

In a world where anxiety remains high due to Coronavirus concerns, a pending presidential election, and a weak economy, the U.S. stock market nevertheless had a strong quarter and is up 5% as of September 30th. It's hard to fathom why the stock market has done so well given the uncertainty and challenges we face, yet we can say that economically speaking, we are in a better place than the three months prior. That, in a nutshell, is all the market is focused on at the moment - is the economy improving, or is it slipping? The answer here will sway the direction of the market.

Many investors were rightly perplexed why the stock market was doing so well. It's true that even though our economy is still hurting, it's at least better than where it was a few months ago. This, however, is not the full story and some people refer to this current period as "The Great Dis-connect". How could the stock market be doing so well when the economy isn't? The market usually cares less about where we are, and is more concerned about where we are going. This has also been a market of 'haves' and 'have nots', meaning some companies like big tech have fared much better than most others. The 5 big tech companies referred to as the FAAMG (Facebook, Amazon, Apple, Microsoft, Google) have dramatically outperformed the rest of the stock universe and at quarter end these stocks were up 43% (blue line) as compared to the broad market up 3% (green line). If you strip out these stocks from the broad market average, it would then actually show a loss for all other stocks combined!



Technology stocks have saved the day, but it should not be without considering the risks that go along with this dynamic as well. The FAAMG stocks now represent almost 25% of the entire S&P 500 market weighting, which in our opinion is not a healthy level and more resembling the dot com bubble. It's not to say these aren't great companies, they are. It's also not saying that these won't be good stocks in the future, they will. Yet it does raise the question if too much is riding on these stocks and if there is opportunity elsewhere? There is.

Portfolio diversification will become increasingly important in the near future. Not only were there wide discrepancies in tech stocks relative to others, but the same can be said about big companies outperforming small companies, growth stocks outperforming value stocks, and U.S. stocks outperforming foreign stocks. Stock markets inherently have their cycles of which certain types of assets fall in and out of favor, and we see this as a future opportunity to improve both investment risk and returns generated.

Finally, a pending presidential election always brings up many questions and sometimes anxiety from investors. Politics is an unpredictable business, but here is what we know:

- 1) Historically stock markets have strong positive results in both democratic and republican administrations.
- 2) Leading up to an election, candidates have a tendency to focus on the negatives rather than positives, which can put a damper on consumer sentiment.
- 3) Traditionally stock markets have performed better in the 3rd and 4th year of presidential terms. This allows their respective new policies to have an opportunity to kick in, and they then focus on 'priming the pump' for the next election.

A more relevant and productive way to contemplate the next four years should be focused on policy ideas. Will U.S. energy production continue its decline? Will renewable energy continue its build up and extend its cost advantage? Will banks face more or less regulation? These are the themes that will continue to be important issues to the market moving forward and post-election.

As we enter the last quarter of the year and start our year-end tax planning. We are excited to announce we've engaged with a software company which provides tax planning scenario software. The software will give us the ability to upload your recent tax return, we can then run a scenario analysis to help illustrate changes to your tax liability based on modifications to your income and deductions. Of course this is no substitute for professional accounting help, but we do hope it will help provide a more proactive tax guidance approach going forward. If you would like to explore this new software with us, please let us know.

We also continue to host virtual meetings with clients in lieu of indoor appointments, and continue to search for ways to stay connected with you during this time.

Please know how much we appreciate our relationship, and we look forward to speaking with you soon.

Sincerely,

Bob Gillooly, CFA

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Julie Moravy