KADES & CHEIFETZ LLC

INVESTMENT OVERVIEW

for the quarter ending September 30, 2020

Equities in Review

In the beginning of the third quarter, US stocks added to the dramatic gains achieved during the second quarter, pushing the S&P 500 and Nasdaq to record highs. However, September saw the market give back some of the gains as concerns about COVID-19, stimulus negotiations, and the upcoming election led to volatility and selling. With so much uncertainty surrounding the healthcare situation domestically and abroad, equity market volatility is likely to remain high. Large cap growth stocks, especially those which seem likely to benefit most from the stay-at-home economy, were the biggest contributors to the volatility and gains in July and August, but also to the losses in September.

The Fed and central banks from around the globe continue to take steps to backstop the economy and provide liquidity. In the short-term, their actions have provided confidence and capital to the markets. We note the markets are paying close attention to whether another round of stimulus will be approved prior to the election.

Following are the quarterly, year-to-date and 5-year average returns for the six equity indexes that we track:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
DJ Industrial Average	Large cap stocks	+8.2%	-0.9%	+14.0%
MSCI EAFE	Foreign stocks of developed nations	+4.8%	-7.1%	+5.3%
MSCI Emerging Markets	Foreign stocks of emerging nations	+4.4%	+2.9%	+6.9%
NASDAQ Composite	Growth-oriented large cap stocks	+11.2%	+25.3%	+20.6%
Russell 2000	Small cap stocks	+4.9%	-8.7%	+8.0%
S&P 500	Large cap stocks	+8.9%	+5.6%	+14.2%
Weighted Index Benchmark*	Diversified Equities	+7.6%	+3.8%	+12.6%

**The Index weighting is 20% each: DJ Industrial Average, Nasdaq Composite, S&P 500, and Russell 2000; and 10% each: MSCI EAFE and MSCI Emerging Markets.*

Other Important Data

For the twelve months ending September 30, 2020, inflation as measured by the CPI increased 1.4%, a notably larger increase than the 0.6% increase for the twelve months ending June 30. September saw the CPI tick up following six months of stagnation. The sharp increase in used cars and trucks were the primary drivers for this increase, as reliance on public transportation stalled significantly during the pandemic, creating a much greater need for used cars.

The spread on the yield curve (the difference in yield between the 1-Year and 30-Year Treasury bond) has often been a reliable leading indicator of the likelihood of recession. During the third quarter, the spread widened to 1.34%. This spread, which is high by recent standards, is primarily driven by the Fed cutting short term rates to near zero as one of the several steps they took to provide liquidity to the market. The Federal Reserve announced late in the third quarter that it would allow inflation to drive above its 2% target as part of an inflation averaging program designed to promote low unemployment.

- September 30, 2020 1.34%
- June 30, 2020 1.25%
- March 31, 2020 1.18%
- December 31, 2019 0.80%
- September 30, 2019 0.37%

Equities Looking Forward

Under normal circumstances, financial market action is often violent and unpredictable in the short-term. In the current situation, the moves have been even more volatile than usual. As the COVID-19 situation plays out, we assume the Fed and the world's central banks will attempt to continue fighting the economic impact of the pandemic with whatever resources and strategies they deem necessary. While this may help provide a short-term floor under stock prices, eventually stocks will trade based on the prevailing economic conditions.

One of the most common ways to assess stock valuation is by using the Price to Earnings (P/E) ratio. This metric measures a stock's price per share divided by its earnings per share. Theoretically, as a stock's earnings move higher or lower, its price should move in a somewhat commensurate way. A rising P/E ratio frequently signifies investors are driving a stock's price higher than its earnings seem to justify. Contrarily, falling P/E ratios often indicate a disconnect between investor views towards a company and the company's performance. The historical market cap weighted average P/E ratio for the S&P 500 Index is 15.85. At the end of the third quarter, the index's P/E ratio was 34. While stock valuations are currently in a very wide range, our take-away from the ratio data is that a small subset of the largest growth (primarily technology) stocks seems to be overvalued, while a larger group of typically value-oriented equities looks undervalued.

Hybrid and Hedging Assets

We believe that the Morningstar Moderate Risk Target Index offers the best benchmarks for hybrid and hedging assets. Returns are as follows:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Morningstar Moderate Risk	Hybrid (bonds and stocks)	+4.8%	+2.3%	+8.1%

Since the hybrid assets we own in our portfolios invest in a combination of securities including, but not limited to, bonds and stocks, the hybrid assets typically produce returns close to the average of the bond and stock index returns. This is the case for the quarter and for the annualized returns of the past five years.

Hedging assets like commodities or alternative strategies generally move with little, zero, or negative correlation to the bond and stock markets. We believe hedging assets should play a role in diversified portfolios because over the long-term, their limited or inverse correlation to bonds and stocks should reduce the volatility of overall portfolio returns.

Bonds

Bond prices continued to rise in third quarter as low interest rates and a continuing flight to the safety of cash and bonds provided a comfortable environment for fixed income investors. Since bond prices and bond yields move in opposite directions, the 10-Year US Treasury yield dropped from 1.92% at the end of 2019 to 0.66% on June 30 and 0.69% on September 30. While the yield barely changed during the third quarter, there are some signs yields may trend higher. The yield at the market open on October 23 has risen to 0.87%. We will continue to monitor bond yields, as we believe they are a strong leading indicator of market movements. It seems reasonable to expect somewhat muted returns from bonds going forward, given the current low yields as compared to recent history.

The quarterly and historical results for the bond indexes that we track are as follows:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Barclays Municipal Bond	I-T US Municipality Issues	+1.3%	+3.5%	+4.2%
Barclays US Aggregate Bond	I-T US Gov't and Corporate Issues	+0.6%	+6.8%	+4.2%
Morningstar TIPS	Inflation Protected Gov't Issues	+2.8%	+8.6%	+4.4%
Average of the Indexes	Diversified Fixed Income	+1.6%	+6.3%	+4.2%

The recent moves higher in bond prices seem to have the asset class overvalued in the short-term. However, it is important to remember the following, even when we feel bonds are overvalued:

- The prices of overvalued investments often go higher. This is especially true of bonds if the move is in response to a flight to safety amidst equity selling.
- Bonds always have a place in diversified portfolios to reduce volatility, preserve principal, and provide income.

Our Asset Allocation Philosophy

It is our philosophy that investors with long-term time horizons are best served by using a disciplined, diversified asset allocation approach (investing in bonds, hybrid and other hedging assets and stocks) rather than trying to time the markets. It is important to periodically review your asset allocation and your target allocation and to rebalance your assets among the classes to keep the allocation close to the target. We will address the issues specific to you when we review your situation in the coming months. In the interim, if you would like to discuss these issues, please contact us at howard@kadescheifetz.com or steve@kadescheifetz.com.

Reminders

Please contact Kades & Cheifetz LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Parts 2A and 2B of Form ADV and is available for your review upon request.

You should be receiving statements at least quarterly from your custodian. If you are not receiving these statements, or you need another copy of a statement, please call us and we will provide one to you. Clients are encouraged to review the information on the statements, especially the amount of fees deducted, and compare that information with any information provided by Kades & Cheifetz LLC. If there are any questions or discrepancies, please contact us as soon as possible.

<u>Important Disclosure Information</u>

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Kades & Cheifetz, LLC ("Kades & Cheifetz"), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Kades & Cheifetz.

*Additionally, please remember to contact Kades & Cheifetz, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing or evaluating or revising our previous recommendations and/or services, or if you want to impose, add, to modify any reasonable restrictions to our investment advisory services. Kades & Cheifetz shall continue to rely on the accuracy of information that you have provided. **Please Note:** unless you advise, in writing, to the contrary, we will assume that there are no restrictions on our services, other than to manage the account in accordance with your designated investment objective.*

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Kades & Cheifetz account holdings correspond directly to any comparative indices or categories. <u>Please Also Note</u>: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Kades & Cheifetz accounts; and, (3) a description of each comparative benchmark is available upon request.

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