NEWSLETTER – OCT 2020

MARKET TRENDS 9.30.20

Asset Class	3 Mos	YTD
US Stocks		
Large Cap	9.02%	5.53%
Mid Cap	4.70%	-8.69%
Small Cap	5.03%	-8.58%
International Stocks		
Developed Markets	4.57%	-7.04%
Emerging Markets	10.25%	-1.16%
Fixed Income		
Taxable Bonds	0.40%	6.70%
International Bonds	1.03%	3.51%
Municipal Bonds	0.97%	3.29%
Alternatives		
Emerging Markets Bonds	2.43%	-0.52%
Floating Rate	0.47%	0.69%
Preferred	6.68%	0.72%
Gold	5.83%	23.95%
Real Estate	1.94%	-12.33%

Source: Factset

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YEAR-END PLANNING IN FOCUS – ANNUAL REMINDERS:

- ✓ Max your IRA/401k contributions for 2020:
  - ✓ For traditional & Roth IRAs: $6,000; if age 50 and over - $7,000
  - ✓ For 401k Plans: $19,500; if age 50 and over - $26,000
- ✓ Make any and all charitable contributions before 12/31/20.
- ✓ Year-end tax projections: With your permission, Shorepoint will share your year-to-date portfolio income and realized capital gains with your CPA so he or she can run projections and give you an idea of where you stand with the IRS.

STRATEGY SPOTLIGHT: ROTH CONVERSIONS

A Roth Conversion is a technique used to transfer all or part of the balance of an existing pre-tax traditional IRA into an after-tax Roth IRA. There is no early-withdrawal penalty; however, you will have to pay the deferred income taxes on your deductible IRA contributions and any associated earnings since the former is tax-deferred while a Roth is tax-exempt. In a Roth IRA, funds can continue to appreciate tax-free and you will also enjoy NO taxes on any future withdrawals.

Times to consider working with your CPA and Shorepoint on a Roth conversion include the following:

- On significant downdrafts in the market where your IRA values may be depressed, lessening the tax due while setting up the assets for a recovery in a tax-free Roth account.
- In a year where your income is considerably lower, the conversion of pre-tax assets might just bring you back to your usual tax rate.
- If you and your CPA believe that the current tax on converting pre-tax assets will be less than what you would pay upon taking distributions at a later date.

INVESTMENT PERSPECTIVE

The Covid-19 pandemic has created a challenging backdrop for the entire world in a very short amount of time. We were further rocked by the news that the President and First Lady tested positive for Covid and that the President was subsequently hospitalized – more on the potential implications later. We wish the President and First Lady a speedy and full recovery. When we are thinking of how to invest capital, it's a good reminder for all of us to acknowledge how different this specific set of uncertainties is compared to what we have dealt with in past decades - inflation, wars, recessions, and the financial and housing crisis. We do not believe that this period will be worse than other challenges we have faced, but it is unique and will require patience and thoughtfulness. The Shorepoint team is thinking through the financial impact of the uncertainties that affect us all.

Staying Invested Despite Negative News

1970 Reasons not to invest	Stock Returns 1970	Growth of $10k: 1970-2019
US invades Cambodia		
Vietnam War protests escalate	3.9%	$1,530,989
US recession		
1980 Reasons not to invest	**Stock Returns 1980**	**Growth of $10k: 1980-2019**
Inflation is rampant: 13.5%		
Iranian hostage crisis	32.5%	$867,369
Cold War tensions		
1990 Reasons not to invest	**Stock Returns 1990**	**Growth of $10k: 1990-2019**
First Iraq War		
US recession	-3.1%	$172,731
Lingering Cold War tensions		

2000 Reasons not to invest	Stock Returns 2000	Growth of $10k: 2000-2019
Dot-com bubble bursts		
Energy prices spike	-9.1%	$32,421
Bush vs. Gore election & recount		
2010 Reasons not to invest	**Stock Returns 2010**	**Growth of $10k: 2010-2019**
Lingering fears from Great Recession		
Unemployment rate: 9.6%	15.1%	$35,666
Uncertainty about healthcare reform		
2020 Reasons not to invest	**Stock Returns 2020**	**Growth of $10k: 2020**
Coronavirus outbreak		
Election year uncertainty	???	???
Tensions in the Middle East		

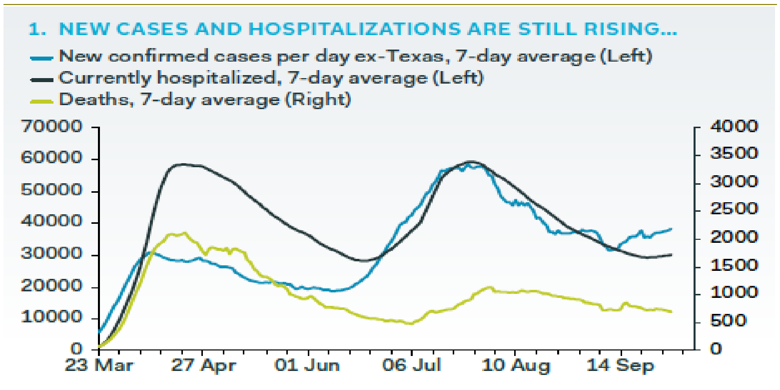
Sources: Morningstar and Hartford Funds, 2/20. This table assumes an initial investment of $10,000 in stocks (represented by the S&P 500 Index) at the beginning of the period (January 1) and held through the end of the referenced period (December 31).

During the third quarter, the equity market demonstrated its resiliency. Markets traded on a foregone conclusion that the world will recover from this year's multiple challenges. Despite a 9.9% pullback in the S&P 500 Index in September, it still gained 8.9% in the third quarter and is up 5.6% year to date. The advance was built on familiar themes: supportive monetary and fiscal policy, momentum in sectors such as technology and consumer discretionary, and the expectation of an economic rebound. Additionally, extending a long-term trend, growth stocks outperformed value stocks and large-cap stocks outperformed small-cap stocks. A noticeable reversal was the strong performance of emerging market stocks.

Bond and equity markets have been trading in tandem, benefiting directly from generous fiscal support policies. However, bond pricing dislocations have not completely recovered. We continue to invest the fixed income portion of your portfolio in non-traditional bond sectors such as leveraged loans, preferred stocks, asset-backed bonds, and mortgages. Although these investments experienced greater volatility in the recent downturn, they have rewarded our clients with higher income and total returns over the last decade.

COVID-19 UPDATE

The news about the President's positive test and hospitalization further added to uncertainty on multiple fronts. First, the discussion over whether further lockdowns would be necessary or even useful grows ever more intense as, recent figures show a slight, but distinct, uptick in cases.



The good news is that there is no similar uptick in deaths. We are in the midst of this historic situation without a clear resolution in sight, and we expect stocks to act accordingly - bouncing on good news and dropping when scientific reversals appear.

2020 ELECTION AND BEYOND: STAY THE COURSE

We need to realize that the improbable can happen. But accepting the risk of looking foolish, and reacting to the present instead of guessing at the future, can still make you serious money over the long haul and prevent you from locking in losses. Just look at the expectations from four years ago as an excellent example. Mr. Trump's surprise win prompted a sharp drop in futures overnight. But stocks rallied the next day and went on to new highs by the end of the year. We have two observations:

- No one knows what events are going to occur in November, and
- No one knows what the financial markets' reaction will be.

The President's positive Covid test result adds ambiguity on whether the rest of the debates will happen, and what format changes may be needed. The final make-up of Congress will also have a major impact on policy going forward. However, the most important aspect of the election is an orderly transfer of power whether it's a Trump reelection or a Biden win. Although we can argue which candidate is better for the markets, historical data shows few return differences before and after the elections regardless of the political party in power.

HOW IS THE ECONOMY BEING RESHAPED? TECHNOLOGY BOOM?

After shedding 22 million jobs in March and April, the U.S. economy has replaced 11.4 million of them through September. Corporate profits fell in the first and second quarters, but many companies weathered the economic crisis better than investors expected. It is clear to us that the economy is being reshaped and that there are themes with employment that mirror the stock market. We see companies like Salesforce.com, Amazon, Google, and Apple adding thousands of employees whereas companies like Exxon, Marathon Oil, Goldman Sachs, Wells Fargo, and even Disney are shedding jobs. The way consumers and employees interact is going through a rapid transformation that is only accelerating. There is a shift to the digitalization of the economy with both consumer spending (e-commerce/curbside pick-up/streaming/digital banking/payments) and employment (remote/work anywhere). In a nutshell, the future will likely look a lot like it looks right now, and many of the habits that we developed during the pandemic will remain.

OUTLOOK

Our current portfolio positioning is conservative relative to your personal investment objective and risk appetite. We are holding the highest cash and lowest equity levels in accounts than we have in over 10 years. This is reflective of the current market and economic conditions, the pandemic's negative impact, and the uncertainty around the presidential election. We expect that these factors will continue to lead to higher market volatility through the end of the year. However, we look to add to equities on any meaningful pullback. We expect that any additional government stimulus would be constructive to the economy and markets. In the interim, we continue to make adjustments to our equity holdings to improve the overall quality of your portfolio and to take advantage of attractive opportunities. Our goal is to identify companies that will create economic value in this environment and develop long-term competitive advantages.

We prefer dividend-paying stocks to bonds as a whole, although having an allocation to bonds in portfolios is appropriate for diversification and to reduce overall volatility. However, the bond market, particularly government bonds, continue to be concerning, with interest rates at record lows and over $15 trillion in international government bonds trading at negative interest rates. We continue to diversify the fixed income portion of your portfolio in non-traditional bond sectors. These investments have rebounded from the March lows and produce a very attractive income stream with yields over 4% compared with 0.70% for 10-year U.S. Treasuries.

Shorepoint's process is thoughtful, disciplined, and flexible. Please know that our team is working diligently to manage risk and returns as well as position your portfolio for the long-term. There are always reasons not to invest but staying the course usually wins out. We believe that appropriate portfolio diversification amongst asset classes can help buffer your portfolio from the ups and downs of market volatility. Looking back over the past 50 years, staying the course ended up being profitable, and we believe long-term investors will continue to be rewarded as they have throughout history. We appreciate your support during this tough time, and we are here for you. This too shall pass.