*Comprehensive Investment Management, LLC*
*Fee Only Personal Financial Planning*
**Summer 2020**

# A Review of the Financial Markets at June 30, 2020

If you think like me, you probably find it hard to believe that when the S&P hit 2,237 on March 23rd that number would turn out to be the low point of the coronavirus driven stock market decline. Consider how much bad news we have gotten since March 23rd. In fact, has there been any good news since March 23? If there was, I must have missed it. The S&P on March 23 was down 34% from its February 19th high. For reasons yet to be understood, it has regained all but 7% of the decline. Here are some theories.

TINA, *There Is No Alternative.* This refers to the very low yield on bonds and even lower interest on bank accounts. The 10 year US Treasury bond now yields .7%, far below its 20 year average of 3.7%. Companies that have a history of paying high dividends are targeted by the TINAers. The offset to the strategy is that stocks are much more riskier than bonds and dividends are not guaranteed. And dividends are the first to go when corporate profits drop.

FOMO, *Fear Of Missing Out.* As soon as the market turns up a little bit, some investors jump on board. This is the buy high, sell low group. Not a profitable strategy.

A third theory is that investors are mislead by the big indexes. The DOW includes only 30 very large companies and the S&P performance is heavily influenced by large tech companies. Amazon, Facebook, Google and Apple make up 20% of the S&P index and their services and products are sought out even more in a stay-at-home lock down environment. The great majority of publicly owned companies will continue to be negatively impacted by a pandemic that looks like it will be with us for some time. The biggest driver of the economy (70%) is the consumer, and the majority of them work for smaller or midsized companies, many of which have little capital reserves, will struggle and understandably will cut back expenses including staff.

Theory four: stock traders who by definition only plan for the short term have apparently stretched their time horizons. Otherwise under current conditions they wouldn't buy anything. As

*(Continued on page 2)*

**Average Returns of the Mutual Funds Recommended by CIM**

| | Quarter | YTD | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years |
|---|---|---|---|---|---|---|---|
| Large Cap Stocks | 17.5 | -8.4 | 1.4 | 8.1 | 9.8 | 13.6 | 9.9 |
| Mid Cap Stocks | 25.3 | -3.5 | 4.5 | 8.7 | 9.6 | 14.9 | 10.8 |
| Small Cap Stocks | 31.1 | 2.4 | 7.4 | 12.5 | 11.1 | 15.6 | 11.1 |
| Healthcare Stocks | 19.8 | 5.2 | 18.2 | 11.8 | 7.6 | 18.0 | 13.4 |
| Foreign Stocks | 28.7 | 1.0 | 10.0 | 7.6 | 7.7 | 11.1 | 9.0 |
| Short Term Bonds | 3.2 | 3.6 | 5.1 | 3.4 | 2.7 | 2.4 | 3.2 |
| Intermediate Bonds | 4.8 | 6.7 | 9.1 | 5.5 | 4.4 | 4.2 | 4.6 |
| High-Yield Bonds | 8.0 | -3.5 | .8 | 3.5 | 4.6 | 6.4 | 5.9 |

## The Financial Markets (continued from page 1)

detailed in the last newsletter the economy and markets have prospered in the long term despite some real rough times including two world wars. There will always be volatility because traders still work off daily headlines. There are also the nervous nellies jumping in and out of stocks based on the last thing they read or heard. Financial institutions buy and sell both in response to customer deposits and withdrawals and to stay in line with their specified mandatory parameters. Finally, computerized trading is in place to almost instantly respond to market swings and that really adds to volatility.

As you can imagine, all the theories are in play and have varied levels of impact. But a primary driver currently is not a theory, but the extraordinary fiscal and monetary actions of Congress and the Federal Reserve. So far, they both have fully committed to do whatever it takes to avoid a depression. They have conceded to a deep recession, but a depression, no. Over 160 million Americans received checks from the US Treasury totaling $270 billion including over a million checks to dead people. For 30 million workers, state unemployment payments were extended from 26 weeks to 39 weeks, and boosted by up to $600 additional per week. The extra $600 is scheduled to end in July, but will probably be extended with adjustments through August and maybe beyond. Loans have been made to businesses that won't have to pay them back if most of the money is used to keep employees on the payroll. There have also been outright grants. The total of the spending on those and other efforts is over $2.5 trillion.

The Federal Reserve has added another $4 trillion by providing liquidity and buying corporate bonds including those of companies with less than stellar credit. If the goal is to keep as many businesses afloat as possible, it makes sense to assist those companies with thin reserves, but they did have weak credit ratings for a reason. Moral hazard, which is the lack of incentive to guard against risk, is a major nemesis of a free capitalistic system. With all the money and credit that is being dished out, all in record time, we can surely expect to hear about high levels of misappropriation and malappropriation for sometime to come.

Is it fair to future generations that we pass onto them all the debt we are racking up, just so we can keep going as though nothing unusual is happening? In a free capitalistic system the economy may from time to time go to hell in a hand basket, if you will forgive the expression. In 2008 there was a great deal of push back against government actions taken to alleviate the financial crisis. But you don't hear that now. During the Great Depression people sold apples to get by, maybe we should turn to that again.

I think not. A depression wouldn't do anybody any good, including today's younger generations and those yet to come. There is the precedent for the government spending money it doesn't have. In the 1930's many safeguards were initiated that provide support even now, and many others have been added over the years. Congress would be remiss to not use those tools for the better good. Vanguard has opined that the deficit that's being incurred can be paid for by future growth. Let's hope Vanguard's right, and hasn't changed its mind. The article was dated mid June. Have you heard any good news since then?

FORTUNE MAGAZINE: March 31, 2020

## Stock Market Had Worst Quarter Since 1987 —and its worst first quarter ever!

BARRON'S JUNE 30, 2020

## Stocks Close Higher as Best Quarter in Decades Comes to an End!

As day follows night should we be surprised that a really bad quarter was followed by a good quarter? The S&P 500 ended 2019 at 3,231. On June 30 it closed at 3,100, so over the six months that's a minus 4%. That is not headline news. The second quarter gave us back what the first quarter took. That's the way the stock market sometimes works. In the last quarter of 2018 the S&P dropped 20%. Throughout 2019 we were continually told what a great year we were having, but half of the run-up was just a give-back of that last quarter in 2018. Of course, it's better that a bad period be followed by a good one rather than another bad one. But don't let the recent June headlines lead you to believe there has been a sea-change of some kind and we are out of the woods.

## You Just Never Know

Investors hate uncertainty. Well, that's just too bad. Uncertainty is all investors ever have gotten, or ever will get, from the moment barley and sesame first began trading in ancient Mesopotamia to the last trade that will ever take place on planet Earth.
If tomorrow were ever knowable with absolute certainty, who would take the other side of a trade today? Just cast your mind back to January, when so many market forecasters were confidently predicting strong returns for 2020. Was their certainty a justifiable conclusion -- or a dangerous delusion?

**JASON SWEIG** ***Wall Street Journal***

## The Battle Continues — Stocks vs Bonds

*The New York Times* recently carried an article that said over the past 20 years bonds have actually outperformed stocks. It made for a great headline, but they missed a very important point: The 20-year period they referred to was a singular period. But when you look back at myriad 20-year periods, stocks outperform bonds over long periods of time with only occasional periods when they didn't. There's no iron clad rules in investing. Heck, I can find certain periods when cash outperformed stocks and bonds—though not for very long, of course. The lesson, once again, is that headlines are good for eyeballs, but they aren't always good for imparting investment wisdom. Stay skeptical.

**DAN WEINER** ***Independent Adviser for Vanguard Investors***

| Return of Vanguard Balanced Funds With Opposing Bond/Stock Allocations - as of June 30, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Qtr | YTD | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years |
| Wellesley 65% bonds | 8.4 | .4 | 5.7 | 6.3 | 6.6 | 7.8 | 6.8 |
| Wellington 65% stocks | 12.0 | -3.5 | 4.7 | 7.3 | 7.7 | 9.9 | 7.8 |

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*Recent market activity can be newsworthy, and is certainly that at the present time. However investment returns over longer periods, while not predictive, are significantly more meaningful.*

## Q & A with the Editor

**Q**: Where is the stock market headed?

**A**: In the short term I can't say. The word on the street is to expect choppiness for the rest of the year. That has to be one of the top understatements of all time. So far the market has whistled its way past the graveyard and is counting on Congress and the Federal Reserve to pull out all stops. They have been doing that, but it can't continue indefinitely. We are in a deep recession and the road to recovery will be long.

Many on Wall Street are expressing optimism. Maybe they just don't want to start a panic. What do you think would happen if Vanguard advised its millions of customers to *"not stay the course"?*

There is some pessimism, but I've heard no hopelessness. There will be a recovery. The question is when will it start and how long will it be before the economy gets back to what we call normal. Anybody who claims to know the answer to that is pulling your leg. The economy and the stock market are not the same thing. Anybody who says they know how the stock market will fare between now and a return to "normal" is pulling your arm and leg. And listening to them may cost you both.

It often gets lost in the hustle and bustle, but the price of a company's stock reflects its prospects for profit. Higher profits higher price. A good number of publicly owned companies may have to reinvent themselves. Others won't survive, while others will do fine. It is going to be sector by sector. Fortunately our stock funds are diversified across all sectors and about half of our portfolio is in bonds.

## CIM Zoom Chats

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