

September 18, 2020

323 WEEKLY UPDATE

The Weekly Newsletter of 323 Wealth Management LLC

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ECONOMIC SUMMARY

Story by Greg Wilson, CFA, CFP, MBA

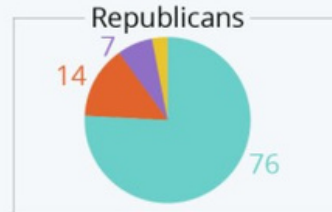
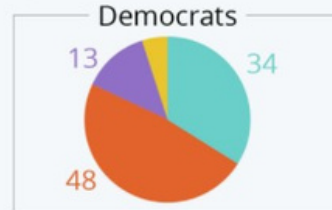
It seems like the majority of U.S. voters think the economy is recovering. The economic data would support that assessment, but there are concerns of a stalling out of the recovery. Those concerns are valid as the effects of partial lockdowns are experienced. The large Federal budget deficit could be cause for concern, but the CBO forecast for interest burden remains low relative to forecasted GDP growth. To further muddy the waters, inflation expectations have picked up to the pre-Coronavirus level. The odds of a new stimulus deal keep dropping which could negatively impact consumer spending. At the same time, it appears that parents with kids in virtual school are expecting a drop in income and mobility data is declining which could also negatively impact consumer spending. Retail sales have adjusted and are back on a good trajectory but they could easily decline if the consumer retrenches. The election is driving most of the news cycle so we provided some historical context.

The charts on the next pages will help illustrate the aforementioned economic indicators.

Majority of Americans Say Economy is Recovering

Percentage of U.S. voters who say the economy is either recovering, worsening or not changing

● Recovering ● Worsening ● Not changing ● No opinion

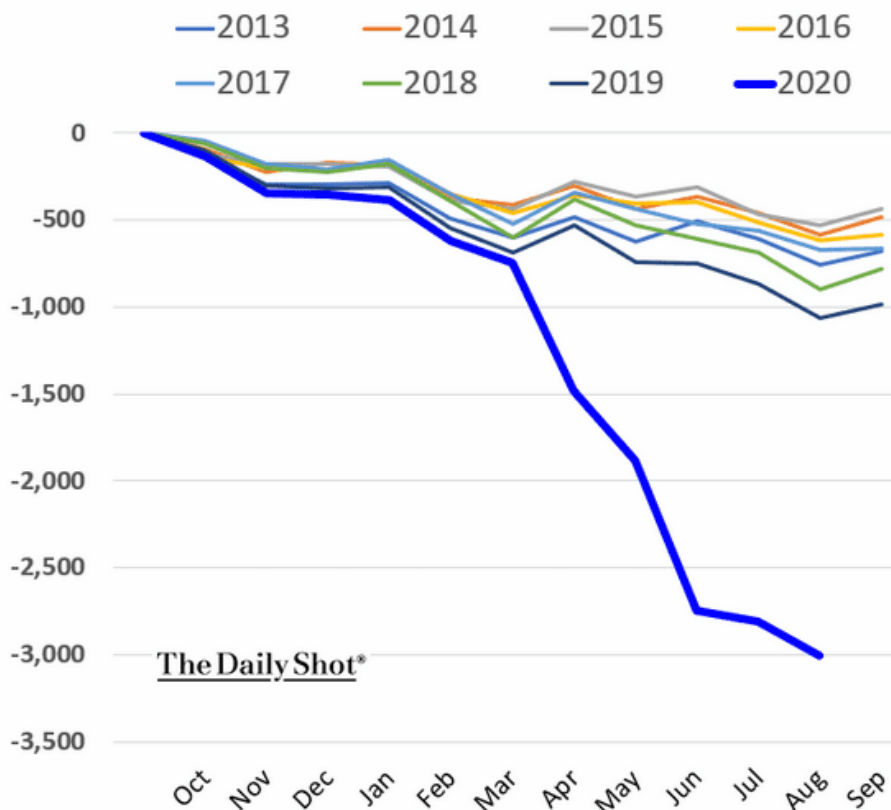


Poll conducted Sept. 8-10 of 1,989 U.S. voters
Source: Morning Consult



Source: <https://www.statista.com/chart/22937/americans-see-economy-as-recovering/>

US Treasury Federal Deficit Or Surplus (Cumulative Fiscal Year-to-Date, \$bn)

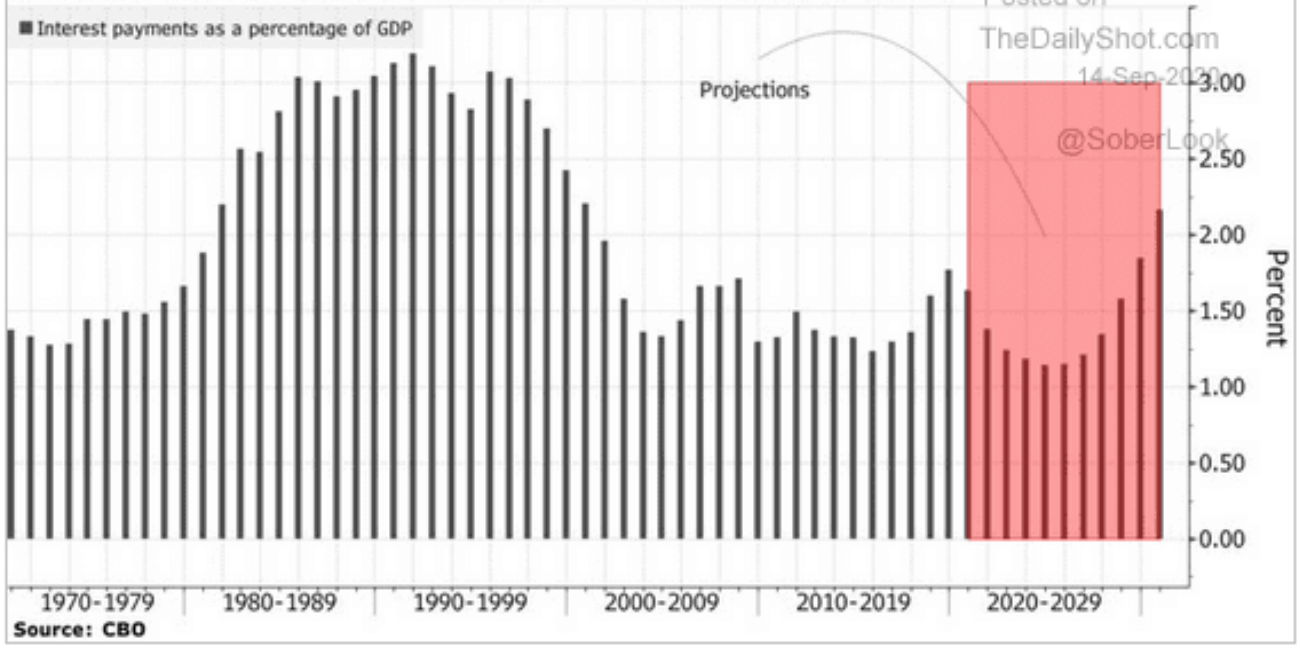


The Daily Shot*

Source: The Daily Shot

Servicing the Debt

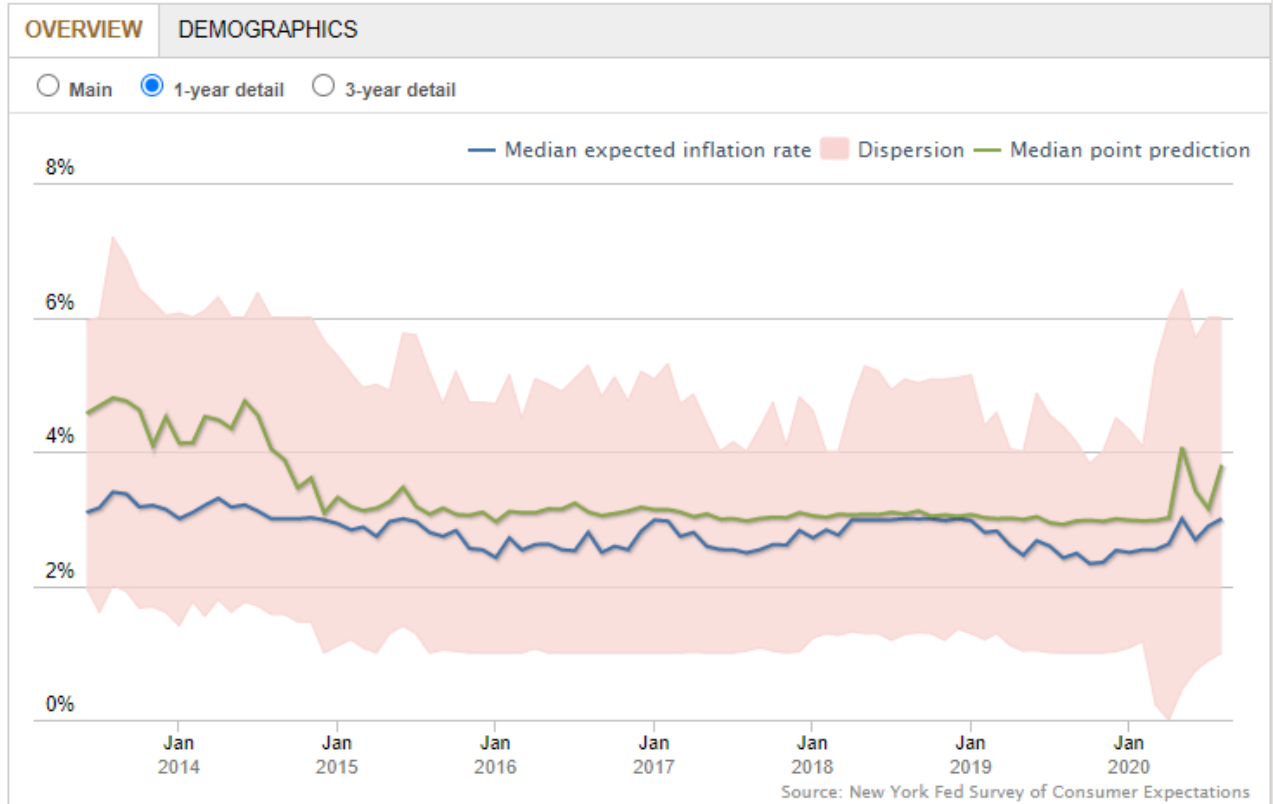
CBO sees interest burden the smallest in at least half a century



Source: <https://www.bloomberg.com/news/articles/2020-09-11/america-s-20-trillion-debt-pile-is-getting-cheaper-as-it-grows> and The Daily Shot and CBO

Inflation expectations

One-year ahead



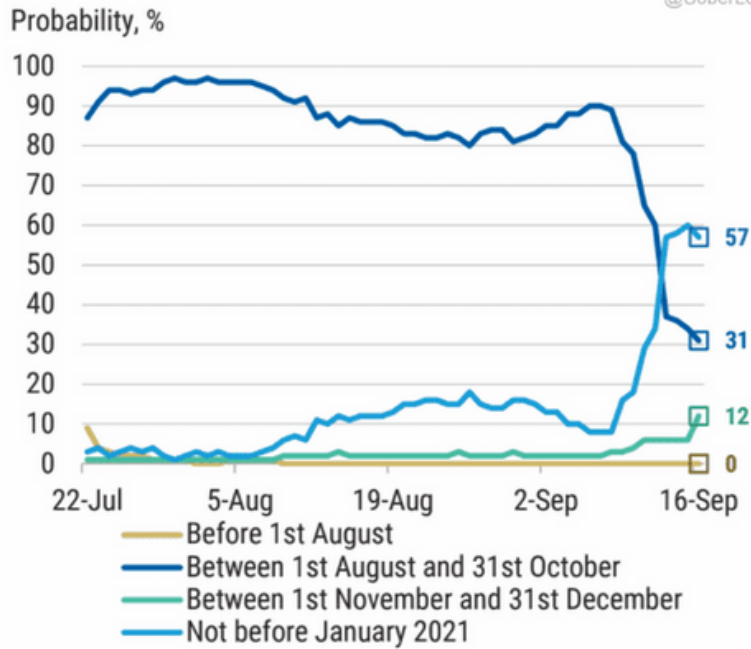
Source: <https://www.newyorkfed.org/microeconomics/sce#indicators/inflation-expectations/g1>

Exhibit 3: When will a piece of federal legislation providing for \$750 billion or more of new fiscal stimulus become law in the US?

Posted on
TheDailyShot.com

18-Sep-2020

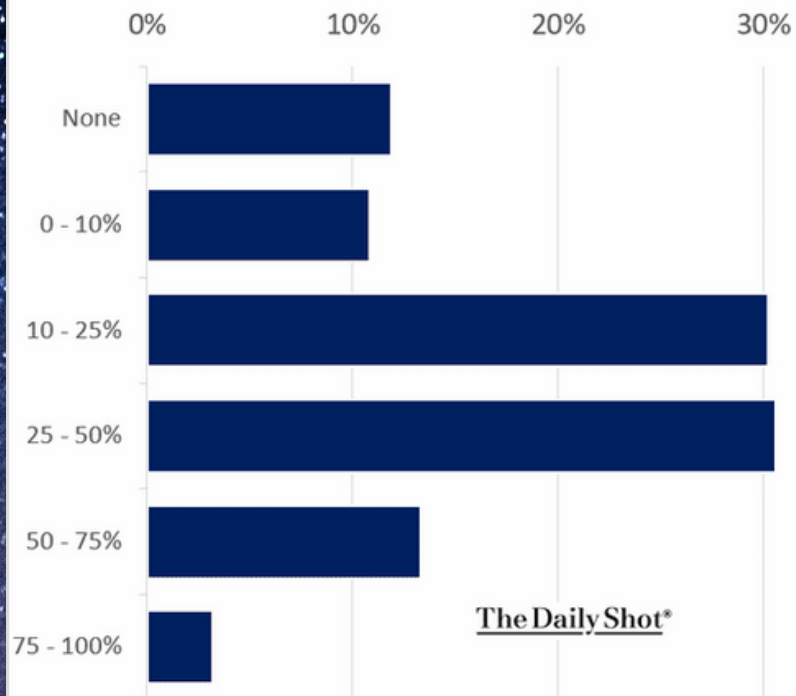
@SoberLook



Source: Goodjudgment.com

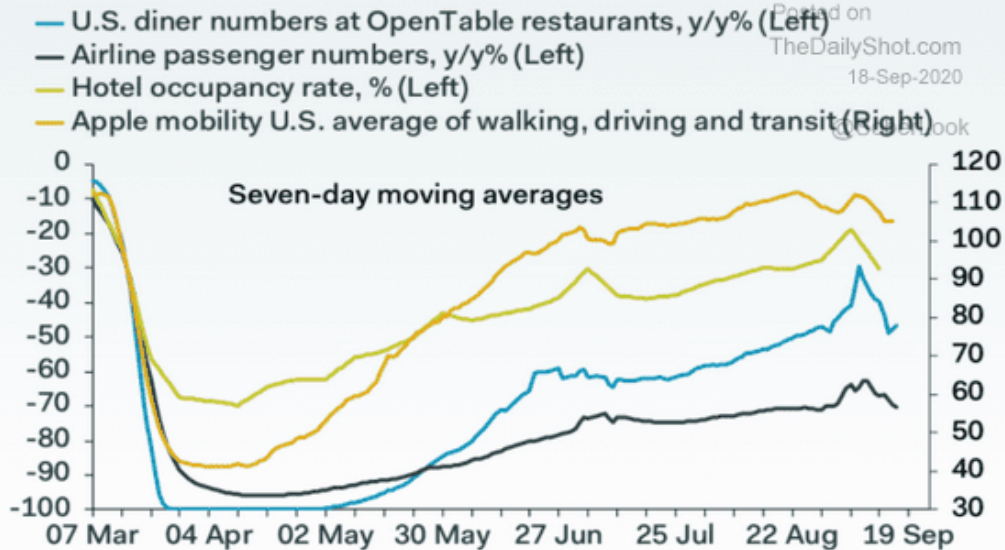
Source: The Daily Shot

How much of your household income do you expect to lose this fall specifically because of a lack of childcare or in-person learning?



Source: The Daily Shot

NEAR-REAL-TIME DATA ARE NOT ENCOURAGING?



© 2020 Pantheon Macroeconomics

Source: The Daily Shot

U.S. Retail Sales Return to Pre-Pandemic Levels

Monthly retail and food services sales in the United States (seasonally adjusted)*



* August 2020 figure represents an advance estimate based on a subsample of the Census Bureau's full retail and food services sample

Source: U.S. Census Bureau



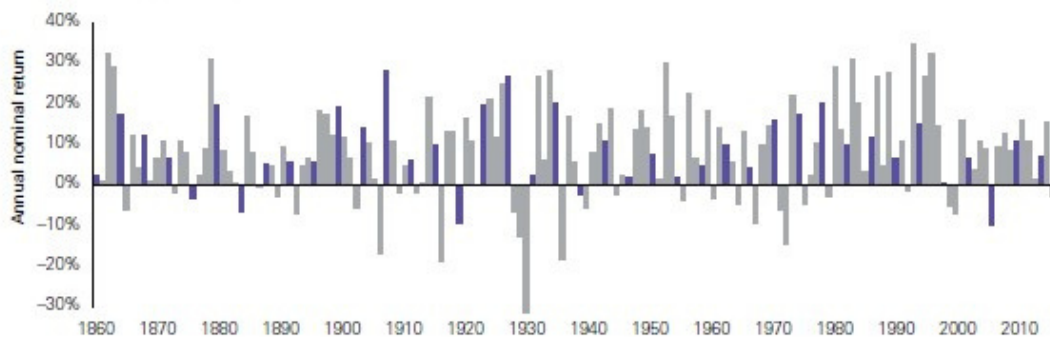
Elections matter, but not so much to your investments

Election years can be fraught with uncertainty as developments surrounding the candidates, their platforms, and their predicted effects on the economy and markets dominate the news. But should you let this stream of political information influence how you and I manage your investment portfolio?

A lengthy history of empirical research suggests not.

Elections matter, just not in all the ways you might think to an investor. Of course, they hold great importance in upholding the U.S. tradition of democratic, representative government. However, their impact on market returns has historically proven to be negligible, as shown in the chart below.

Comparing election years versus nonelection years: 60% stock/40% bond portfolio returns show no significant statistical difference



8.9% | Average return during election years (40 periods)

8.1% | Average return during nonelection years (120 periods)

Source: Vanguard calculations, based on data from Global Financial Data as of December 31, 2019. Data represents the 60% GFD US-100 Index and 40% GFD US Bond Index, as calculated by historical data provider Global Financial Data. The GFD US-100 Index includes the top 25 companies from 1825 to 1850, the top 50 companies from 1850 to 1900, and the top 100 companies by capitalization from 1900 to the present. In January of each year, the largest companies in the United States are ranked by capitalization, and the largest companies are chosen to be part of the index for that year. The next year, a new list is created and it is chain-linked to the previous year's index. The index is capitalization-weighted, and both price and return indices are calculated. The GFD US Bond Index uses the U.S. government bond closest to a 10-year maturity without exceeding 10 years from 1786 until 1941 and the Federal Reserve's 10-year constant maturity yield beginning in 1941. Each month, changes in the price of the underlying bond are calculated to determine any capital gain or loss. The index assumes a laddered portfolio that pays interest on a monthly basis.

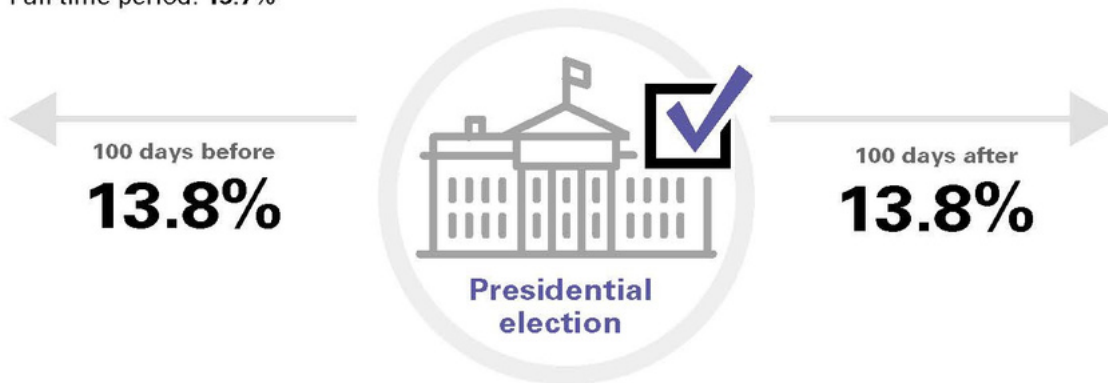
Note: Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Given the horse-race nature of political campaigns, you may think that in the months closest to an election, there is a noticeable uptick in volatility. Think again. In actuality, the opposite has been true. From January 1, 1964, to December 31, 2019, the Standard & Poor's 500 Index's annualized volatility was 13.8% in the 100 days both before and after a presidential election, which was lower than the 15.7% annualized volatility for the full time period.

Volatility and the vote: Markets tend to ignore elections

S&P 500 Index annualized volatility

Full time period: 15.7%



Source: Vanguard calculations of S&P 500 Index daily return volatility from January 1, 1964, through December 31, 2019, based on data from Thomson Reuters.

Note: Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

The bottom line: Elections are another one of those events that generate lots of headlines but that should not sway you from following the financial plan we created. It's understandable to have concerns about the election. But as far as your portfolio and the markets are concerned, history suggests it will be a nonissue.

Part of successful investing is understanding what you can control, and letting your emotions take a backseat to the financial plan we put in place. By maintaining perspective, discipline, and a long-term outlook, you can sustain progress toward your financial goals, despite the short-run uncertainty that events such as elections can create.

Notes:

All investing is subject to risk, including possible loss of principal. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

Diversification does not ensure a profit or protect against a loss.

Investments in bonds are subject to interest rate, credit, and inflation risk.

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Investment Products: Not a Deposit • Not FDIC Insured • Not Guaranteed by the Bank • May Lose Value • Not Insured by Any Federal Government Agency



MARKET SUMMARY

Where's the excitement?

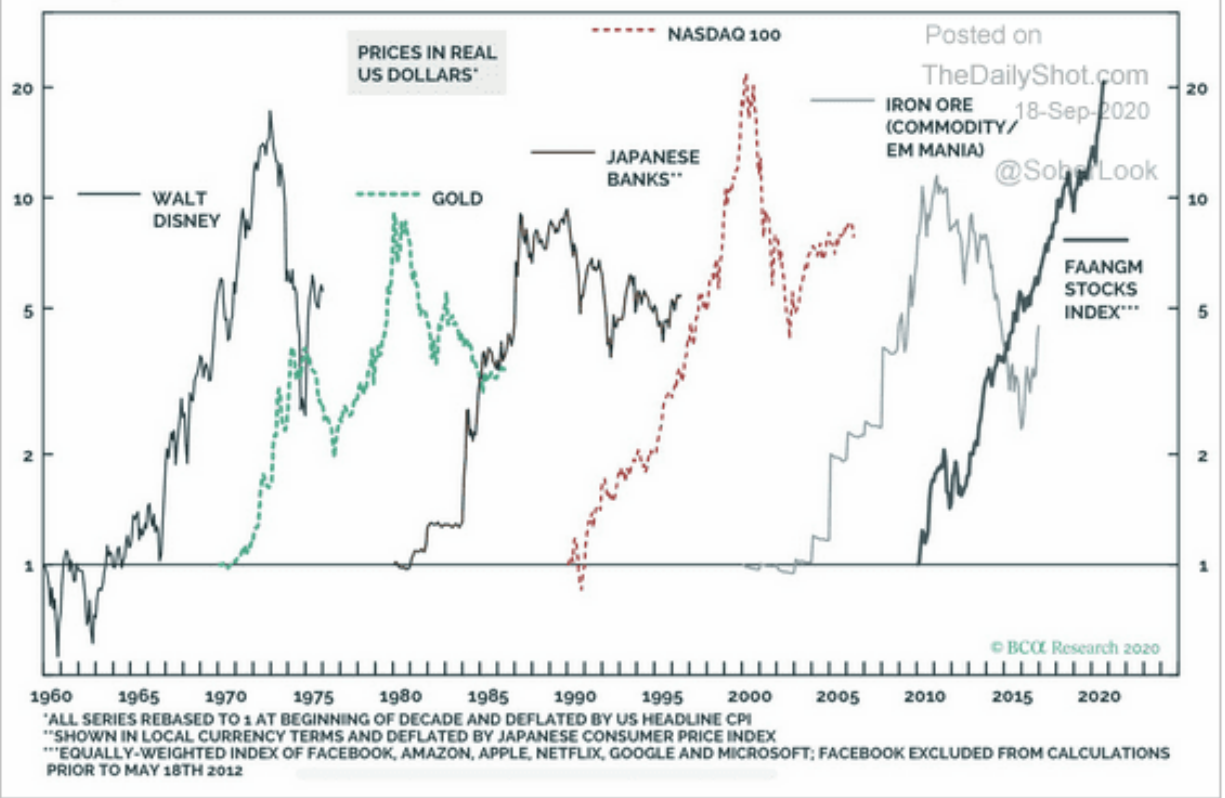
Most of the major U.S. stock indices were negative again this week. Rather than focus on sector and factor performance this week, we are going to discuss potentially more impactful issues. Manias and bubbles have been around for thousands of years. They are simply a reflection of our human nature and, thus, they are part of our investment experience. We need to understand this in order to manage short-term expectations and allows ourselves to move towards our long-term financial goals. One of the variables driving the current trend is call options. Those are leveraged, speculative investments that can win big or lose big. Either way, they impact the markets, typically by driving up volatility.

Last, but not least, the number of Zombie companies is approaching the year 2000 peak. So, it seems prudent, now more than ever, to know what you own and why you own it.

The charts on the next page relate to the comments above.

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

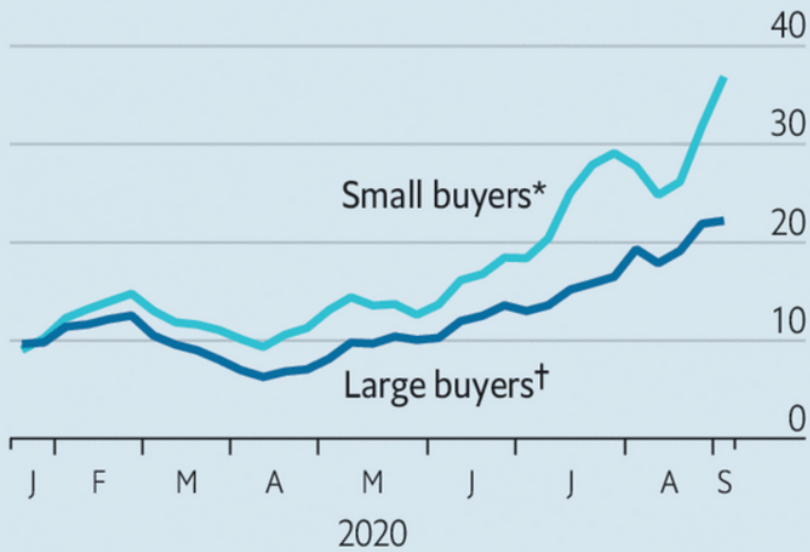
History Of Manias Of Past Decades



Source: The Daily Shot, BCA Research

Opting in

Spending on call options, \$bn
 Rolling four-week aggregate



Source: Options Clearing Corporation

*Fewer than ten contracts
 †Ten or more contracts

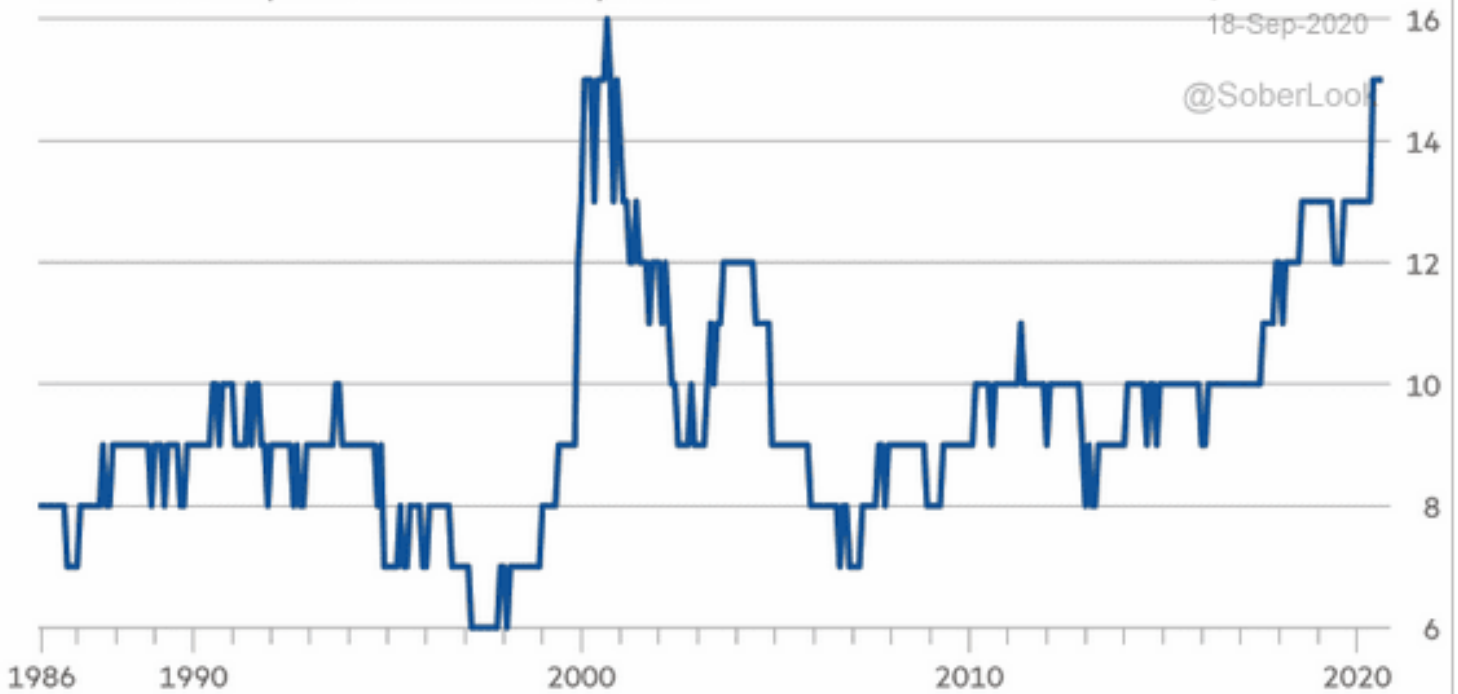
Number of US 'zombie' companies nears 2000 peak

Posted on
TheDailyShot.com

18-Sep-2020

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— % of 'zombie' companies* in Russell 3000 equivalent



*Companies where profits are less than the interest paid on their debts for at least 3 years / Data based on the Leuthold 3000 Universe (Russell 3000 equivalent)

Source: The Leuthold Group

© FT



CORONAVIRUS

CORONAVIRUS UPDATE

Schools back?

In the U.S, Coronavirus cases seem to be stable or declining. Governments in South America and India are trying to get their outbreaks under control. On the vaccine front, wealthy countries have bought up a large amount of the anticipated vaccine supply.

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

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

Rich Countries Have Bought up the Bulk of Covid-19 Vaccines



Nations representing **13%** of the world's population...

Including the United States, UK, Australia, Japan, Switzerland, Israel and the EU.



...have agreed deals for **51%** of the initial supply of Covid-19 vaccines*

Oxfam expects at least **61%** of the world's population will not have access to a vaccine before 2022.

* Based on deals struck with producers of vaccines currently in phase 3 clinical trials.
Source: Oxfam/Airfinity



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FINANCIAL PLANNING UPDATE

Estate Planning is mostly a selfless act.

If you already have your estate plan squared away, then well done. If not, or if it has been a few years since you reviewed it, please look into it. We can help if you have questions.

We are having a complimentary virtual Estate Planning Seminar on Tuesday, October 6th from 6:00 pm to 7:00 pm. Please feel free to sign up or send the information to your friends. Scott Walker, Estate Attorney, will be joining us and presenting on the Basics of Estate Planning.

Sign up at the link below.

https://financeinsights.net/JN8HbA2Sv7WPfjrKOt2EXv?fbclid=IwAR3_31RIVT7-bQz2Njn0t0Ue7aYjQkM0H2G15X5LoDEMGOEwWb8vit_rkf8

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

CONCLUSION

Getting closer...

Another down week is behind us. The weakness in the markets seems appropriate given some of the short-term trends in the economic data and the uncertainty around the next round of fiscal stimulus. The financial markets are being supported by monetary stimulus and are fragmented. Healthy companies along with unhealthy companies are being lifted. That is typically unsustainable. Eventually, the tides goes out....

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 and charts in this email were gathered from Koyfin, The Daily Shot, FactSet, The Economist, Statista, and a Covid tracker

(<https://datastudio.google.com/u/0/reporting/c8a0edc3-2d74-4d85-9b7a-5ab335eb76b6/page/1XLJB>)

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