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Asset Management • Retirement, Tax and Estate Planning • Fee Only • No Commissions • Independent Advisor

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Here is our newsletter for the 3rd Quarter of 2020

The Markets Update

All asset classes here in the U.S. and around the world had a very strong quarter. The only bad news was cash returns went back to close to zero, as the Federal Reserve enacted a close to zero interest rate policy in reaction to the Coronavirus.

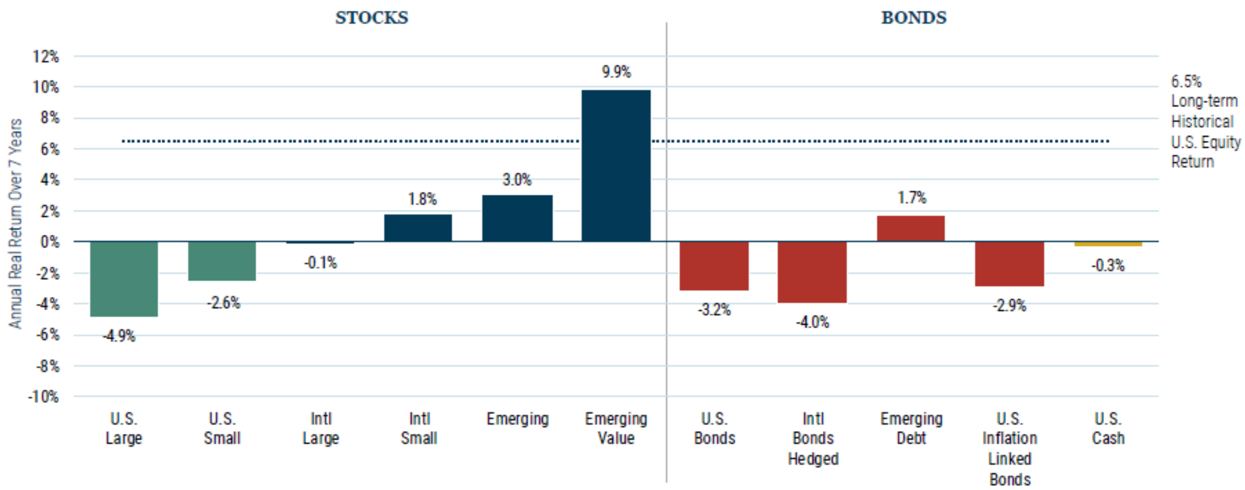
For the year, most asset classes are still down. Continuing a multi-year trend, U.S. large cap performed the best in the equity space, while commodities continue to do poorly. U.S. intermediate-term bonds and TIPS were the winners at a 6.1% return.

Asset Class Returns- Ending 6/30/20		
Asset Class	**1st Qtr**	**Year To Date**
US Large Cap Stock	20.5	-3.1
US Small Cap Stock	25.4	-13.0
Foreign -Developed Mkts Stock	14.9	-11.4
Emerging Mkts Stock	19.9	-9.5
US Intermediate-Term Bond	2.9	6.1
Emerging Markets Local Bond	10.6	-8.3
High Yield Bond	8.4	-5.5
Inflation-Protected Bond (TIPS)	4.3	6.1
Cash	0.1	0.5
US Real Estate	13.4	-13.9
Commodities	8.9	-22.9

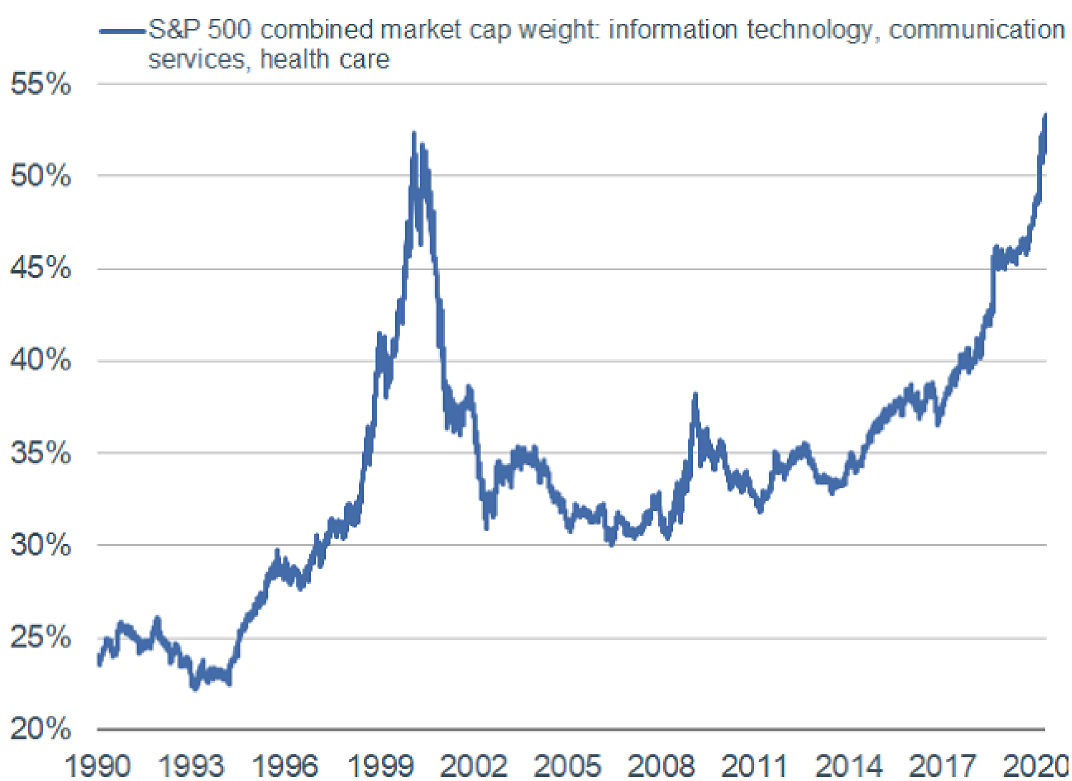
While the markets have recovered most of the downdraft, we are still advising caution. In this election year we should not be surprised that both political parties are falling over themselves to see how much money they can drop into the economy. Even the Federal Reserve seems to think (and even said it) that there is no limit to how much money they can print to help fund businesses, the housing market and individuals. While it is keeping the economy from falling into a deeper recession it still does not address the virus or the problems it has highlighted in our country. Nobody knows what will happen, but my advice on what to do with any funds recived is to save and pay down debt.

Market Valuations

Here is an update of projected asset class return on average over the next 7 years from GMO as of the end of May. These are real returns after 2.2% inflation. Few assets (stocks, bonds or cash) offer prospects for great returns or even beating inflation. The spread between U. S. and overseas stocks has been widening for many years. . This gap between U.S and overseas stocks has never been wider. One of these years the cycle will end and reverse, as it always has in the past. This is why we will continue to invest all over the world, especially in the emerging markets.



Another characteristic of the U.S. stock market is the increasing concentration in a few sectors and individual stocks. Microsoft, Apple, Amazon, Facebook and Google (Alphabet) now make up 22% of the total value of the S&P 500 Index. The Technology, Communications and Health Care sectors make up for over 50% of the total market. This concentration happened once before per the chart below back in 2000 during the Tech bubble. I'm not trying to equate 2000 with today as the companies doing well now are growing rapidly <u>and</u> are highly profitable. Nevertheless it does show an increasing risk to the markets in that just a few companies are dominating the economy.



History also shows us that the largest companies usually do not continue to dominate forever. I pulled out a study done in 2004 by Rob Arnott which showed that the largest stock underperformed the market over the next five years 75% of the time. Here is the recent history of the largest stock over time.

- 1990 IBM
- 2000 GE
- 2010 Exxon
- Today Microsoft

Today none of the previous biggest are even in the top 10. GE isn't even in the S&P 500. So, my point with all of this is the following: don't fall in love with a stock because it has done well in the past even 10 years. Things change. Keep diversified. Yes, everything digital and virtual is doing great now, but it will not always be that way. Competition, public perception and anti-trust actions can turn today's winners into tomorrow's losers.

GoodRx

I usually have little interest in all the discount cards, coupons and other what I consider junk that come my way. Just don't want to fill up my wallet or phone with all the clutter. However, I did use one at the urging of my doctor. He subscribed a medication which I thought my prescription drug insurance covered (per their website). When I showed up at the pharmacy they said my cost is $1,200. After saying no thank you I got the GoodRx card and my cost was $20. So even if you think you have good coverage, get one.

What Makes a Happy Retirement?

5 years ago I wrote about what makes for a happy retirement I think it is a good time to highlight, whether you are looking forward or in retirement. I mentioned a new book "You Can Retire Sooner Than You Think" by Wes Moss. His main point is to detail all the factors that affect our happiness. So here are 7 major factors that his survey identifies based upon answers received from over 1,200 retirees and soon to be retirees.

1. Retirees' happiness hit a wall once they reach $500,000 in savings. Happiness skyrocketed for those who saved $500,000 vs. those who saved only $100,000. A similar plateau occurs for those who spend over $4,500 per month.
2. Happy retirees fill their time with 3 or 4 core pursuits. On average, happy retirees participated in almost twice as many core pursuits than their unhappy counterparts (3.6 vs. 1.9).
3. Happy retirees pay off their mortgage early. Now is an even better time to consider this.
4. Happy retirees have at least 2 to 3 sources of income in retirement (Social Security, pension, investment, real estate and part-time work). Unhappy retirees have between 1 and 2 income streams.
5. Happy retirees are "masters of the middle" in that they live off of $53,000 a year, which is close to the average national household income. Happy retirees shopping tastes were modest. "They aren't super, uber frugal, but they aren't shopping at thrift stores either".
6. Happy retirees spend at least 5 hours a year planning for retirement. Nearly half of unhappy retirees said they weren't satisfied with how much thought they put into retirement.

7. Happy retirees are more likely to be married. 76% of happy retirees were married vs. less than half for unhappy retirees. This agrees well with other surveys about happiness of married and single people. This also agrees well with my own experience (but your results could vary).

Thanks for reading and I hope all is well with you and yours during this challenging time. Let me know when I can help with anything.

Sincerely,

Stan Johnson
Comprehensive Financial Planning, LLC
Registered Investment Advisor
NAPFA Registered Financial Advisor