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Nearly six months after the large waterfall drop of equity prices in March, most broad indexes have found their way to a better place. For the third quarter, the Dow Jones Industrial Average (DJIA) advanced over 7% and the S&P 500 index (S&P 500) rose over 8%. Although the quarter was strong, the month of September brought these two major indexes their first negative returns since March. For September, the DJIA moved over 2% lower, while the S&P 500 was down almost 4%. Many media outlets reported that the late September decline was because developments on Capitol Hill overshadowed the positive data on housing and jobs that had been a focus for much of the quarter. ***(Source: MarketWatch 9/30/2020)***

Positive signs for the quarter included the fact that home-contract signings were at a record high in August, according to the National Association of Realtors. Also, Automatic Data Processing said 749,000 private-sector jobs had been created in September, ahead of estimates for a gain of 650,000 and the strongest reading in three months. ***(Source: MarketWatch 9/30/2020)***

Not all the statistics released this quarter were healthy. For example, the Commerce Department revealed on September 29th that personal income—a measure of what Americans received from salaries, investments, and government assistance programs—fell 2.7% in August from a month earlier. The data showed that this decline was due entirely to a drop in unemployment benefits. While the quarter included many inconsistent data points, the overriding theme for many investors is that there is still a high degree of concern as we await more positive news on potential coronavirus treatments. ***(Source: Wall Street Journal 10/1/2020)***

MONEY RATES (as posted in Barron's 10/5/2020)		
	LATEST WEEK	**YR AGO**
Fed Funds Rate (Avg. weekly auction -c)	**0.09%**	**1.88%**
Bank Money Market -z	**0.10%**	**0.22%**
12-month Cert -z	**0.27%**	**0.82%**

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

Key Points

1. **Equity markets had strong results for the third quarter.**
2. **Interest rates are still in the spotlight as the Fed says they will keep rates near 0% till 2023.**
3. **Unemployment strengthened, but the economy is still challenging.**
4. **The U.S. political situation adds to the current environment of uncertainty.**
5. **Investors should fully commit to realistic time horizons.**
6. **Now is the ideal time to revisit your personal objectives and the strategies to achieve them.**
7. ***Call us with any questions.***

The Federal Reserve has pledged to keep interest rates low for years and so the days of relying on strong returns from money market accounts and certificates of deposit may be in the rear-view mirror. While many investors this quarter enjoyed a nice rise in equity prices, some analysts caution that based on historical numbers, like price earnings, the case can be made that equities are highly overvalued and overpriced. Others debate that with ultra-low interest rates and high levels of liquidity, equities are still attractive.

This quarterly update's goal is to focus on a few of the central themes for investors. With markets entering Fall, a time period that has historically been associated with heavy volatility, investors should consider focusing on their personal objectives and timeframes.

Interest Rates to Remain Low for Years

Changes in interest rates are still important for investors to watch because they can produce both positive and negative effects. At the Fed's September session, Federal Reserve Chairman Jerome Powell said that interest rates are likely to stay low for years as the economy continues to fight its way back from the coronavirus pandemic.

Powell said, "We think that the economy's going to need low interest rates, which support economic activity, for an extended period of time." He shared that the movement of this recovery, "will be measured in years." Powell acknowledged that the pace of jobs growth is rising faster than many people expected, but still indicated that it may take years before the economy has fully recovered. "However long it takes, we're going to be there. We're not going to prematurely withdraw the support that we think the economy needs," he added. ***(Source: Bloomberg 9/17/2020)***

Federal Reserve officials holding interest rates near zero and signaling that they would stay there for at least three years effectively means that the Fed will keep their key rate at or near 0% till 2023. With interest rates at record lows, income-seeking investors looking for decent yields could be disappointed.

The low interest rate environment has been described as a bonus for borrowers and a nightmare for income-oriented investors. **Interest rates will continue to stay near the top of our watchlist, but for now, the consensus appears to be that rates are going to be low for a long time.**

Interest rates are projected to stay near zero for years.

What does this mean for investors?

The Federal Reserve moved their benchmark Federal Funds rate to near zero and in September confirmed that it is likely to stay there until 2023.

This is the second time rates have been this low. The first was after the 2008 Global Financial Crisis, when they remained near 0% for seven years. This means that borrowing becomes cheaper for those who take out loans, but for savers it is not such good news.

Here are four ways the Fed's efforts to keep interest rates low could impact you.

1. Home Mortgages and Personal Loans

Low interest rates can certainly help when it comes to home financing. Fixed-rate mortgages have an interest rate locked in but anyone looking to buy or refinance can benefit from lower rates. This is true for all fixed-rate financial products, including car and personal loans. Those who are locked into a loan and are not able to refinance will not benefit from lower interest rates.

Homeowners with an adjustable-rate mortgage could have already seen their monthly payments decrease after the rate drop. **This could also be a good time to consider the benefits of changing to a fixed-rate loan if possible, so you can lock in a low interest rate and not worry about your mortgage payments going up in the future.**

2. Credit Card Debt

Many credit card issuers base their variable interest rates off of the prime rate. Since this rate is directly influenced by the Fed's benchmark, a rate cut could mean that credit card annual percentage rates (APRs) also drop. The benchmark rate has been low since March and unfortunately, a 1% drop won't make that big of a dent in your outstanding credit card balances. **This might be a good time to look at ways to reduce any credit card debt you have.**

3. Savings Accounts

If you have a high-yield savings account, this recent Fed announcement means you could see ultra-low rates for a long time. Most savings annual percentage yields fluctuate in accordance with the Fed rate. Therefore, they likely won't go back up until the Fed decides to raise the benchmark rate. A lower rate means that savers will earn less on their money. **Since March, interest rates on even the highest-yielding savings accounts have been less than 1% and many times closer to 0%.**

4. Income Investors

Income investors also see lower rates when the Federal Funds rates are near 0%. The idea that this this rate will be low for a long period of time requires income-oriented investors to carefully think through their personal strategies. This is an area where we can help you review your choices to hopefully meet your specific needs. **If you are concerned about your income requirements, please call us.**

If you would like to revisit your income needs and objectives and the strategies you can use to pursue them, please call us with any questions.

Unemployment

As a reminder, the decade since the end of the Great Recession in 2009 was one of historic economic growth in the United States. Over that period, the U.S. economy added about 20 million jobs and the unemployment rate hit its lowest level in decades. Then, Covid-19 devastated the U.S. work scene. The Covid-19 outbreak and the economic downturn it caused increased the ranks of unemployed Americans to more than 14% in April, from a historically low number of 6.2 million in February (a 3.5% rate).

August's 8.4% was a great improvement, but the current rate and Covid-19 uncertainties are still concerning. With millions of people still out of work and an enormous amount of uncertainty about the trajectory of the virus, it's easy to understand why investors should be concerned. **Unemployment still continues to be an area that should be monitored by investors.**

Economic and Political Concerns

The U.S. economy is the largest in the world and nearly 70% of it is driven by consumer spending. Analysts feel that until employment and wages increase, the U.S. economy will remain at best bogged down and at worst digging a deeper hole. ***(Source: USA Today 8/8/20)***

The U.S. Commerce Department reported on September 29th that the U.S. economy shrank by 31.4% in the second quarter. This result represents the largest drop in U.S. Gross Domestic Product (GDP) in a single quarter in history. The decline was more than three times as bad as the previous worst quarter in history, a 10% drop in the first quarter of 1958. The record second-quarter contraction follows a 5% drop in the first quarter.

Many economists are already shifting their attention to the third and fourth quarter's final results, when economists are expecting record growth due to the recovery from coronavirus pandemic shutdowns. They are anticipating 30% GDP growth in the third quarter, which would nearly double the previous record of 16.7% growth in the first quarter of 1950. ***(Source: USA Today 8/8/20)***

Some officials, such as Treasury Secretary Steve Mnuchin, have expressed optimism that the economy can rebound strongly. The Federal Reserve has stepped in aggressively to counter the damage effectively leaving interest rates at zero and injecting vast amounts

of cash into the banking system, while the stock market has remained relatively strong amid the pandemic.

Unlike during the Great Depression, the economic damage today is mostly the result of strict nationwide lockdowns as the nation grapples with the current public health emergency. One main concern is that there will be a long-lasting setback to the economy from the pandemic because some businesses will close permanently. Clothing retailers and restaurants are examples of businesses that cannot respond to a work from home economy and therefore many of them might never re-open their doors when the economy recovers.

The groups most affected by the current recession are the lower and middle class. The American economic dilemma is still the creation of jobs and economic growth.

Markets do not like uncertainty and today's political environment is certainly uncertain! The Presidential election and important Congressional races remain as one of the more talked about subjects in the world today. Our goal is to focus on facts and be watchful of how the political landscape could affect your investments. **Clearly, the economic and political results of the fourth quarter could affect an investors outlook, therefore, these are two more topics for us to monitor.**

Strategies for Investors During Market Volatility

While the reality of key economic indicators has been more negative than positive, the level of federal stimulus has already surpassed what was done during the last decades financial crisis. September included a downward market challenge that concerned many bullish investors but by quarter's end the "new" bull market remained intact. Uncertainties around a contentious political environment and the fact that October is historically the stock market's most volatile month requires long-term investors to prepare for the potential of increased market volatility.

Market downturns can be confusing and painful for investors. Many times, when investors suffer a sharp decline, it could feel like it's never going to end. Making emotional decisions during turbulent times can prove to be costly and problematic. A better strategy is to prepare and understand your time frames and risk tolerance.

One strategy for volatile times is to always understand your personal situation. You should consider planning your equity investments to maintain a long-term horizon. This strategy may allow you to ignore the short-term fluctuations. It could be best if you make your investment decisions on a non-emotional basis. If the daily swings in the stock market seem too chaotic, remember these movements are near impossible to fully predict. Therefore, for many investors there is no reason to even subject yourself to daily market headlines. If you have long-term investment outlook of at least five years, then any short-term volatility could pass before your time horizon.

Corrections are a part of the investing experience, so try to keep things in perspective. Market pullbacks (defined typically as between 5 and 10%), corrections (defined as 10 to 20%) and even bear markets (defined as 20% or more), are a normal part of the stock market cycle. Since 1950, the S&P 500 has undergone 37 separate stock market corrections of at least 10%, not including rounding (i.e., declines of 9.5% to 9.9%). Considering that there have been over 69 years since the beginning of 1950, this works out to a correction, on average, every 1.87 years.
(Source: The Motley Fool 5/2020)

Please remember that volatility and risk are not the same thing. When a stock is volatile, it means that it tends to make big moves (up or down). When a stock

Short-term movements of the market are unpredictable and do not abide by any average therefore it is always helpful to revisit and understand your financial goals and objectives.

is risky, it typically means that it can lose money (go down). In financial terms, risk is the potential permanent loss of money whereas volatility is how rapidly an investment tends to change in price. Volatility does not just imply risk of loss. Volatility simply refers to the price action. Some investments may be more volatile while others may be less. Equity investments as a category are much more volatile than a bank deposit, but that does not mean that an investor should avoid investments in equities. Just because an investment is more "volatile" does not necessarily mean it is "riskier" in the long term. Investors should always discuss with their financial professionals the potential of short-term volatility affecting the daily value of their investments and plan their investments accordingly.

Investors should always put their primary focus on their own personal goals and objectives. It is very important that you understand your situation and your financial plan. A wise strategy is to continue to proceed with caution while allocating your investments to match your risk tolerance.

We focus on YOUR personal goals and strategy.

Investor Outlook

Predicting short term changes in the equity markets is near impossible. Equities are primarily for long term investors. With interest rates near zero, investors who need returns should consider equities. With 5- and 10-year Treasury Notes yielding less than 1%, equities become even more noticeable on an investor's choice list.

Jeremy Siegel, the Wharton professor credited for predicting that the Dow Jones Industrial Average would surpass 20,000 in 2015, explained to CNBC in an interview on September 28th why he believes that the stock market, "is looking forward to a really good run" next year, regardless of who takes the White House. Siegel explained that the "tremendous burst of liquidity" from the Federal Reserve and Congress will continue to provide a huge tailwind for stocks. Siegel also added, "I think that uncertainty is going to continue to weigh onto the markets." ***(Source: Barron's 9/30/2020)***

Equity investors need to have realistic time horizons and return expectations. Markets could go down before up, or up then down. Equity investors need patience. It is always best to identify your goals and plan based on your situation and time frames. Remember, we always like to say that panic is not a plan! If you have carefully created a strategy with realistic financial goals, then try to not allow emotions or media magnification influence you to shift your approach.

This is a good time to heed to the words of legendary investor money manager Peter Lynch about understanding the unpredictable nature of investing.

"People who succeed in the stock market also accept periodic losses, setbacks, and unexpected occurrences.

Calamitous drops do not scare them out of the game."

ENTRY

Exit or Entry Point?

S&P 500 Largest Declines and Next 12-month Results (1987-2020)

EXIT

S&P 500s Largest Drops	Black Monday 8/25/87 to 12/4/87	Gulf War 7/16/90 to 10/11/90	Asia Monetary Crisis 7/17/98 to 8/31/98	Tech Bubble 3/27/00 to 10/9/02	Financial Crisis 10/9/07 to 3/9/09	U.S. Credit Downgrade 3/10/11 to 10/3/11	Trade War 10/3/18 to 12/24/18	Global COVID-19 Outbreak 2/19/20 to 3/23/20
Decline	-33.5%	-19.9%	-19.3%	-49.0%	-56.8%	-19.0%	-19.6%	-33.8%
Next 12 months	+21.4%	+29.1%	+37.9%	+33.7%	+68.6%	+32.0%	+37.1%	?

Sources: BlackRock and Morningstar, March 2020. Returns are principal only and do not include dividends. Past performance is not a reliable indicator of current or future results. This chart is for illustrative purposes only.

As this chart shares, since 1987 there have been several large declines in the S&P 500. It also shares that 12 months later the equity market had moved to a better place. While past performance is not considered an indication of future performance, this information confirms that panicking and selling after a decline might not be the best idea.

Many investors get nervous when markets decline, while others view it as an entry point for new or additional funds. We enjoy discussing strategies and approaches to investing with our clients.

Please call us to discuss your plan.

"Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down." - Warren Buffet

We are here for you!

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance, please call our office or bring it up at our next scheduled meeting. If you ever have any concerns or questions, please contact us!

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- a schedule of regular client meetings, and
- continuing education for every member of our team on the issues that affect our clients.

A skilled financial professional can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs.

Please share this report with others!

Our goal is to offer services to several other clients just like you! If you would like to share this article with a friend or colleague, please call **Joanna McGuire at 718-331-3700** and we would be happy to assist you!

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