

November 2, 2020

323 OCTOBER UPDATE

The Newsletter of 323 Wealth Management LLC

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ECONOMIC SUMMARY

Story by Greg Wilson, CFA, CFP, MBA

From an economics perspective, October was a continuation of the previous positive trend. Most segments of the economy continue to recover. Of course, just about anything related to travel is still facing significant headwinds, including airlines and hotels. Additionally, the energy sector continues to face significant pressures on both sides of the supply/demand scenario. Some of the more notable data points for October are listed below.

Unemployment continues to trend downward.

<https://fred.stlouisfed.org/graph/?g=wm5L>

GDP (Gross Domestic Product) recovered significantly.

<https://fred.stlouisfed.org/graph/?g=xbfP>

Personal Consumption Expenditures are continuing upwards and stabilizing while the Personal Savings Rate is dropping from its elevated level during the heights of the pandemic. These are potential signs that people are getting more comfortable and possibly coming out of emergency status.

<https://fred.stlouisfed.org/graph/?g=xiyD>

<https://fred.stlouisfed.org/graph/?g=xiyY>



ECONOMICS SUMMARY(CONT.)

Recovery continues

Consumer sentiment has not fully recovered but appears to have stabilized.

<https://koyfin.com/s/dPsavXx92S>

In a positive sign for the energy sector, rig count appears to have bottomed and is cycling back up again.

<https://koyfin.com/s/dPsavXx92S>

Both manufacturing and non-manufacturing activity continue to increase.

<https://koyfin.com/s/1nWZLgk4nA>

<https://koyfin.com/s/GLVW2snjPv>

Americans are showing little fear when it comes to buying homes.

<https://koyfin.com/s/kKaWm0dyrR>

Understanding the economy is one of the first steps to understanding investing.



MARKET SUMMARY

The markets were unsettled as we drew closer to November

Understanding the markets can help us build a better plan for our financial futures AND sleep easier at night.

The U.S. stock market was mostly down for the month of October. The S&P 500 Index was down 2.77%, the NASDAQ was down 2.29%, the Dow Jones Industrial Average was down 4.61%, while the Russell 2000 (small companies) was up 2.04%.

The market seems to be attempting to transition from an emergency pandemic status to a more normal business environment. In that type of environment, quarterly earnings matter more than the news headlines. Right now, it appears that we are caught in between these two time periods and thus the increased volatility, not to mention the uncertainty of the upcoming election. Eventually, we will transition to a more normal business environment. Until then, I like to remind everyone of one of my favorite quotes which I recently shared in our weekly update.

“The father of value investing, Benjamin Graham, explained this concept by saying that in the short run, the market is like a voting machine--tallying up which firms are popular and unpopular. But in the long run, the market is like a weighing machine--assessing the substance of a company. The message is clear: What matters in the long run is a company's actual underlying business performance and not the investing public's fickle opinion about its prospects in the short run.”

Source: <https://news.morningstar.com/classroom2/course.asp?docId=142901&page=7>

While it is typical for a majority of companies to beat their earnings forecasts, they appear to be doing so at an elevated pace. This is an encouraging sign for the companies and their investors. <https://insight.factset.com/sp-500-earnings-season-update-october-30-2020>



CORONAVIRUS

CORONAVIRUS UPDATE

The second waves are here.

Keeping up to date on the pandemic will hopefully help you plan your finances as well as your life.

With Europe and the UK starting new lockdown measures, it is clear that another wave of the virus is upon them. The same can be said for the U.S. as cases increase dramatically here.

<https://www.statista.com/chart/22067/daily-new-cases-by-world-region/>
https://covid.cdc.gov/covid-data-tracker/#trends_dailytrendscases

The death rate does appear to be staying much lower than previous waves.
https://covid.cdc.gov/covid-data-tracker/#trends_dailytrendsdeaths

Please continue to stay safe and take necessary precautions during this difficult time.



FINANCIAL PLANNING UPDATE

What is portfolio rebalancing and why does it matter?

Financial planning is an ongoing process that evolves with your life's changing circumstances.

Since the markets are exhibiting periods of volatility and the end of the year is getting closer, we thought it would be prudent to discuss portfolio rebalancing.

Rebalancing a portfolio is a disciplined process of bringing the portfolio back in line with its targets.

Think of a garden that has gotten overgrown. Perhaps you started with everything neatly segmented, then got sidetracked with other projects and left the garden unattended. Raise your hand if you have ever gotten sidetracked with other projects (Note: I'm raising my hand). If your watermelon, cucumbers, or squash take over the garden then you will have little to no room for lettuce, corn, tomatoes, etc. That scenario makes it difficult to make a good salad! The longer you wait to get everything evened out again, the harder it will be.

Here is a study from Vanguard about portfolio rebalancing. The synopsis is that portfolio rebalancing has historically reduced the risk level for the investor and improve their risk-adjusted returns.

<https://personal.vanguard.com/pdf/ISGGBOT.pdf>

At 323, we have a disciplined rebalancing plan for each of our clients which includes risk guidelines at the asset allocation, sector, and individual security levels.

CONCLUSION

Recovery on track?

October was a good economic month, but the stock market did not mirror that positive trend. We appear to be in a period of transition from emergency status to more normal business conditions which will hopefully be completed sooner rather than later. There are a variety of factors that affect that forecast: virus spread, politics, vaccine, fiscal stimulus.

Corporate earnings continue to be strong, but many companies are not providing an outlook and the market is mostly responding negatively to that uncertainty.

Fundamentals like earnings will be more important than news headlines at some point. For now, we need to remain patient.

If you have questions and/or concerns, please give us a call. We are here to help. If this update has been forwarded to you and you would like to be included on future emails, please subscribe at our website at www.323wm.com.

Thank you very much for your time.

DISCLOSURES

Note:

The graphs, charts, and articles in this newsletter were gathered from Koyfin, The Daily Shot, FactSet, The Economist, Bloomberg, and Statista,

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