

Atherean

Wealth Management, LLC

121 Newark Avenue, Suite 531
Jersey City, NJ 07302
Ph: 347-409-1499
cgetting@atherean.com
<http://www.atherean.com>

July 31, 2020

Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending June 30, 2020, a summary of your investment objectives and target asset allocation as per our records, and an investment advisory fee statement for the third quarter of 2020. It is important that you review your investment objectives and target asset allocation and let us know if any of it is incorrect or if there are any changes to your overall financial profile.

We have changed the format of our portfolio summary reports from this quarter going forward: we now show a more simplified view of your asset allocation than we have in the past. In the new format we show your portfolio broken down into the three asset classes of equity, fixed income, and cash, which is considerably simpler than our previous report format where we broke down each of these three major asset classes into further categories and granularity related to style, market capitalization, geography and economic sectors. We have also added performance reporting which shows your portfolio's performance in comparison to the performance of several equity market indices which serve as benchmarks. We have chosen as benchmarks equity market indices which we believe are representative of the asset classes which we use to build your portfolio. We no longer list the individual positions in your accounts. For a full report of the holdings in your accounts we encourage you to refer to your statements generated by the custodian.

Fiscal and Monetary Actions

Central banks around the world continue their "yield curve control" measures with the aim toward maintaining healthy credit markets through monetary actions. In the U.S. the spread between the 10 year treasury and the 2 year treasury was at 48 bps as of the writing of this letter, and we consider this upward sloping yield curve to be a positive leading indicator for the overall economy. At this point in time we believe that there is more uncertainty surrounding future fiscal policy than there is surrounding future monetary policy. The Fed's message has been consistent throughout the COVID crisis – that it will continue to do whatever is necessary in whatever quantities and magnitude are necessary to maintain liquidity in the credit markets. On the fiscal side the outlook is more uncertain. As of today the next phase of fiscal stimulus, likely to exceed \$1T, is being vigorously debated in senate and house committees and subcommittees. We believe that the results of the upcoming presidential, gubernatorial, and congressional elections will be a large determinant in fiscal and tax policy for the upcoming years.

Equity, Fixed Income and Commodity Markets

Needless to say we have seen “second waves” of COVID-19 in multiple regions throughout the United States which began during the reopening in June, and we remain vigilant about the possibility of additional, local pockets of shutdowns in the economy. The possibility of widespread shutdowns having major systematic impacts on the U.S. economy remains uncertain. Although overall market performance in the next few quarters is, as always, difficult to predict, we believe that, absent another major unexpected event causing a shock to the financial markets, there is a relatively high probability that the COVID-19 related extreme market volatility which we witnessed in February, March and April is for the most part behind us. The actions of the Fed over the past few months have had the desired effect of soothing the credit markets and in turn the equity markets. The Chicago Board Options Exchange S&P 500 Volatility Index (“VIX”) has now pulled back to a level of about 25 as of the writing of this letter, a level considerably below the high of 85 reached in late March (see Figure 1 in the *Appendix* for more detail). To put the current VIX level in perspective, it has been exceeded several times - on five separate occasions since the 2008 financial crisis. Year to date as of the writing of this letter the S&P 500 index is up about 1%, the MSCI EAFE (Europe, Australasia and Far East) index is down about 8%, and the S&P 1000 index is down about 12% on a total return basis¹. Needless to say it has been a difficult year overall for equity markets throughout the world.

Economic Review and Outlook

As of the writing of this letter, the GDP results for the third quarter were just released and the U.S. economy contracted at a rate of -34.3% annualized, slightly worse than the Federal Reserve Bank of Atlanta’s most recent estimate of -32.1% annualized. This corresponds with total annualized output of \$17.2T in the second quarter (see Figure 2 in the *Appendix* for more detail). This is indeed the largest economic contraction, on a percentage basis, since records began being tabulated just after World War II. To put this number in perspective, the U.S. economy produced roughly the same level of output, on an annualized basis, in the first quarter of 2015, five years prior. Despite these negative trailing results, there are many encouraging signs for the next few quarters. In earnings results and presentations over the past few weeks payment processing companies Visa and Discover reported that their transaction volumes for the first part of July are very close to where they were a year ago. We are continuing to see a shifting and repositioning of overall consumer spending from some sectors (for example, travel and entertainment) to other sectors (such as groceries and retail).

Portfolio Management

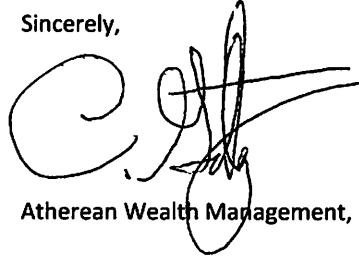
As far as individual stock go, in the retail sector we have been focusing on companies with strong balance sheets, low debt, high credit ratings and solid brands relative to their peers, as we believe that in this sector the strong companies which survive will capture most of the market share post pandemic. In the technology sector, whose growth has been higher than GDP, we are focussed on companies which are reasonably priced and whose business segments are growing faster than the technology sector as a whole. In the financial sector we have been focusing on best in class banks and insurers with strong underwriting standards and stable funding sources. In other non financial industries where financial leverage is unavoidable, such as real estate, we have been focusing on businesses with low fixed and SG&A costs and high net margins relative to their peers. As always, when purchasing individual stocks, we take positions in the equity securities of companies

¹ We are changing some of the U.S. equity indices which we utilize as benchmarks for the portfolios that we manage. We are in the process of retiring our usage of the Russell 2000 small cap index, which we have used for the past few years, and introducing the S&P 1000 index in its place. The S&P 1000 index is a free float, market capitalization weighted proportionate aggregation of the S&P 600 small cap index and the S&P 400 mid cap index. Together, the S&P 500 index and the S&P 1000 index (which can be further aggregated to form the S&P 1500 index) represent a thorough, complete, capitalization weighted representation of U.S. equity markets

which we perceive to be undervalued on an absolute value basis. We typically rely primarily on free cash flow models to generate our valuation opinions in this respect, and use very conservative assumptions with respect to required rates of return and projected free cash flow growth rates.

Hope you are safe and well. As always, feel free to reach out via phone or email if you would like to review your portfolio, discuss your financial plan, or have any other questions or concerns.

Sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a series of loops and a long horizontal stroke extending to the right.

Atherean Wealth Management, LLC

Appendix

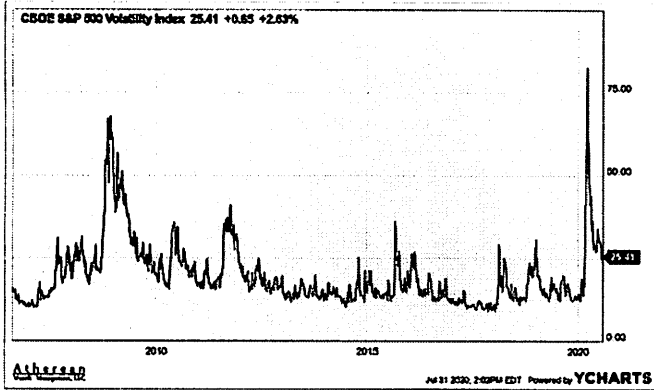


Figure 1: : CBOE S&P 500 Volatility Index
July 2006 – Present(source: YCharts, Chicago Board Options Exchange)

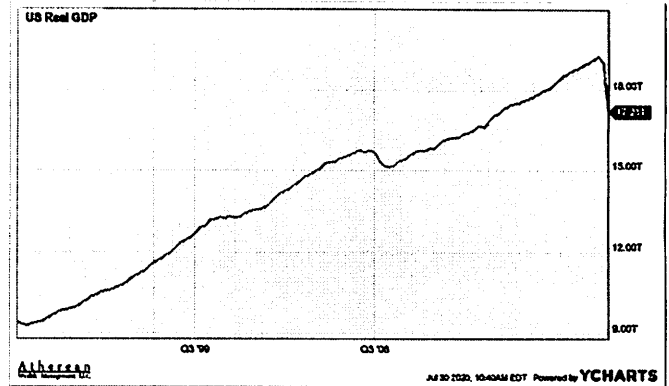


Figure 2: U.S. Real GDP
Q2 1990 – Present (source: YCharts, U.S. Bureau of Economic Analysis)