HCM WEALTH ADVISORS

New Chapters

Around and About HCM

The past several months have been chock-full of changes for the HCM Family. The most significant is Angelo's retirement after eighteen years of dedicated service. During Angelo's tenure, he brought a unique depth of knowledge concerning the markets, planning tactics, and strategies that benefited many HCM clients. Also, Angelo possesses a gift that allows him to make complex ideas understandable which has enabled him to successfully coach clients and help develop younger HCM staff members.

Every great book has a final chapter. When the last page is turned, it is time to start a new story. We are excited for Angelo and his wife Ann to start a new adventure. Please join us in wishing Angelo and Ann a very happy and successful next chapter.

Casey and Doug have accepted the offer to become shareholders in the Firm, bringing our total ownership rank to six. Our goal is to continue broadening the employee ownership base of HCM to make sure there is ongoing continuity in our clients' experience with the Firm.

Finally, we welcomed Kacidee Harrison to our operations group during the quarter as well.

Market Observations

Changing gears, in the first half of this year we have been treated to a rare real-world lesson in the mathematics of investing—namely, the fact that after a market decline, it takes a greater recovery to get back to even. The first quarter saw a frightening downturn that delivered roughly 35% losses across the U.S. and developed foreign markets. Then we experienced a breathtaking 35% recovery in the second quarter, the fourth-best quarterly rally since 1950. A 35% downturn followed by a 35% recovery; that sounds like we should be back where we started, right? Work out the math, and most indices are still down nearly double digits for the year.

The market declined precipitously in March when investors realized how much potential economic damage the COVID-19 virus, social distancing, and the closing of many businesses could inflict on the U.S. economy. Then the market experienced one of the best quarters on record amid widespread optimism, when Congress and the Fed announced that they would spend like there are no limits.

Does that mean that the recent market gains represent a bubble? The evidence suggests that it probably does. The real question is how out of line stock prices are from reasonable norms. When you read about frustrated sports fans day trading on Reddit, you know that at least some stocks are being bid up without too much concern about underlying fundamentals. But when we review Price/Earnings ratios going back to 1880, we see that the market today is still priced below previous peaks.

Does any of this mean that either a severe market downturn is coming or that stocks still have room to appreciate? That is a far more difficult question, for several reasons. First, does anybody know how effectively companies are managing to keep up their operations when their workers are doing their jobs at their kitchen tables? In other words, do we really know how much productivity and economic value is being lost during the pandemic?   We are in uncharted territory, but an optimist could make the case that public companies (we're not talking about bars and restaurants) are just marginally less valuable now than they were at the start of the year, that the long-term damage will be minimal and life will go on in the corporate world when everyone finally gets back in the office. It is also very possible that companies have suffered huge damage to their bottom lines and viability and current prices are unsustainable. Nobody really knows for sure.

The elephant in the room is, of course, the Federal Reserve Board, which many investors have accepted as a fiscal backstop not only for the economy, but also for the markets. Try to imagine a hypothetical investor who has unlimited resources, who decides that stocks are not going to go down and companies will have money in the bank even if they can't earn it through operations. Would that investor ultimately have her way with stock prices? You have just imagined the reality that is the Federal Reserve. What we do not know is how long and hard the Fed will fight to prevent a severe market downturn before, say, the November elections.

After having increased our equity exposure on two occasions over the last several weeks, it is HCM's intention to maintain a very measured pace of additional investment while holding some opportunistic "dry powder."

Invitation to Contact Your HCM Advisor

We want to hear from you. If you have experienced any changes in your life that may impact your financial situation, be sure to let us know. It's always best to schedule regular conversations so you can stay on top of any changes that may affect your planning, tax, or investment objectives. We would love to meet in person after the current situation normalizes, but until then we are happy to schedule conference calls/video conferences or whatever else works best for your schedule.

Also, as we have offered many times, if there is someone you care about that needs the type of help we can provide, please connect us. We will do anything we can to assist, no strings attached.

As always, we appreciate the opportunity to work with you, and we thank you for your confidence.

Sincerely,

Michael T. Hengehold, CPA/PFS MST RICP®

P.S. Please look for announcements regarding HCM's Monthly Town Hall Live Chats and HCM's Quarterly Investment Review Webinar in your email inbox.