"Investment News for the Educated Investor"

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THE ALOOF/MATTOS REPORT

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Positive Territory

The battle versus COVID-19 continues. The spread in some of the recent hotspots like California and Florida is slowing, while states in the Northeast and Midwest are now experiencing increases in cases. According to the World Health Organization, 27 vaccines are in human trials, and the chances of an approved vaccine by late this year or early next year are quite high. We continue to side with scientists and humankind's resolve, as the entire world is working together, and we believe we will beat this latest adversary.

In good news, the S&P 500 Index has moved into positive territory for the year (as of August 5) after being down more than 30% in March, making 2020 one of the largest reversal years ever. Going back to 1950, however, August and September historically have been the two worst months of the year for stocks. In addition, signs of recent weakening in the job market, based on stubbornly high jobless claims, combined with evidence of reduced consumer mobility from several high-frequency data points suggest the stage could be set for stocks to take a well-deserved break.

At the July 29 Federal Open Market Committee meeting, Federal Reserve (Fed) Chair Jerome Powell made it very clear that the Fed has additional tools to support the recovery, and that low interest rates may be here to stay well beyond this year and next. The economy has improved off the March lows, but it isn't near the record-breaking levels we saw earlier this year. Powell also noted that further relief from Congress was "essential" to help support the economy.

Meanwhile, Congress is inching closer to a new COVID-19 relief bill, but parties remain at odds over several key elements. Although the two sides appear far apart, we expect a deal may likely be struck at the eleventh hour—consistent with typical Washington theater. At this time, we expect Congress to agree to a stimulus package in the neighborhood of $1.5 trillion, bringing the total US fiscal stimulus to more than $4 trillion. Signs that the economic recovery may be leveling off have not prevented corporate America from delivering earnings well above expectations. Leaders like Apple, Amazon, and Facebook

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reported extremely strong results in the second quarter, helping these influential stocks move significantly higher. FactSet consensus estimates of future earnings have ticked higher as well, suggesting corporate America may be confident in the eventual economic rebound.

Baseball Hall of Fame catcher Yogi Berra said, "If you torture numbers enough, they will tell you anything," which fits well with what we're seeing right now in 2020. Some data appears good, while some data appears troubling. This journey is not over yet, and there may be more twists and turns before society and the economy can fully recover from COVID-19. But like all journeys, this one has an end date, and we will get there.

Until then, please remain diligent and strong, and we encourage you to contact us if you have any questions.

Election 2020:

Historically, when a president has been up for reelection, it has tended to boost stocks. So, it isn't about Republican or Democrat — it's about trying to boost the economy and stock prices by the time voters go to the polls.

History also shows that the US economy has major bearings on the presidential election outcomes. If there has been a recession during the year or two before the election, the incumbent president has tended to lose. If there has been no recession ahead of the election, the incumbent president has tended to win. In fact, the economy has incredibly predicted the winning president every year going back to President Calvin Coolidge in 1924.

In addition, how stocks perform the three months ahead of the election has delivered a solid track record of deciding who will be in the White House the next January. The S&P 500 has predicted every presidential election winner since 1984, and 87% of the winners since 1928, with stocks favoring the incumbent party if stocks are higher in the three-month period before the election. As the chart shows, if stocks sell off ahead of the election, the opposition party has tended to win and the incumbent party has lost. Our analysis suggests the 2020 presidential race is still up in the air.

Investing Reminders from Dave & Jerry:

Market volatility is an inevitable part of investing.
If we never had market sell-offs, we wouldn't have as much opportunity to see returns.

Markets trend upward. While the past can't tell us what the future holds, the past 30 years have had upward-moving markets despite recessions. It makes sense that this would continue since investors see opportunity in undervalued stocks.

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Trying to time the markets may not end well. If you sell out of the market during a decrease, you "lock in your loss," because unless you buy back in at just the right time, it can be difficult to to recover the amount you lose—and the very best days tend to happen right after the very worst ones.*

Understand your strategy. Your strategy was designed for your specific goals, timeline, and risk tolerance.

Review your needs and goals. This is a great time to determine if your goals and objectives remain the same, or if they've shifted, requiring an update to your strategy.

Stick to your strategy. Your strategy was built for your individual time horizon, and sticking to it will position you to work toward your goals.

Why staying invested makes a difference. Since 1990, there were 23 other events where the markets declined 10% or more. Yet despite these declines, the annualized return for the S&P 500 Index from 1990 to 2019 was 7.7%. If all you missed was the best day in each year during that time period, your return would've dropped to 3.9%. Miss the best two days of each year, and you were up less than 1% a year. If you missed the best 20 days of each year, you'd be down 27% per year!

** There are six examples in the S&P 500 since 1987 of deep declines that were followed within 10 days by big moves to the upside. The S&P 500 is generally considered representative of the U.S. stock market. Past performance is no guarantee of future results.*