SUMMER 2020

Investment Commentary

A Socially Distant World 2.0

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WEALTH MANAGEMENT

A Socially Distant World 2.0

As we all look for a return to some form of normalcy, we hope this commentary continues to find you and your loved ones in good health.

While we have come a long way since the depths of lockdowns and panic, new issues arising over the last few months have grabbed our attention. We are still struggling with the news about racial injustices and a growing wealth gap in our country.

At Withum Wealth, we remain committed to creating and embracing change.

We are proud of our hiring practices, volunteerism, board affiliations, philanthropic efforts and community involvement. We will continue to practice and improve upon our ESG focus...we want to own companies that share our values. For example, there is an abundance of research that confirms publicly traded companies that include a diversified board produce significant long-term outperformance relative to a non-diversified, homogenous board.

After Every Bear Market, Comes a New Bull

In February, we saw the end of a phenomenal bull market run that originated in the depths of the 2008/2009 financial crisis. We witnessed one of the fastest, sharpest selloffs in market history as the global economy ground to a halt in response to Coronavirus lockdowns.

At that point, there were many unknowns: How does this virus spread? What can we do to stop it? Can people continue going to work? The market attempted to process this information and price the potential impact of such a massive and wide-scale halt to economic activity, dropping ~35% from peak to trough in just over one month.

The ensuing months, and this past quarter, saw a quick shift to optimism as cases began to peak in April and local economies and cities outlined plans for "re-opening". Now we find ourselves with what looks like a bottoming of terrible economic data, mixed with concerns of a resurgence in cases across parts of the country. The rally this past quarter was also one for the record books. Markets have rallied back at one of the fastest rates ever, with some indices rebounding over 50% from their lows. The tech-heavy Nasdaq 100 even hit fresh all-time highs, recovering fully from its March drop.

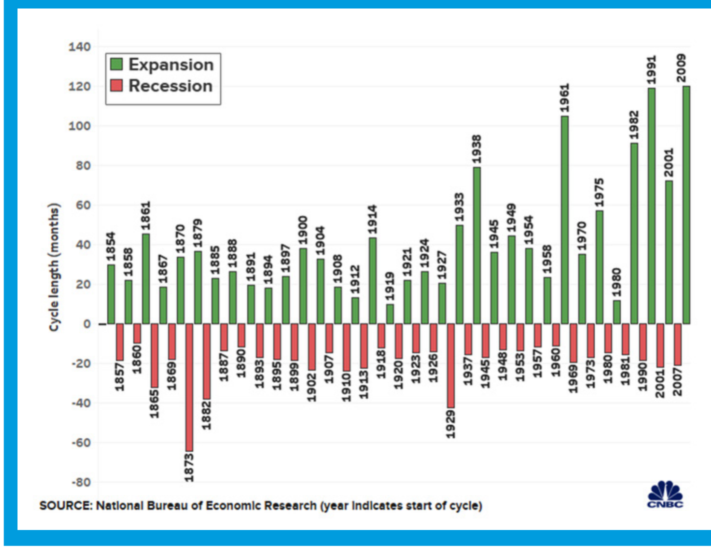
As there are some reasons to be optimistic, we also need to be wary of elevated uncertainty and mindful of more volatility through the remainder of this year. We will have many eye-catching headlines that may move markets. The continued successes or setbacks of a unified, global effort to find a vaccine will remain key to the path forward. Rioting and protesting across every state has been worrisome. Rumors of border disputes between North & South Korea and India & China should be added to the list of geopolitical concerns. November will also bring a presidential election (a bit more on this later) that could impact markets. There is no shortage of reasons to be cautious, but after all, bull markets do climb a wall of worry—the ascent is just less obvious until you reach a new plateau.

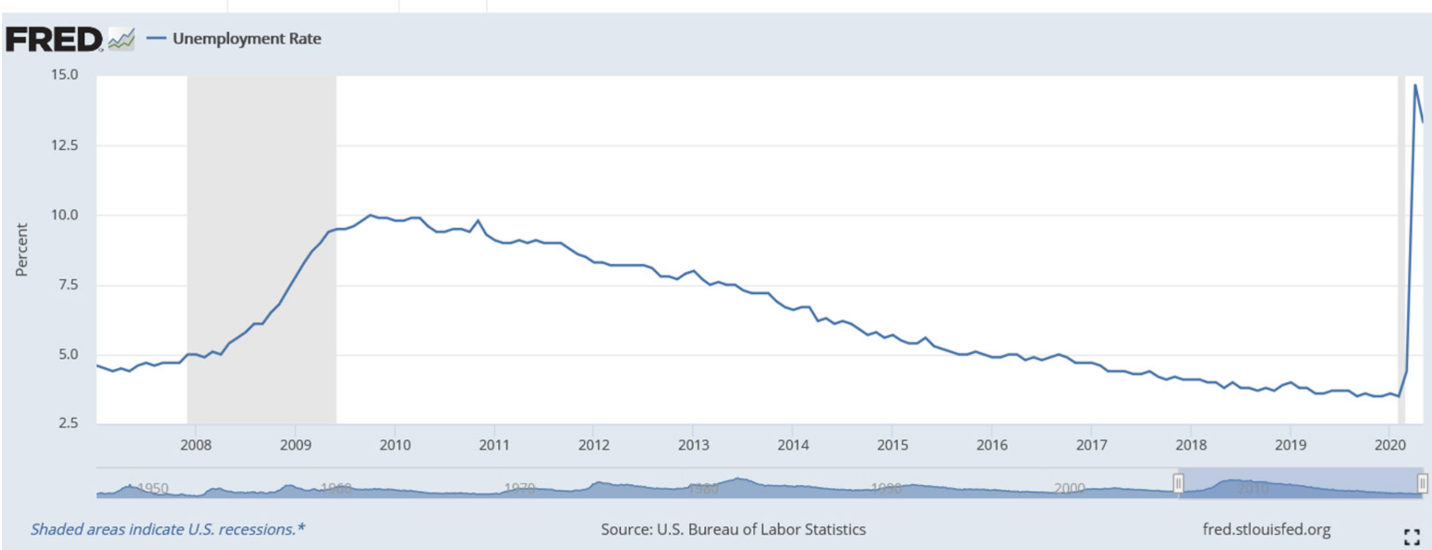
Recession is Upon Us

During the second quarter, the National Bureau of Economic Research announced that the Unites States economy officially entered a recession in February. This recession ended the longest recorded economic expansion, lasting a full 10 years and 8 months.

As expected, the recent economic data has been mostly negative. May saw unemployment figures exceed 14%, erasing the number of new jobs created since 2009. Q1 GDP 's final revision was to -5% and Q2 will likely be much worse, with estimates as bad as -50% GDP (Atlanta Fed GDP Tracker in June). States are doing their best to "re-open" in phases, while being cautious to control any further outbreaks of COVID-19 as a "second wave" could be as disastrous as the first. One thing is certain though, the Federal Reserve and US Government have shown their willingness to inject trillions of stimulus dollars into various monetary and fiscal policy programs. This "backstop" should help buoy markets in the short run if there are more shutdowns ahead.

The Longest US Expansion In History





Robin Hood Euphoria

This quarter also brought many newsworthy stories of the rise of retail day traders dabbling in stock trading as well as the complex and sometimes very risky world of options. With everyone stuck at home, stimulus checks in hand and no sports to gamble on, many novice investors decided to try their hand at day trading.

Goldman Sachs Investment Research reports that the percent of trading volume in the stock and options markets from small trades has increased significantly since January. Robinhood, a trading app that offers no commission trades and a simple video game style interface, had three million new accounts open in the first quarter, and half of those were first time investors.

Just as the legendary heroic outlaw stole from the rich and gave to the poor, novice investors made fools out of some of the most legendary Wall Street money managers. Stanley Druckenmiller, a famous hedge fund manager, said he has been "truly humbled by this rally" and his fund has rallied just 3% versus the 40% the market rallied from the lows through May. Warren Buffett even sold all of his airlines stocks at what currently stands as the bottom and wrong time to do so, causing David Portnoy, CEO of sports blog Barstool Sports, to call him "washed up" after starting his own livestream day trading show.

The single biggest example of "euphoria" during this time might be the performance of bankrupt stocks. Investors bid up shares of bankrupt Hertz stock from as low as $0.80/share to $6/share. The company used the unusual market to even apply with the SEC to issue more shares and raise capital to help with the bankruptcy. It has since scrapped this plan and the stock price has fallen, but this did not stop Robinhood day traders from piling in at the wrong time, only to lose badly as reality sunk in.

The point remains — investing requires patience, diligence and research and is not an easy road to maneuver.

November Uncertainty

We want to highlight some initial thoughts relating to the upcoming November election. Certainly, this will become front and center as we get closer to November, and we will expand on this topic in our third quarter letter.

Biden has emerged as the Democratic challenger to Trump. Polling suggests that COVID-19 and the economic fallout have taken their toll on the incumbent and there may be a changing tide sweeping the nation. While it is historically very difficult to upset an incumbent, the timing of this recession along with rising tensions from equality protests around the nation may be a significant factor in the upcoming election. A Democratic win in November could be viewed initially as poor for business conditions and the economy.

Clearly, some may find a rise in the corporate tax rate from 21% to 28% a headwind to corporate profitability. We are somewhat less concerned about the long-term impact this potential change might have on companies' valuations and profitability.

Times are Changing

Lastly, we would like to thank our clients. Your patience and understanding during the pandemic, kind words and notes, referrals and additional funding of accounts during these times are rightly viewed as a tremendous vote of confidence. We thank you for allowing us to stay on plan and be opportunistic with your portfolios.

As stewards of your wealth, we are very proud to work with you. We have been diligently monitoring investments, identifying opportunities and revisiting your financial planning needs. As we evolve with the times and look for different ways to stay in touch, we now have capabilities for virtual meetings, podcasts and timely webinars. We look forward to seeing you soon in person or virtually. As always if you have questions or concerns, we are here for you.

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Need More Information? Please do not hesitate to contact a member of the Withum Wealth Management Team with any questions or concerns:

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