

THIS ISSUE

Please Remain Seated

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Market Diary

It's a Marathon, Not a Sprint

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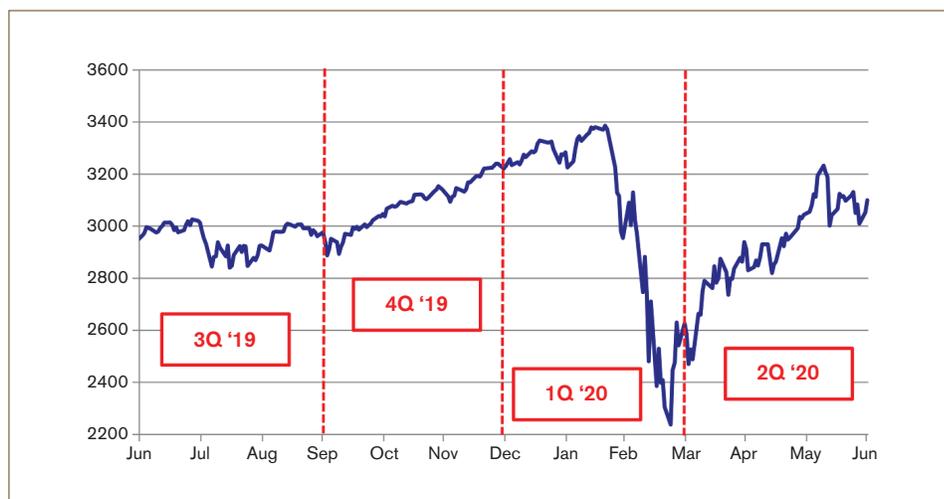
The S&P 500 year-to-date total return is -3.09% as of June 30. Armed only with that information one might conclude this year is shaping up to be a dull one, especially following the spectacular returns of 2019. We know better. Markets staged historic rebounds in the second quarter driven by an initial peak in the growth of coronavirus infections in April, economic reopenings across the United States and the rest of the world, hopes for a COVID-19 vaccine and continued stimulus from global central banks.

In fact, it has been a year of superlatives:

- The first bear market and recession caused by a government-mandated shutdown of the economy
- Nearly 25 million U.S. workers lost their jobs in a matter of weeks
- The shortest bear market associated with a recession – 4 weeks
- The Fed's balance sheet exceeds \$7 trillion, up from \$4 trillion at the end of 2019
- The Federal budget deficit for fiscal 2020 is now expected to be \$3.8 trillion, up from an \$800 billion estimate in January
- Gold rises to multi-year highs despite a relatively stable dollar and subdued inflation

It clearly has not been a dull year. The S&P 500 reached its all-time high early in the first quarter and then plunged more than 30% at the end of that quarter. The stock market then staged the biggest second-quarter rally in years. See the chart below.

S&P 500



Source: Strategas

“In the real world, things generally fluctuate between ‘pretty good’ and ‘not so hot.’ But in the world of investing, perception often swings between ‘flawless’ to ‘hopeless.’”

– Howard Marks

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How does this square with the unresolved global reaction to the spread of COVID-19 that has driven the global economy into recession and forced millions of people into unemployment? Equity markets price stocks not on the past but on collective best-estimates of what is to come. Market levels often discount the future economy by approximately six months. After all, this is why the stock market itself is a major component of the leading economic indicators. The market is discounting a recovery while the data above reflect history.

As we write in early July, the economy has been at least partially re-opened in most places around the world. There is optimism while, at the same time, a spike in new COVID-19 cases is causing concern. Many vaccine candidates are in development and testing, yet there is a worry that the virus can mutate quickly, rendering vaccines ineffective. The markets seem to be leveling off for now. Could that reflect these worries, or is it just a normal consolidation of the huge second-quarter gains? We don't know. Our experience tells us that summer months often bring doldrums to the markets.

We note the markets are not yet indicating a full recovery. There are several reasons why equities could falter in the next few months:

- A second wave of the virus causes another shutdown
- Additional layoffs
- A COVID-19 vaccine is delayed or fails to work
- A policy mistake from the Fed, e.g. negative interest rates
- Tax and spending uncertainties associated with the results of the November election

Yet, we think the Fed will continue to ease aggressively and more fiscal stimulus from the Federal government is likely.

We know that past performance is not indicative of future results, but history has shown that a long-term approach combined with a well-designed and well-executed investment strategy can overcome periods of heightened volatility, market corrections and even bear markets. We have seen that so far in 2020. Even in this time of remote work and social distancing, we continue to work on your behalf and remain available and eager to meet with you via Zoom, Microsoft Teams, email and old-fashioned telephones.

Market Diary Period Ending June 30, 2020

RATES OF RETURN

FIXED INCOME	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
90 Day U.S. Treasury Bills	0.03	0.29	1.19	1.62	1.11	0.58
Barclays Aggregate	2.90	6.14	8.70	5.34	4.31	3.83
Barclays Municipals	2.69	2.12	3.82	3.30	2.97	3.10
Barclays High Yield	10.18	-3.80	0.03	3.34	4.79	6.69
EQUITIES	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Global Stock Market (MSCI All Country World)	19.22	-6.25	2.10	6.15	6.46	9.16
U.S. Stock Market (S&P 500)	20.54	-3.08	7.47	10.76	10.74	14.00
U.S. Mid-Cap Stocks (S&P 400)	24.07	-12.78	-6.67	2.40	5.22	11.35
U.S. Small-Cap Stocks (S&P 600)	21.94	-17.85	-11.24	0.56	4.48	11.25
International Stocks (MSCI AC World ex US)	16.12	-11.00	-4.78	1.14	2.26	4.98
ALTERNATIVES	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Hedge Funds (Wilshire Liquid Alternatives)	5.59	-3.40	-1.49	0.52	0.49	1.57
Commodities (Bloomberg Commodity)	5.04	-19.67	-18.36	-7.71	-8.75	-6.39
Gold (S&P GSCI Gold Total Return)	12.07	17.13	25.55	12.20	8.08	3.43

Rates of Return for periods longer than 12 months are annualized. Data is provided by Black Diamond.

IT'S A MARATHON, NOT A SPRINT

In 1984, Joan Benoit Samuelson won the first-ever Olympic women's marathon in Los Angeles. In the five years prior, she won two Boston Marathons (her 1983 finish resulting in a world record). Impressed yet? Throughout her running career, Benoit Samuelson placed first in a total of eleven marathons.¹ To say that this incredible woman knew how to compete in a race would be an understatement.

Many of the strategies employed by successful marathon runners like Benoit Samuelson can also be applied to building a solid financial plan:

1. Find the right coaches (advisors)

Before running their very first training run, most Olympic marathoners enlist the guidance of a coach. For Benoit Samuelson, it was Bob Sevene. In a 2019 interview, she said that Sevene "understood that every athlete comes to the sport with different objectives and goals and knew how to schedule workouts appropriately."²

Similarly, your team of advisors should take the time to get to know you, understand your unique goals and constraints and help you put together a long-term plan for success. Much like a marathon training plan is an ongoing process, your financial plan is not a single deliverable. Your advisors should be working together to continually fine tune your plan in response to inevitable life changes, market conditions and any relevant legal or tax code revisions.

2. Define the finish line

Not only does the runner need to know the physical location of the finish line, but they often will set a specific aim for each race. Perhaps finishing in the top ten, a time they are trying to beat or maintaining a consistent pace throughout the race. In last year's Boston Marathon, Benoit Samuelson set a goal to finish within forty minutes of her winning time of 2:35.35 from forty years earlier (1979). At the age of 61, she accomplished her goal and finished in 3:04.³

This step is critical. Without awareness of what your finish line looks like, you could find yourself wandering aimlessly or unknowingly run right past it. Identifying your "financial finish line" could take on many forms, such as creating a legacy for future generations or establishing a foundation to support causes your family is passionate about. When defining your finish line by spelling out your goals, specificity is imperative. The more ambiguous we are, the less tangible our goals become. Chances are your finish line is a combination of different objectives. The essential task lies in both discussing and defining your goals with those critical to accomplishing them – likely family members and advisors.

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3. Become familiar with the course

It is advantageous for a runner to become familiar with the course ahead of race day. Some will analyze it for months on end – making sure they know every turn, incline, weather patterns, any detail that could negatively affect their outcome. To prepare for the Los Angeles Olympic marathon held in early August, Benoit Samuelson specifically trained during the hottest part of the day throughout the summer.⁴

Once you have your finish line in focus, begin to understand what your course will look like. This is best accomplished with the help of your advisors. They are your (hypothetical) topographers, meteorologists and civil engineers – understanding the intricate details of any racing course. Offering guidance on components such as your investment allocation, estate plan and tax mitigation strategies, your advisors can bring attention to those things that may impact your finish line and provide tools to deal with potential risks and setbacks.

Reflecting on her 1984 Olympics victory, Benoit Samuelson said, “it’s very important to run your own race and not anybody else’s.”⁵ This holds true for all facets of your financial “marathon.” By finding trusted advisors, defining your personal finish line and becoming familiar with the course, you will be on track to run – and win – your own race.

¹ “World Athletics: Joan Benoit-Samelson: Profile.” Worldathletics.org, www.worldathletics.org/athletes/united-states/joan-samuelson-14355800.

² #16 - The WRCC Joan Benoit Samuelson.” Women’s Running Coaches Collective, 31 Jan. 2019, www.womensrunningcoaches.org/whats-new/15-the-wrcc-joan-benoit-samuelson.

³ Pelletier, Justin. “Joan Benoit Samuelson Attains Boston Marathon Goal.” Boston Herald, Boston Herald, 16 Apr. 2019, www.bostonherald.com/2019/04/16/joan-benoit-samuelson-attains-boston-marathon-goal/#:~:text=This%20year%20at%20the%20Boston,%2C%20which%20was%202%3A35.35.

⁴ “Joan Benoit Samuelson - A Born Athlete.” A Born Athlete - Marathon, Women, Boston, and Olympic - JRank Articles, www.sports.jrank.org/pages/418/Benoit-Samuelson-Joan-Born-Athlete.html.

⁵ Spivey, Whitney. “9 Questions with Joan Benoit Samuelson.” Outside Online, Outside Magazine, 30 July 2014, www.outsideonline.com/1924846/9-questions-joan-benoit-samuelson.

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