

April 2020



Client Newsletter

To Our Clients

Welcome to the spring of 2020. It's hard to believe we are already through the first quarter of the first year in the new decade. We had an interesting first quarter with the Pandemic caused by the COVID-19 virus. In the following paragraphs we will review what happened, provide some historical context, thoughts on what needs to occur to restart the economy, and share some cautions for you during this difficult period.

The Impact of COVID-19 Virus

The first quarter of 2020 was difficult for investors. Since the February 19th peak, the S&P 500 Index has lost 34% of its value, to its most recent low at the end of the quarter (St. Louis Federal Reserve). The decline is roughly in line with the average bear market pullback (LPL Research), with bear markets being defined by at least a 20% sell-off.

The rapid decline in the major stock market indexes has been unsettling with the 34% decline occurring in just over one month. The speed at which the decline occurred is unprecedented in market history. What we are seeing in the economy is without precedent which has led to an enormous amount of uncertainty. Many industries that require person-to-person interactions are being shut down, and many service-related companies that remain open have seen a significant decline in sales and foot traffic.

We don't have a modern precedent on which to model economic forecasts, as a result the second-quarter projections for GDP have been incredibly wide. If we connect the dots, the economic uncertainty has translated into earnings uncertainty, which translates into incredibly volatile markets.

As we start the second quarter, a strong rally has priced in an improved outlook for a decline in the spread of the COVID-19 virus, the positive impacts of the Federal Reserve and US Government action to provide liquidity to the economy and we have begun discussing strategies and plans to slowly re-open the economy. The market will surely remain volatile as investors digest earnings reports and whether the virus is truly peaking in areas around the country.

A Government-Induced Economic Coma

In order to slow the spread of the pandemic, the government has encouraged social distancing, and several states have ordered lockdowns or strict shelter-in-place mandates. You may go outside to exercise or buy groceries, but there is a ban on group gatherings to avoid spreading the virus.

While social distancing will slow the spread of COVID-19, its economic impact has been unparalleled. In a way, the government has put key sectors of the economy in a coma while hoping to stem the spread of the virus. When health and safety dictate, the goal is to bring the 'patient' out of the coma. However, policymakers don't expect the economy to bounce back on its own. If shutdowns are encouraged or enforced, policy is being put into place to revive the patient when the time comes.

The government response to soften the expected economic blow has been extraordinary and goes well beyond what we saw during the 2008 financial crisis. The Federal Reserve has not only dropped the fed funds rate to zero, but it has implemented several programs designed to support Treasury bonds, investment-grade corporate bonds, commercial paper (short-term IOUs issued by the largest corporations), money market funds, mortgage-backed securities and municipals.



Economic Coma (continued)

During the 2008 financial crisis, the Fed's focus was on Wall Street and critical credit markets. Today, the scope of support extends well beyond Wall Street to Main Street, as evidenced by a \$2 trillion stimulus bill passed by Congress and signed by the President. Included is a program designed to support small- and medium-sized businesses with a goal of mitigating some of the damage caused by surging layoffs.

The Federal Reserve and the Federal government are trying to put a foundation in place that will support a robust economic recovery. But will it work? Much depends on the duration and severity of an economic shutdown and the path of the virus.

Road to Recovery

We see four important pieces to the recovery puzzle.

1. A massive response by the Federal government and the Federal Reserve (we can check that box). While continued volatility is likely, a modest rebound from March's low was fueled by the Fed and the \$2 trillion stimulus plan.
2. A peak in new COVID-19 cases in the U.S. and a subsequent decline.
3. An effective treatment and vaccine.
4. Clarity on the economic data. What will be the steepness, duration of economic shutdown and potential for recession?

No one rings a bell that sounds the all-clear signal. Collectively, markets attempt to price in future events. Given the wide range of outcomes, volatility has been the rule.

	MTD%	YTD%
Dow Jones Industrial Average	-13.7	-23.2
NASDAQ Composite	-10.1	-14.2
S&P 500 Index	-12.5	-20
Russell 2000 Index	-21.9	-30.9
MSCI World ex-USA**	-14.6	-23.9
MSCI Emerging Markets**	-15.6	-23.9
Bloomberg Barclays U.S. Aggregate Bond TR	-0.6	3.2

Source: Wall Street Journal, MSCI.com, Morningstar, MarketWatch

MTD returns: Feb 28, 2020—Mar 31, 2020

YTD returns: Dec 31, 2019—Mar 31, 2020

*in US dollars

Social Distance Yourself from COVID-19 Scams

Whenever there is a natural disaster, there are always people who prey on those who need help. Today, the disaster is a pandemic. Many are fearful, many are scared, and it makes us especially vulnerable.

The FTC has warned Americans to beware of the potential scams that are proliferating. Here are some precautions to take that will keep you safer:

- Hang up on robocalls, and do not press any numbers. Scammers are using illegal robocalls to pitch fraudulent COVID-19 treatments and work-at-home schemes. Press a number to be removed from a list and you will likely get more calls.
- Ignore online offers for vaccinations and unproven home test kits.
- Ignore texts and emails about cash from the government. Stimulus checks are being issued directly from the Internal Revenue Service. Per the FTC, anyone who tells you they can get you the money now is a scammer.
- Please be leery of emails that claim to be from Centers for Disease Control and Prevention (CDC) or experts that claim they have information about the virus. For the most up-to-date information about coronavirus, visit websites of the Centers for Disease Control (CDC) or the World Health Organization (WHO).
- Malware and phishing scams are on the uptick. Legitimate companies will never ask you to verify passwords or usernames via an email. Fraudsters will.
- Do you see misspelled words or grammatical mistakes? That is a sure sign that the official-looking email originated from a suspicious source.

COVID-19 Scams (continued)

Below is a warning from the Securities and Exchange Commission (SEC) that was updated on March 30:

Fraudsters often use the latest news developments to lure investors into scams. We have become aware of a number of Internet promotions claiming that the products or services of publicly traded companies can prevent, detect, or cure coronavirus, and that the stock of these companies will dramatically increase in value as a result.

We are living in uncertain times. Please be careful and remain aware of the significant potential for fraud at this time. While we are confident this will pass, uncertainty breeds fear, and there are criminals all over the world ready to cash in on your fear.

How To Spend Your Free Money

According to the Federal Reserve's latest report on financial health of Americans, 4 in 10 adults say they would struggle to come up with \$400 in an emergency. Well, most are about to get at least \$1,200 after passage of the stimulus bill designed to ease the economic downturn that is occurring. Throw in \$500 per child and a family of four nets \$3,400.

Are you eligible? For singles, \$1,200 is phased out between \$75,000 and \$99,000 in adjusted gross income. For married folks, the range is \$150,000 to \$198,000.

So, how will you spend your windfall? We would like to say that you should go and spend it, but we should consider the underlying financial principles that drive your balance sheet. Do you need a rainy-day fund? Do you have three to six months of emergency cash, just in case? If not, consider putting your check into savings. If you do not expect to be furloughed, an emergency fund is one way to go.

If you have at least six months in savings, look at paying down debts, especially high-rate credit cards. That will provide you with an immediate return through the interest savings.

Be cautious about putting your cash into student loans. Borrowers are receiving relief from the government, so you may want to hold off paying down student debt, at least for now.

Can you give it away? If you are in a strong financial position to do so, you may gift the check to your parents, children, or those who are in a difficult place.

Your stimulus check is designed to help the economy. If you must spend it, consider purchasing from a small business in your neighborhood. Undoubtedly, they need the help. When other businesses reopen, consider generously tipping your server who has been out of work. Even something as simple as a lavish tip to the delivery person can generate tremendous goodwill. When we take our eyes off ourselves, the blessings we give away rebound in our direction.

Final Thoughts

We spend an enormous amount of time discussing the importance of your financial plan. It is your roadmap in good times and bad. It is based on a simple premise that stocks rise more than they fall. We know this to be the premise because, historically, the U.S. economy has expanded over time.

We understand that what is happening is unprecedented. We are in the midst of an economic and health care crisis. While both breed fear and uncertainty, we are confident this pandemic will eventually pass, and the underlying fundamentals of the U.S. economy will return strong. Resilience and ingenuity are part of the DNA that make up America. We will persevere and we will recover.

If you still have questions, concerns, fears or doubt, we get that. We really do. Please remember that we are honored to serve you and we are always open to talking with you.

Quintin, Ginny and Ella



**131 W. Davis Street
Culpeper, VA 22701**

Our Office Hours

Monday—Friday, 9:00AM—5:00PM

We are doing our part to slow the spread of COVID-19. While our office is temporarily closed to the public, we are able to meet with clients by phone or video conference. During this period, we are rotating work schedules between home and office and will be checking messages regularly and responding as quickly as possible. As a reminder, please do not leave requests for trades or funds on the answering service or via email.

Contact Us

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Upcoming 2020 Holidays/Office Closures

Monday, May 25 — Memorial Day

Friday, July 3 — Independence Day (observed)

Monday, September 7 — Labor Day

hello Spring



July 2020



Client Newsletter

To Our Clients

We hope this letter finds you and your family members well during this most unusual time of uncertainty surrounding an economic and healthcare crisis, the likes of which we have never seen before.

A Bounce in Economic Activity & Covid-19 Cases

The first and second quarters of 2020 were total opposites. In our memory nothing else compared to the pace of the downturn and the upside for the stock market. During the past quarter much of the economic data was extremely negative, with record declines in employment (U.S. BLS employment data) and consumer spending (U.S. BEA).

Government-imposed lockdowns and business closures, companies furloughed employees at a furious and painful pace. It is difficult to express in words, but it has been disheartening to see friends and family members sidelined from the workforce.

According to the National Bureau of Economic Research (NBER), the official arbiter of recessions and expansions, we are now in a recession. The prior expansion, which began in 2009, officially peaked in February, having lasted a record 128 months.

In making its determination, the NBER concluded, "The unprecedented magnitude of the decline in employment and production...warrants the designation of this episode as a recession, even if it turns out to be briefer than earlier contractions."

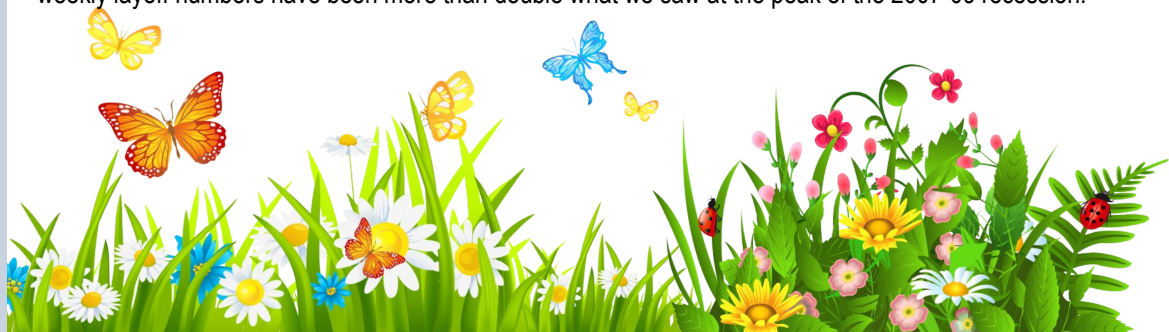
The shortest recession on record lasted just six months and occurred in 1980. In second place: a seven-month recession in 1918-19, which was tied to the Spanish flu pandemic. There are five recessions that lasted eight months, including the 1957-58 recession that coincided with the Asian flu pandemic.

While the economy is much different today, the recovery from the short, but steep 1957-58 recession was robust (St. Louis Federal Reserve). Given surprisingly strong data in May, April may mark the bottom of the economic cycle. If so, it will be the shortest recession on record. The speed and depth of the decline have no modern parallels.

The massive support from the Federal Reserve, the federal government, and the reopening of previously closed businesses, employment in May unexpectedly surged a record 2.5 million. The private sector fared even better, with a gain of 3.1 million (U.S. BLS).

Consumer spending, which fell a record 6.6% in March and a record 12.6% in April, rebounded by a record 8.2% in May (St. Louis Federal Reserve). Pent-up demand, stimulus checks, generous unemployment benefits, a rise in employment, and reopening of businesses supported sales.

Consumer confidence is improving per the Conference Board's Consumer Confidence Index. It remains well below pre-coronavirus levels, but rising confidence and re-openings are supportive of economic activity. A strong recovery is not assured, as visibility remains incredibly limited. Layoffs, as measured by first-time jobless claims (Department of Labor), are slowing but remain at unusually high levels. The weekly layoff numbers have been more than double what we saw at the peak of the 2007-09 recession.



Forecasting in Today's Environment

In his testimony before the House Committee on June 30, Fed Chief Powell said, "Many businesses are opening their doors, hiring is picking up, and spending is increasing. Employment moved higher, and consumer spending rebounded strongly in May. We have entered an important new phase and have done so sooner than expected."

He also recognized the need to keep the virus in check. "The path forward for the economy is extraordinarily uncertain and will depend in large part on our success in containing the virus. A full recovery is unlikely until people are confident that it is safe to reengage in a broad range of activities," Powell added.

We are seeing a spike in Covid-19 cases in many states, which is creating a new round of uncertainty. The increase has fueled choppy day-to-day activity in the market. Yet so far, the new bull market seems to be coexisting with the rise in cases.

Despite higher infection rates, deaths continue to trend lower. This somewhat reduces fear and in turn reduces odds of new lockdowns. U.S. Treasury Secretary Steven Mnuchin took a more optimistic tone in his testimony with Powell. "The Blue Chip Report is forecasting that our GDP will grow by 17% annualized in the third quarter, and by 9% in the fourth quarter," which follows what is expected to be record contraction in Q2. Mnuchin also expects significant progress on the employment front.

Economists give economic recoveries what might be called a letter grade when discussing possible paths. It is not the traditional A through F scale. Instead, the letter intuitively describes the shape of the recovery. A V-shaped recovery would be ideal, as it would represent a robust bounce. Might we get a V?

Data in May was unexpectedly strong and cautiously encouraging. However, even during what we might consider more normal times, forecasting is difficult. Since this recession is truly different, we have no playbook or framework to forecast economic rebound.

Cautious Optimism

We can look in our own communities to see evidence of the increase in economic activity. In observing parking lots at malls and restaurants, and increased activity in our downtown streets, we see people are again dining out and shopping at retail stores.

We hesitate to say this time is different, but this recession is different. The amount of state and federal support provided to the unemployed and small businesses has been unprecedented. Unemployment benefits created a cushion that allowed many households to continue paying their mortgage, rent, utilities, car payments, and perhaps even save a little. Not to say it was good for everyone, but many of the unemployed were able to avoid defaulting on payments and having to dig themselves out of a hole due to lost income. Overall, this will be good for the recovery. They will replace unemployment benefits with wages once they return to work.

The picture for small business is mixed. The Paycheck Protection Program and Small Business Disaster Loans have helped provide cash to companies to pay their financial obligations. While many of these companies continue to struggle, many service businesses have reopened. You can now see your dentist, orthodontist, optometrist, hair stylist, have elective surgery, shop at most retail locations, have a meal at your favorite restaurant, and even get a tattoo. The good news is it did not take much to get these businesses opened and serving their clientele. On the margin, this will be positive for the economy.

Another positive impact of the pandemic has been the number of major companies increasing their base wage to \$15 per hour. Walmart and Amazon are leading this trend. In the end it may lead the private sector to making this number the new base. While we can see few positives in the pandemic, this may be one of them.

Table 1: Key Index Returns	MTD%	YTD%
Dow Jones Industrial Average	1.7	-9.6
NASDAQ Composite	6.0	12.1
S&P 500 Index	1.8	-4.0
Russell 2000 Index	3.4	-13.6
MSCI World ex-USA*	3.2	-12.7
MSCI Emerging Markets*	7.0	-10.7
Bloomberg Barclays US Aggregate Bond TR	0.6	6.1

Source: Wall Street Journal, MSCI.com, Morningstar, MarketWatch

MTD returns: May 29, 2020-June 30, 2020

YTD returns: Dec 31, 2019-June 30, 2020

*in US dollars

Cautious Optimism (continued)

The strong rebound in stocks since the late-March low is astounding, especially given the economic damage. It suggests the collective wisdom of investors is more optimistic. Fed support, rock bottom interest rates, reopening trade, and stronger economic data have helped. We believe investors are looking past this year's hit to corporate profits and are expecting an upturn in 2021.

The jump in daily cases has created some renewed volatility that bears watching, but it has yet to knock the bulls off course. Ultimately, the path of the virus will play the biggest role in how the economic outlook unfolds.

Some folks are itching to get back to normal, while others remain on guard against the virus and are taking a more cautious approach. It may take time for some businesses to fully recover, and yet, some small businesses may never recover.

Based on recent economic reports, we believe the bottom was in April and we began a new bull market in stocks after the low in March.

Financial Planning Lessons from the Covid-19 Crisis

No one expected an economic upheaval spawned by a health crisis as the year began. You will probably recognize some of the lessons and takeaways from the Covid-19 crisis below. We should not forget that the fundamentals – the core financial precepts – are always the building blocks of any credible financial plan.

1. **Money at the end of your month.** Saving for an emergency cannot be underestimated. Three to six months is optimal with the added benefit—financial peace of mind.

The Proverb “The borrower is servant to the lender.” We do not counsel against a mortgage for a home or a reasonable loan for a car. The accumulation of wants (not needs) with debt does not bring contentment but stress. We see it over and over, you want money at the end of your month, not short of money at the end of your month. A financial cushion eliminates one of life's worries and helps during these types of economic events.

2. **Wants vs. needs.** During this crisis many of us have learned to do without certain things. We had to cut back on certain items because they were not available. Ask yourself this question. “As businesses reopen, are there things I can do without? Can I continue to cut back and still maintain my lifestyle?”

Many of our entertainment options have been curtailed. As we emerge from our homes and businesses reopen, are there items that can be trimmed from the budget? We are not suggesting no more eating out, sporting events, theater, travel, etc. But can we reduce expenditures on some items without sacrificing our overall lifestyle?

3. **Diversification and tolerance for risk.** We have just witnessed an unusual amount of stock market volatility. The speed at which the market went down and then recovered is historic. The day to day movement in the market during the first six months of 2020 is unlike anything in history.

The major indexes have erased much of their losses. Yet how did you fare emotionally when stocks took a beating? Now is the time to reevaluate your tolerance for risk. We review your Investment Objective in our meetings, but let's discuss and make any necessary adjustments as needed.

4. **Expecting the unexpected.** From its March 2009 low to its February 2020 high, the bull market ran for over 10 years (measured by the S&P 500 Index). We know bear markets are inevitable, but we recognize that the onset of a steep decline may be unnerving.

The old adage, “What goes down must come up” seems to apply to the stock market in the current environment. Nonetheless, a well-diversified portfolio of stocks has historically had an upside bias. That upside bias is incorporated into our recommendations for you, even as they are tailored to your individual circumstances and goals.

A healthy mix of fixed income helped cushion the decline. While we monitor events and the markets over a shorter-term period, let's be careful not to take our eyes off your long-term goals.

As we have said before, long-term markets trade on economic results while short term trades on emotion. We have faith in the long-term increase in the value of the stock market because of economic growth.



**131 W. Davis Street
Culpeper, VA 22701**

Be Proactive, Not Reactive



The steps outlined on Page 3 are a broad overview and individual circumstances may vary. Your financial plan serves as your road map and helps in making such decisions necessary to be successful in the future. You may even find you are in a much better position than you realize. Looking at where you are is important, and being proactive with preparing and updating your financial plan is critical. As always, we are here to help.

We understand the uncertainty facing all of us and hope you have found this review to be helpful and educational. While we address these various issues in our meetings, phone calls and correspondence, we have an open-door policy. If you have questions or concerns, let's have a conversation.

Please take note of our upcoming 2020 holidays and office closings included as part of this newsletter. We are conducting in-person meetings and following recommended guidelines with regard to Covid-19 (wearing face masks, sanitizing, social distancing, etc.). If preferred, however, we are also available to meet with you by phone or video conference.

As always, we are honored to serve as your financial planner and provide oversight for your investments. We look forward to talking with and/or seeing many of you in the coming months!

Sincerely,
Quintin & Ella



Upcoming 2020 Holidays/ Office Closures

Monday, August 10 thru
Monday, August 17
Out of Office

Monday, September 7
Labor Day

Thursday & Friday
September 17 & 18
Out of Office

Thursday & Friday
November 26 & 28
Thanksgiving

Thursday & Friday
December 24 & 25
Christmas Eve & Day

Our Office Hours

Monday—Friday, 9:00am—5:00pm

Contact Us

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October 2020



Client Newsletter

To Our Clients



We hope this letter finds you safe and healthy during these still-unprecedented times.

As a world, we continue to struggle with the current and potential lasting impact of the COVID-19 virus. The good news is, we as a species are adapting to the “new normal”. In our office, we are taking precautions including meeting by telephone, Zoom video conference, or in-person meetings by appointment only. This gives us the ability to track all visitors to our office so we can provide notification if one of us or one of our visitors tests positive for the virus. We foresee this continuing and will follow CDC guidelines for as long as recommended. In the meantime, we can all continue to do our part and respect one another by wearing a mask, practicing social distancing and frequent hand washing.

Economic and Market Comments

A timeframe for the economy to fully recover cannot be determined at this time. However, a V-shaped recession now seems to have occurred. If it holds, it will be the shortest recession on record. The number of people who have gone back to work in the last few months is significant, although we still have a lot of people out of work and it may take some time for economic activity to accelerate enough to create jobs for them.

The S&P 500 Index surged an impressive 60% from the March 23 bottom to the most recent high in early September (St. Louis Fed S&P 500 data). But stocks hit a roadblock in September.

Table 1: Key Index Returns

	MTD%	YTD%
Dow Jones Industrial Average	-2.3	-2.7
Nasdaq Composite	-5.2	24.5
S&P 500 Index	-3.9	4.1
Russell 2000 Index	-3.5	-9.6
MSCI World ex-USA*	-3.1	-9
MSCI Emerging Markets*	-1.8	-2.9
Bloomberg Barclays US Aggregate Bond TR	-0.1	6.8

Source: WSJ, MSCI.com, Morningstar, MarketWatch

MTD return: Aug 31, 2020-Sep 30, 2020

YTD return: Dec 31, 2019-Sep 30, 2020

*in US dollars

Note: We offer this report for information only. Returns will vary, as none of our clients are invested exactly like these indexes.

4th Quarter Outlook

The markets and the economy have staged a historic rebound since the late March lows, and while we all welcome this impressive comeback, we enter the final quarter of the year keenly aware that some of the biggest unknowns for the markets and the economy will be resolved positively or negatively in the next three months.

Starting with the obvious and apropos for 2020, this November 3rd election will be one of the most uncertain times in our lives. Beyond the question on everyone’s mind (Who will win the Presidency?), markets are also focused on whether the Democrats will take control of the Senate. If so and Biden wins the election, Democrats would control both the legislative and executive branches of government, a scenario dubbed the “Blue Wave” by the financial media. Such a scenario would increase the potential for policy change and would likely create short-term market volatility.

However, any near-term volatility associated with a Blue Wave would likely be small compared to the worst-case scenario, namely that there is no clear winner by the end of Election Day and the election becomes contested. This would result in the entire country being dragged through a similar episode of Bush vs. Gore in the early 2000s. Under that scenario, we should expect significant short-term market volatility until a winner is declared, potentially as late as mid-December.

Unfortunately, the election is not the only source of potential uncertainty and volatility coming in the next three months. Hopes for a COVID-19 vaccine have helped stocks rally to current levels, and there are now three separate vaccines undergoing final Phase III trials. Those trials will likely reach their conclusion in the coming weeks, perhaps before the election. Failure to produce a viable vaccine candidate will also create volatility as markets are expecting widespread COVID-19 vaccine distribution by early to mid-2021.



4th Quarter Outlook *(continued)*

By the end of the fourth quarter, investors will also learn the fate of the stimulus bill currently stuck in Congress. There is near-universal agreement that the economy could use more stimulus, but the politics of the election, combined with Republican and Democrat differences about how much money should be spent and where that money should go have prevented stimulus from being passed and delivered to the U.S. economy. Markets expect a stimulus bill to pass by year-end, and if it fails to materialize, it will create more volatility.

Bottom line, the resiliency of the U.S. economy and markets is both admirable and encouraging, as the economic and market recovery from the worst pandemic in 100 years has been nothing short of extraordinary. That rebound verifies the value of sticking to a well-constructed, diversified financial plan aimed at achieving long-term investment goals. However, our experience has taught us not to be complacent simply because the market has been resilient. So, while we have all welcomed the strong market rebound in Q2 and Q3, the fact remains that some very important unknowns will be resolved in Q4, and there is the possibility for more market volatility during the final three months of 2020.

While short-term volatility might reappear between now and year-end, the markets in 2020 have once again demonstrated that a long-term approach combined with a well-designed and well-executed investment strategy can overcome periods of elevated volatility, market corrections, bear markets and even global pandemics.

Adhering To Your Plan

Achieving your financial goals doesn't just happen by itself. It takes a plan, implementing the plan, adhering to the plan, and when necessary, adjusting the plan. An old adage states that "failing to plan is planning to fail". We continue to express the importance of having a plan and adhering to the plan in good times and in bad.

Your plan should fit what you want to do while working and in retirement. The "right" mix of investments is dependent on several factors, including your individual circumstances and how much cash you need to receive from your portfolio each year. We used to say you needed 70% of your pre-tax income to support your retirement lifestyle. However, if you plan significant travel, still have a mortgage or perhaps a health condition requiring long-term care, you may need as much cash flow in retirement as you did while working. We work to create a tailored plan that is adaptable to your circumstances, and with each plan update, we review and make adjustments to fit your new normal. Our advice varies based on each investor and is dependent on your need and willingness to take risk.

Now let's take a moment to talk about withdrawals from your portfolio. The paradigm shift to withdrawing funds is often difficult for those who have been saving all of their lives. Your plan will guide you when to take funds and how much to take to support your lifestyle. Having a plan in place will help you understand the impact of withdrawals along with portfolio return over time.

We start the process of looking at withdrawals from the moment you stop working. In the early years of retirement, the objective is not to avoid paying taxes but to manage withdrawals in a manner that result in the lowest tax rate over time.

Social Security benefits, dividends and long-term capital gains receive preferred tax treatment under today's tax code. Each of you have unique circumstances, and appropriate planning for withdrawals from retirement accounts and tax-deferred annuities will result in a better outcome over the long run. Recommending to our clients in a lower tax bracket to draw funds from their traditional IRA before taking from their Roth IRA is an example of appropriate planning. While planning ideas are general in nature, one size does not fit all of our clients.

Closing Thoughts

The volatility of the stock market will continue in the future, but we know the overall trend in stocks is upward. The stock, bond and real estate markets reflect expected economic activity in the future, not the past. Your success is based, at least in part, on time in the market, not timing the market. Therefore, it is critical for you to stay invested, remain patient, and stick to the plan we have worked to establish based on your unique circumstances, financial position, risk tolerance, and investment objectives.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first half of this year is unlikely to alter a diversified approach set up to meet your long-term investment goals.

We thank you for your ongoing trust and confidence, and we hope you find this information to be helpful and educational. Please contact our office if you have questions or wish to discuss anything prior to our next review. In the meantime, we extend our best wishes for a joyous holiday season, and we look forward to seeing or talking with you in the coming months.

Quintin and Ella



Holidays/Office Closures

2020

November 5 & 6 — *Out of Office*
November 26 & 27 — *Thanksgiving*
December 24 & 25 — *Christmas*

2021

January 1 — *New Year's Day*
January 18 — *Martin Luther King, Jr. Day*
February 15 — *Washington's Birthday*

January 2021



Client Newsletter

To Our Clients



We hope you enjoyed the holiday season and this letter finds you and your loved ones safe and healthy.

The most tumultuous year in recent memory ended on a high note for markets as the fourth quarter brought political and medical clarity, resulting in substantial market gains over the past three months and a surprisingly strong year for market returns in 2020.

The first two weeks of November provided the clarity markets desired, and that paved the way for substantial gains in stocks over the next month. First, the presidential election was executed successfully, and while there were multiple accusations of election fraud and numerous legal challenges brought by the Trump campaign, Joe Biden was widely accepted as the winner and President-elect. Furthermore, it appeared that Republicans would continue to hold a small majority in the Senate, potentially ensuring a market-friendly, divided government for the next two years.

Then, on Monday, November 9, less than a week after the election, Pfizer announced that its COVID-19 vaccine was more than 90% effective at preventing infection, which was substantially better than initial estimates. A week later, Moderna announced its COVID-19 vaccine was 95% effective at preventing infection. This double dose of positive medical news provided hope for investors that the end of the pandemic was now only months away, fueling a strong rally that lasted for the remainder of the month, sending the S&P 500 to new all-time highs.

As we began December, the consistency of the good news in November helped investors look past the surging number of new COVID-19 cases and the growing intensity of lockdown measures implemented across the country to slow the spread of the virus. But by mid-December, New York City school closures and new dining restrictions, along with a near state-wide "Safer at Home" order in California, began to weigh on economic activity and that became a headwind on stocks. Shortly thereafter, however, the FDA approved the distribution of both the Pfizer and Moderna vaccines, and roll out of the vaccine helped to remind investors that the end of the pandemic was not far away. As such, the surging number of coronavirus cases and widespread economic lockdowns did not cause a material decline in stocks. Just before the end of the year, Congress finally approved a \$900 billion stimulus bill that would help support the economy as it continues to recover from the pandemic. That news helped the S&P 500 hit a new all-time high just before year-end.

In sum, markets ended a historic year on a high note, as federal economic support, record-breaking vaccine development, and an incredibly resilient corporate America helped to more than offset the worst global pandemic in over a century.

4th Quarter 2020 & Full-Year Performance Review

All the major U.S. stock indices were solidly higher in the fourth quarter, led once again by the tech-heavy Nasdaq, which mildly outperformed on still-lingering concerns about near-term economic growth following the surge in COVID-19 cases into year-end. But the Nasdaq outperformance was minor relative to earlier in the year, and the S&P 500 and Dow Jones Industrial Average also posted solidly positive quarterly returns. On a full-year basis, however, the Nasdaq handily outperformed the other two large-cap indices in 2020 as investors sought the secular growth potential of the tech sector amidst macroeconomic uncertainty.

From an investment style standpoint, value outperformed growth for the first time in 2020 during the fourth quarter. The outperformance by value stocks underscored investor optimism for an economic rebound in 2021, again, courtesy of multiple COVID-19 vaccines and more economic stimulus. For the full year, however, growth massively outperformed value due to strength in the tech sector.

4th Quarter 2020 & Full-Year Performance Review (continued)

On a sector level, all 11 S&P 500 sectors finished the fourth quarter with positive returns. Cyclical sectors, including energy, financials, industrials, and materials led markets higher over the past three months, which was a reversal from the under-performance those sectors saw throughout the first three quarters of 2020. The familiar influences of vaccine optimism and stimulus hopes were the primary drivers behind the cyclical outperformance in the fourth quarter. For 2020, however, the tech sector was, by far, the best-performing sector in the market as investors flocked to tech stocks that were viewed as beneficiaries of numerous pandemic-related changes in behavior, including substantial increases in online shopping and work from home.

US Equity Indexes	Q4 Return	2020 Return
S&P 500	12.15%	18.40%
DJ Industrial Average	10.73%	9.72%
NASDAQ 100	13.09%	48.88%
S&P MidCap 400	24.24%	13.10%
Russell 2000	31.37%	19.96%

Source: YCharts

International Equity Indexes	Q4 Return	2020 Return
MSCI EAFE TR USD (Foreign Developed)	16.09%	8.28%
MSCI EM TR USD (Emerging Markets)	19.77%	18.69%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	17.08%	11.13%

Source: YCharts

International markets saw positive returns in the fourth quarter thanks to the combination of the European Central Bank increasing its pandemic-related QE program, Brexit clarity, and general optimism that vaccine distribution would result in a future rebound in global economic growth. Emerging markets outperformed foreign developed markets and the S&P 500 in the fourth quarter thanks to a substantially weaker U.S. dollar along with an improving outlook for the global economy. For the full year 2020, foreign markets registered solidly positive returns, with emerging markets outperforming thanks to the decline in the U.S. dollar. However, foreign developed markets underperformed the S&P 500 last year.

Commodities enjoyed strong gains in the fourth quarter, led higher by a rally in oil while gold was little changed over the past three months. Oil prices rose in the fourth quarter thanks to optimism toward a global economic rebound in early 2021 following the vaccine announcements, combined with continued production discipline by "OPEC+." Meanwhile, gold spent much of the fourth quarter in negative territory as investors rotated out of the safe-haven metal and into more risky assets following the positive vaccine developments, election results, and stimulus bill passage.

Commodity Indexes	Q4 Return	2020 Return
S&P GSCI (Broad-Based Commodities)	14.49%	-23.72%
S&P GSCI Crude Oil	20.64%	-20.14%
GLD Gold Price	0.70%	24.81%

Source: YCharts

US Bond Indexes	Q4 Return	2020 Return
BBgBarc US Agg Bond	0.67%	7.51%
BBgBarc US T-Bill 1-3 Mon	0.02%	0.54%
ICE US T-Bond 7-10 Year	-1.30%	10.00%
BBgBarc US MBS (Mortgage-backed)	0.24%	3.87%
BBgBarc Municipal	1.82%	5.21%
BBgBarc US Corporate Invest Grade	3.05%	9.89%
BBgBarc US Corporate High Yield	6.45%	7.11%

Source: YCharts

Total returns for most bond classes were positive in the fourth quarter and the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) experienced slightly positive returns for the ninth straight quarter. Looking deeper into the fixed income markets, longer-duration bonds underperformed those with shorter durations in the fourth quarter, which was a reversal from most of 2020. That was reflective of a market responding to the Fed's promise of low rates, potentially for years to come.

Confirming improved sentiment in the fourth quarter, which was again due to vaccine distribution and stimulus, corporate bonds saw solidly positive returns as high-yield debt outperformed investment-grade debt. The outperformance of lower quality but higher-yielding corporate debt also underscored rising optimism for an economic rebound in 2021 given the vaccine and stimulus, and a positive view of future corporate earnings.

1st Quarter & 2021 Market Outlook

As we turn our focus to 2021, we first want to acknowledge the hardship that so many have endured over the past 12 months, be it physical, emotional, or financial, and we sincerely hope that those burdens are eased in 2021 and beyond.

As we begin a new investing year, we are pleased to say that, from a macroeconomic standpoint, the outlook for 2021 is materially more positive than it was for the majority of 2020. First, the Fed is continuing its historic QE program and will keep rates low for years to come. That should continue to help to support asset markets broadly. Meanwhile, Congress has finally agreed on another historically large fiscal stimulus bill which will help the economy weather the still ongoing COVID-19 pandemic and related economic lockdowns.

Politically, neither party has a material majority in either house of Congress and as such, markets are not concerned about policy risks to the economy (substantial tax increases, excessive regulation, or major initiatives like healthcare reform). Finally, corporate America has once again demonstrated itself to be both resourceful and resilient; and while some industries (airlines, cruise lines, hotels) face a long road to total recovery, many American companies have exited 2020 in strong financial shape. As shocking as it may sound, the fundamental outlook for stocks is positive as we start 2021.

That said, 2020 taught us all that nothing is guaranteed, and we must expect the unexpected. To that point, unemployment remains historically high (still well above levels we saw at the depths of the Great Recession) and while many unemployed workers should return to work once the pandemic begins to recede, it is unclear how many small businesses will have survived to hire them back.

Additionally, as the economy begins to normalize, the appetite for more stimulus from Washington will diminish; and again, it is unclear just how quickly we can expect economic growth to return to pre-COVID levels. Regarding stimulus, investors need to remain wary of the negative consequences of the ballooning federal debt and budget deficits. We will continue to closely monitor inflation and interest rates as they are some of the most sensitive instruments to increased deficits and Federal debt.

None of these risks, by themselves, offset the positive factors helping the economy and markets as we begin a new year. However, there are certainly risks and we will continue to monitor them diligently.

Final Thoughts

As we consider all that has occurred in 2020 and look forward to 2021, one of the biggest takeaways from this historically volatile year in the markets is that a well-planned, long-term-focused and diversified financial plan can withstand virtually any market surprise and a related bout of volatility, including the worst pandemic in 100 years.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first half of 2020 is unlikely to alter a diversified approach set up to meet your long-term investment goals. Therefore, it is critical for you to stay invested, remain patient, and stick to the plan we prepared with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

The resilient nature of markets in 2020 notwithstanding, we remain vigilant toward risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please do not hesitate to contact us with any questions or comments. We will be in contact with you during the year to schedule your next review meeting.

Happy New Year!

Quintin & Ella



2021

Upcoming Holidays and Office Closures

Monday, January 18

MARTIN LUTHER KING, JR. DAY

Monday, February 15

WASHINGTON'S BIRTHDAY

Thursday, March 25

thru

Monday, March 29

OFFICE CLOSED

Friday, April 2, 2021

GOOD FRIDAY

Monday, May 31, 2021

MEMORIAL DAY



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Our Office Hours

Monday—Friday, 9:00am—5:00pm

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