CANDOR ASSET ADVISORS

Third Quarter 2020
Investment Environment
As of July 9, 2020

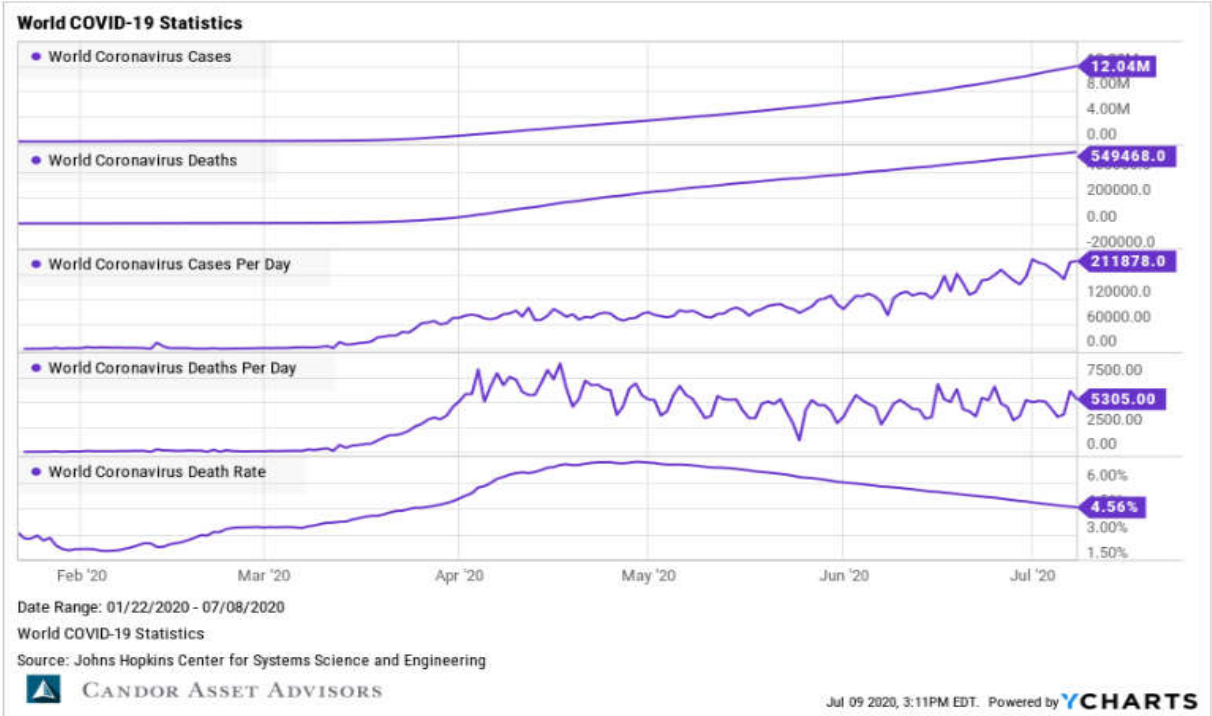
The document highlights:

- COVID-19 and The Impact on The Economy
- Federal Reserve and European Central Bank Activity
- Recessions, Stock Market Corrections, Bear Markets and Recoveries
- Closing Thoughts

COVID-19 and The Impact on The Economy

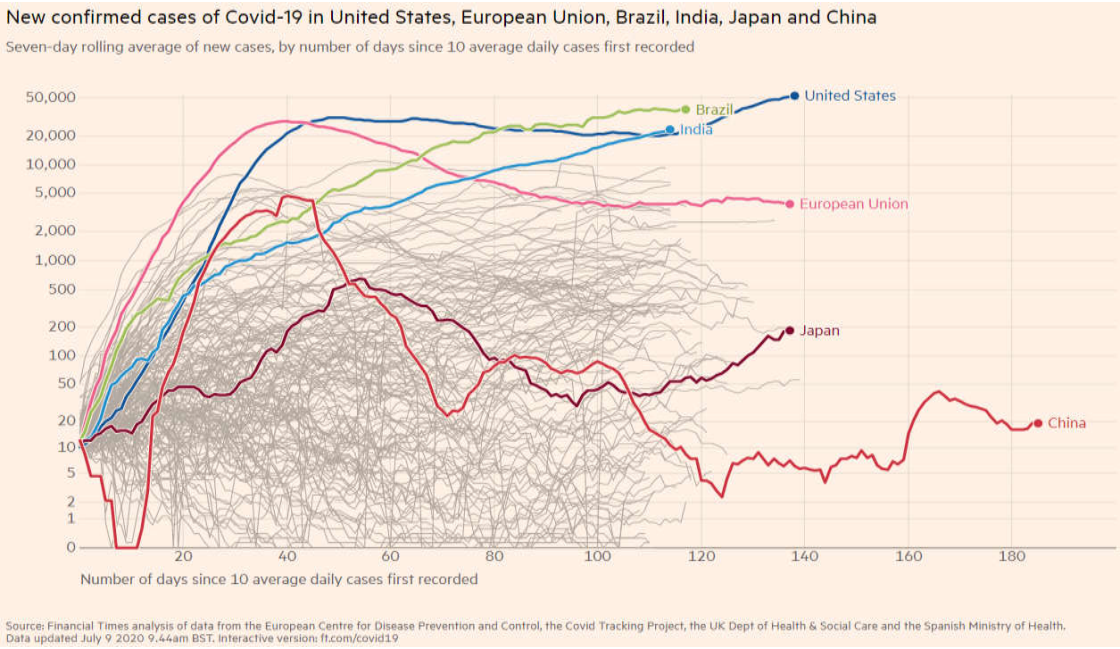
COVID-19, otherwise known as the coronavirus, has had a huge negative impact on the world. The first cases of COVID-19 occurred in China in late 2019. COVID-19 spread to Japan, South Korea and Italy next and the rest of the world thereafter.

World COVID-19 statistics are presented below[1]. World cases, new cases per day and deaths continue to rise while new deaths per day have stabilized, and the death rate has fallen. Worth noting, health experts believe the actual number of COVID-19 cases is higher due to the lack of testing and the reported deaths is understated due to reporting inconsistencies around causes of death.

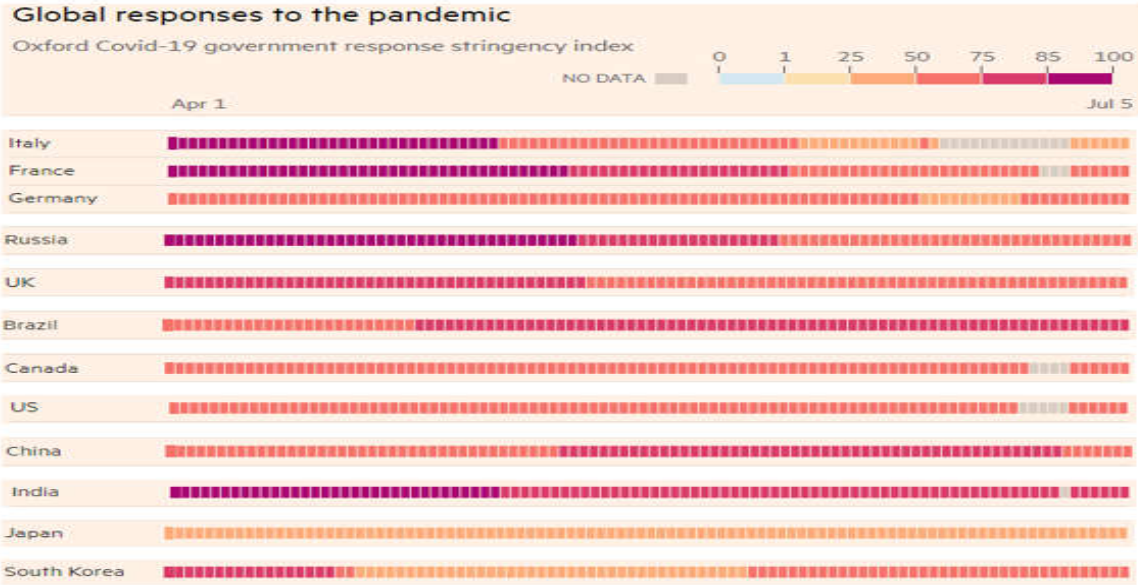


[1] (YCharts, 2020)

The *Financial Times* has been doing a good job tracking the virus and analyzing the statistics. Investors have been perplexed recently because COVID-19 case growth has moderated in some areas (China and the European Union which represent 24% of the world's population and 37% of world GDP) and has accelerated in others (US, Japan, Brazil and India which represent 26% of the world's population and 36% of world GDP)[2].



Government-related shutdowns have played a significant role in reducing economic activity[3]. Government related closures have generally eased since April. Investors are questioning whether a recent rise in cases in some areas will lead to increased government-related business shutdowns and reduced economic activity.



[2] (FT Visual & Data Journalism Team, 2020)
[3] (FT Visual & Data Journalism Team, 2020)

COVID-19's spread continues to confound economists and investors. The IMF summed it up well on March 4, 2020: "Under any scenario, global growth in 2020 will drop below last year's level. How far it will fall, and for how long, is difficult to predict, and would depend on the epidemic, but also on the timeliness and effectiveness of our actions.[4]"

Economic forecasts have been lowered since the start of 2020 largely due to COVID-19. In June 2020 the National Bureau of Economic Research (NBER) declared that US economic activity peaked in February 2020[5].

Economic data suggests the economy noticeably slowed from February 2020 through April 2020 and has modestly rebounded since then[6].

World Economic Statistics

	GDP YoY Growth					Inflation YoY Growth					Short Term Interest Rate					% of World	
	Last Report	Current	Previous	Change	Freq.	Last Report	Current	Previous	Change	Freq.	Last Report	Current	Previous	Change	Freq.	GDP	Population
US	Mar-20	-5.0%	2.1%	-7.1%	Q	May-20	0.1%	0.3%	-0.2%	M	Jun-20	0.25%	0.25%	0.00%	D	24.5%	4.2%
Euro Area	Mar-20	-3.6%	0.1%	-3.7%	Q	Jun-20	0.3%	0.1%	0.2%	M	Jun-20	0.00%	0.00%	0.00%	D	21.4%	5.7%
Japan	Mar-20	-0.6%	-1.9%	1.3%	Q	May-20	0.1%	0.1%	0.0%	M	Jun-20	-0.10%	-0.10%	0.00%	D	5.8%	1.6%
Canada	Mar-20	-2.1%	0.1%	-2.2%	Q	May-20	-0.4%	-0.2%	-0.2%	M	Jun-20	0.25%	0.25%	0.00%	D	1.9%	0.5%
South Korea	Mar-20	-1.3%	1.3%	-2.6%	Q	Jun-20	0.0%	-0.3%	0.3%	M	May-20	0.50%	0.75%	-0.25%	D	1.8%	0.7%
China	Mar-20	-9.8%	1.5%	-11.3%	Q	May-20	2.4%	3.3%	-0.9%	M	Jul-20	3.85%	3.85%	0.00%	D	16.2%	18.5%
India	Dec-19	1.1%	1.1%	0.0%	S	Mar-20	5.8%	6.6%	-0.8%	M	May-20	4.00%	4.40%	-0.40%	D	3.3%	17.7%
Brazil	Mar-20	-1.5%	0.4%	-1.9%	S	May-20	1.9%	2.4%	-0.5%	M	Jun-20	2.25%	3.00%	-0.75%	D	2.1%	2.7%
Russia	Mar-20	0.3%	0.5%	-0.2%	Q	Jun-20	3.2%	3.0%	0.2%	M	Jun-20	4.50%	4.50%	0.00%	D	1.8%	1.9%

	Manufacturing PMI					Service PMI					Unemployment Rate					Retail Sales YoY Growth				
	Last Report	Current	Previous	Change	Freq.	Last Report	Current	Previous	Change	Freq.	Last Report	Current	Previous	Change	Freq.	Last Report	Current	Previous	Change	Freq.
US	Jun-20	49.8	39.8	10.0	M	Jun-20	46.7	37.5	9.2	M	Jun-20	11.1%	13.3%	-2.2%	M	May-20	-6.1%	-19.9%	13.8%	M
Euro Area	Jun-20	47.4	39.4	8.0	M	Jun-20	48.3	30.5	17.8	M	May-20	7.4%	7.3%	0.1%	M	May-20	-5.1%	-19.6%	14.5%	M
Japan	Jun-20	40.1	38.4	1.7	M	Jun-20	45.0	26.5	18.5	M	May-20	2.9%	2.6%	0.3%	M	May-20	-12.3%	-13.9%	1.6%	M
Canada	Jun-20	47.8	40.6	7.2	M		NA	NA			May-20	13.7%	13.0%	0.7%	M	Apr-20	-32.5%	-8.3%	-24.2%	M
South Korea	Jun-20	43.4	41.3	2.1	M		NA	NA			May-20	4.5%	3.8%	0.7%	M	May-20	1.7%	-2.2%	3.9%	M
China	Jun-20	51.2	50.7	0.5	M	Jun-20	58.4	55.0	3.4	M	May-20	5.9%	6.0%	-0.1%	Q	May-20	-2.8%	-7.5%	4.7%	M
India	Jun-20	47.2	30.8	16.4	M	Jun-20	33.7	12.6	21.1	M	Jun-20	11.0%	23.5%	-12.5%	M		NA	NA		
Brazil	Jun-20	51.6	38.3	13.3	M	Jun-20	35.9	27.6	8.3	M	May-20	12.9%	12.6%	0.3%	M	May-20	-7.2%	-17.1%	9.9%	M
Russia	Jun-20	49.4	36.2	13.2	M	Jun-20	47.8	35.9	11.9	M	May-20	6.1%	6.8%	-0.7%	M	May-20	-19.2%	-23.2%	4.0%	M

Freq. = Reporting Frequency, M = Monthly, Q = Quarterly, S = Semi Annual, Y = Yearly
NA = Not Available

Source: Economic Stats- Trading Economics 7/8/20, Population - Worldometers.info, GDP - Wikipedia.org

Our analysis suggests:

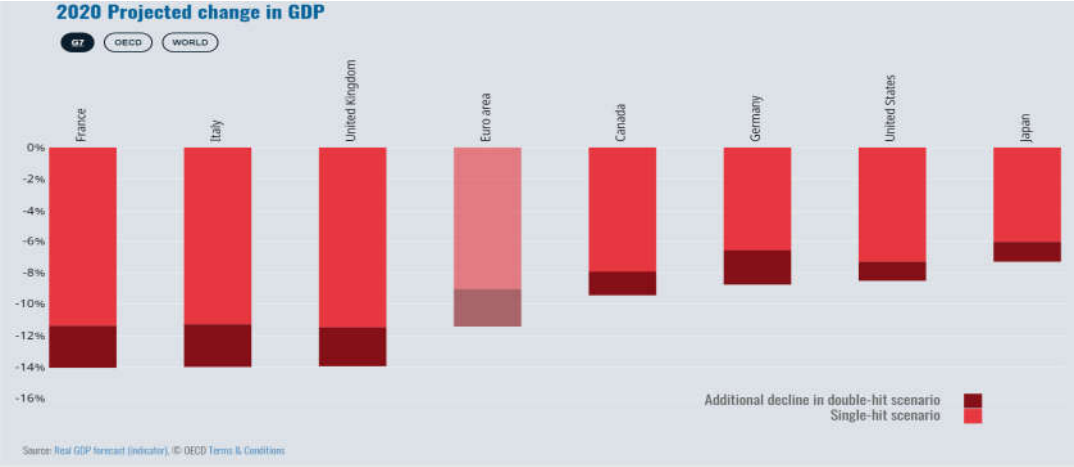
- The US, Europe, and China are the most important markets to watch as they account for 62% of world GDP[7]. India and China are important emerging markets to watch as they represent 36% of the world's population[8].
- The economic impact of COVID-19 has yet to be fully understood and felt across the global economy. COVID-19 is impacting supply via factory closures, service contractions and supply chain disruptions. The virus is impacting demand through lower consumer confidence, reduced spending on travel, dining and entertainment, and work and school closures. China was the first country to endure the impact of COVID-19 and show signs of a recovery.
- Most economies experienced negative GDP growth in the first quarter of 2020.

[4] (Georgieva, 2020)
[5] (the National Bureau of Economic Research, 2020)
[6] (Trading Economics, 2020)
[7] (Wikipedia, 2019)
[8] (Worldometer, 2020)

- Inflation has been very low in developed countries and normal in emerging markets.
- Interest rates are low in developed economies as governments have attempted to stimulate the economy.
- Manufacturing activity has improved from lows in all economies. In seven out of nine countries manufacturing activity is still modestly contracting as the latest manufacturing PMI readings are under 50.
- Services activity has improved from lows in all economies. In six out of seven countries service activity is still modestly contracting as the latest service PMI readings are under 50.
- Unemployment remains elevated in four of nine countries surveyed.
- Retail sales growth was negative in 7 of 8 countries.

The Organization of Economic Development (OECD) made a presentation on June 2020 where they attempted to put some perspective around the economic impact of the virus. Their analysis estimated that world economic growth would register -6% in 2020 in a single hit scenario and -7.6% in 2020 in a double hit scenario[9]. The double hit scenario represents a second wave of cases occurring due to a relaxation of government-related business shutdowns. Recent case data suggests the second hit forecast appears increasingly likely in some parts of the world.

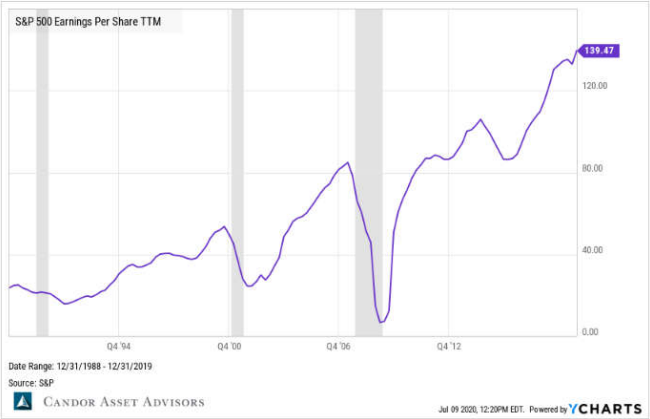
The OECD's 2020 GPD forecasts in the two scenarios are below[10]. Note, OECD economic growth forecasts have fallen by 8-10% since March 2020.



Key questions going forward are: how long will the recession last and what will the earnings picture look like? According to data compiled by the S&P[11], S&P 500 earnings are expected to bottom out during the second half of 2020 and rebound to pre-COVID levels by the second half of 2021. Worth noting, recent analyst earning cuts have been larger than normal and fewer companies have provided forward guidance[12]. In sum, these projections call for a shallow recession and a quick recovery compared to the last three recessions[13]. Earning visibility is poor, however.

[9] (OECD, 2020)
[10] (OECD, 2020)
[11] (Silverblatt, 2020)
[12] (Butters, 2020)
[13] (YCharts, 2020)

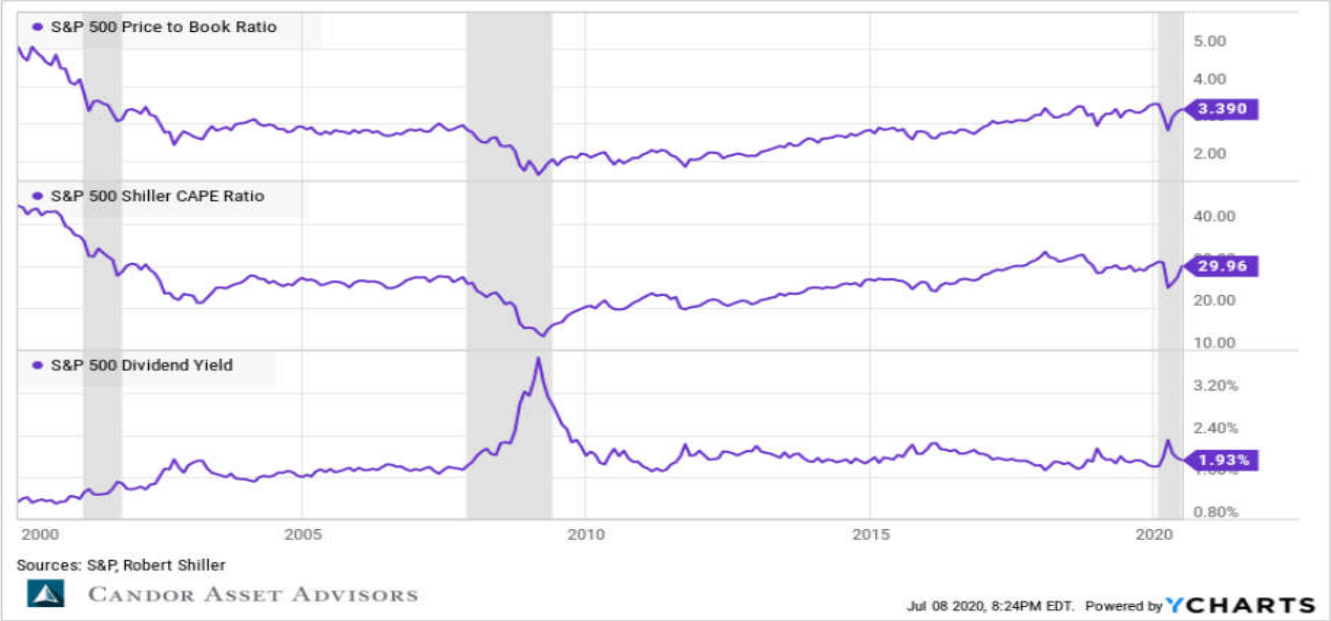
Quarter End	Twelve Month Reported Earnings	Year-over-year growth
12/31/2021	$ 145.66	58.7%
9/30/2021	$ 138.06	45.7%
6/30/2021	$ 127.57	26.2%
3/31/2021	$ 113.19	-2.7%
12/31/2020	$ 91.79	-34.2%
9/30/2020	$ 94.74	-28.7%
6/30/2020	$ 101.09	-25.3%
3/31/2020	$ 116.33	-13.4%
12/31/2019	$ 139.47	5.3%



So how has the US stock market responded? The stock market's response can be summarized as follows[14] [15]:

Phase	Time Period	Developments	S&P Move
Denial	11/17/19- 2/19/20	Belief COVID-19 will remain contained and/or the economic impact will be minimal	8.5%
Fear	2/20/20-3/23/20	Fear COVID-19 will spread globally and cause significant economic damage	-33.9%
Hope	3/23/20-Present	Hope new cases will moderate, government easing business restrictions will help, government stimulus will prove effective, and/or medical break throughs will occur	41.7%
Inspired by: Robert Shiller 'Understanding the Pandemic Stock Market', *Project Syndicate* , 7/7/20			

The US stock market appears to have priced in a shallow recession and quick recovery. Supporting this thesis, US stock market has recovered to above average levels relative to dividends, book value and 10-year inflation adjusted earnings[16].

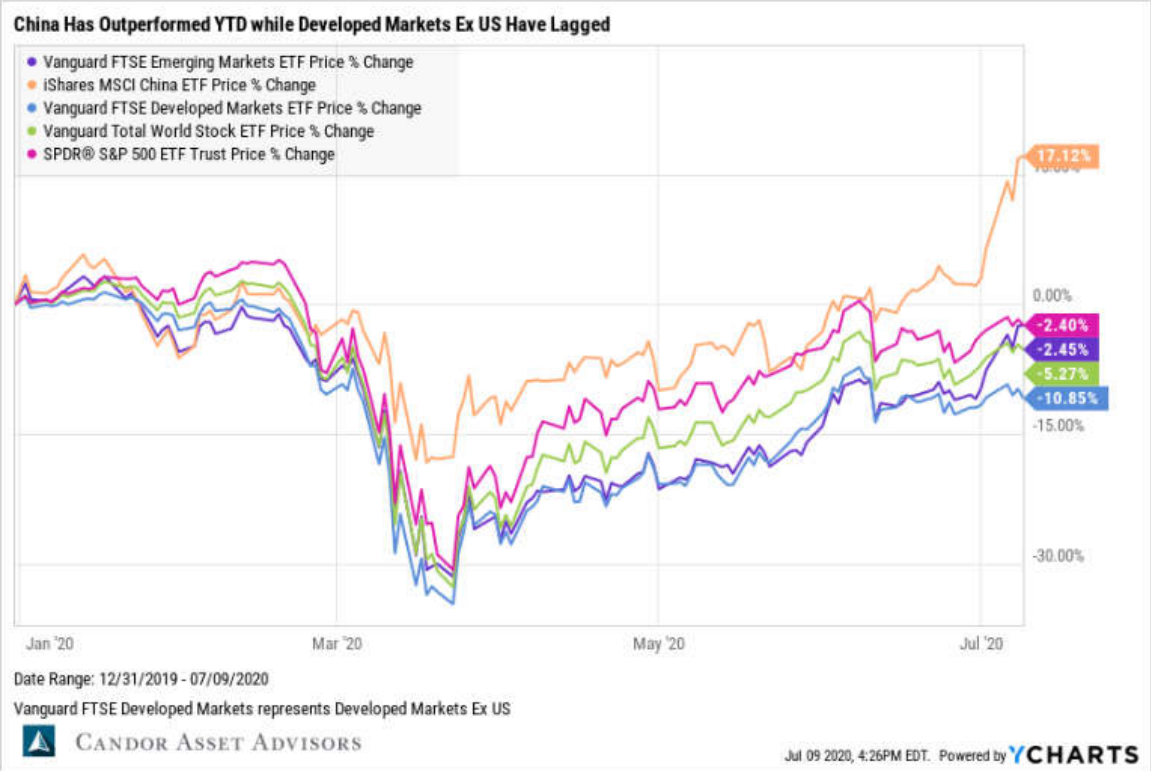


[14] (Shiller, 2020)
[15] (YCharts, 2020)
[16] (YCharts, 2020)

It is worth reviewing the US stock market versus international stock markets. The latest relative growth data suggest international and emerging market earnings growth comparisons to the US are expected to improve[17]. Note, 2020 revenues and earnings growth estimates have fallen by 10% and 27% respectively since February 2020[18].

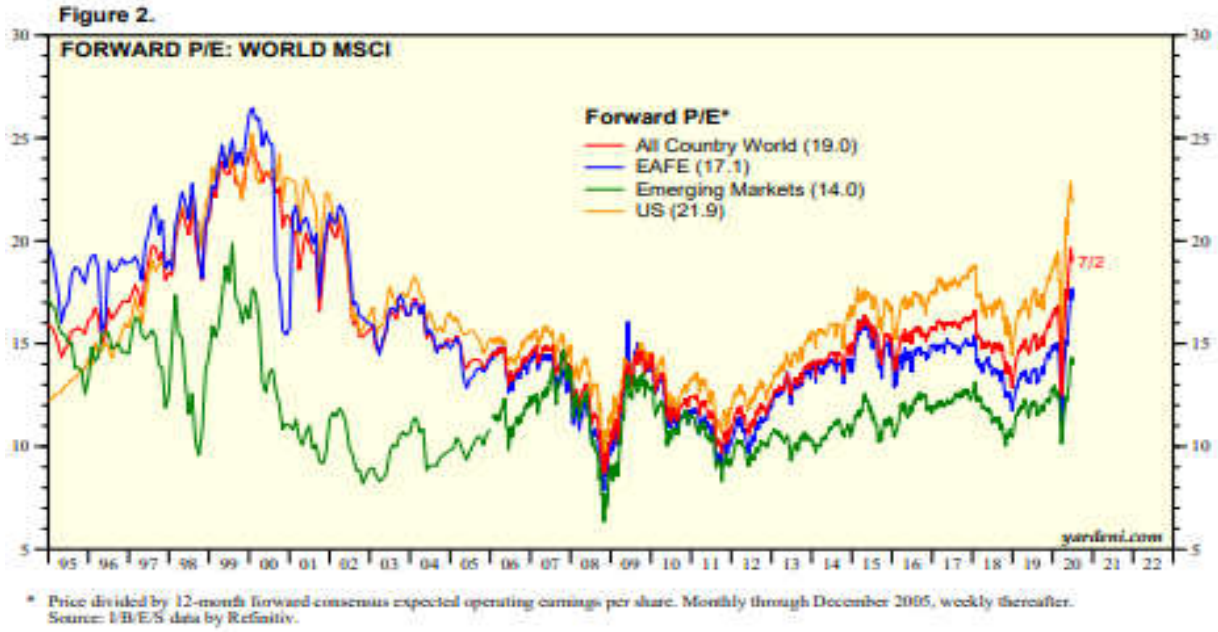
	2019A	2020E	2021E
Revenues			
United States	4.5%	-4.6%	8.6%
International Developed Markets	0.0%	-7.9%	6.6%
International Emerging Markets	5.3%	-1.2%	11.0%
Earnings			
United States	1.7%	-20.0%	27.6%
International Developed Markets	-9.5%	-21.1%	30.1%
International Emerging Markets	-2.0%	-7.5%	29.2%
Source: Yardeni Research MSCI Revenue and Earnings Growth 7/4/20			

Chinese stocks have outperformed the rest of the world year-to-date as investors have recognized China was the first to go through and address the negative impacts of COVID-19[19].



[17] (Yardeni, Performance Derby: MSCI Regions/Countries Earnings & Revenue Growth 2021E/ 2020E / 2019A, 2020)
[18] (Yardeni, Performance Derby: MSCI Regions/Countries Earnings & Revenues Growth 2021E/ 2020E, 2019A, 2020)
[19] (YCharts, 2020)

Today US forward price-to-earnings ratios look elevated versus history and the world[20].



In general, we see better stock investment return prospects abroad. For more information on investment strategy performance, positioning and opportunities please refer to our portfolio commentaries.

[20] (Yardeni, Global Index Briefing: MSCI Forward P/Es, 2020)

Federal Reserve and European Central Bank Background

Since late in 2018 the Federal Reserve has become more cautious about the economy.

The Federal Reserve's comments have changed from[21]:

- October 2018 – The fed funds rate should return to higher and more normal levels implying a Federal Funds Rate of 3-4%.
- March 2019 – Fed fund decisions will be based on data dependency.
- June and July 2019 – The Federal Reserve is committed to an economic expansion, and it will act as appropriate (hint: lower rates) to continue the expansion. The targeted fed funds rate was 2.25-2.5%.
- Second half of 2019 – The Federal Reserve cut the fed funds rate from 2.25-2.5% to 1.5-1.75%.
- February 2020 – The Federal Reserve cut the targeted fed funds rates from 1.5-1.75% to 1-1.25%. The Federal Reserve Chairman commented the rate cut reflected a desire to keep the US economy strong in the face of the coronavirus that has brought new challenges and risks.
- March 2020 – The Federal Reserve cut the targeted fed funds rate from 1-1.25% to 0-0.25%. They commented at the time: "The effects of the coronavirus will weigh on economic activity in the near term and pose risks to the economic outlook".
- June 2020 – The Federal Reserve maintained the targeted fed funds rate at 0-0.25%. The Federal Reserve commented that it "expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goal".

The latest available FOMC median forecasts call for the fed funds rate to register 1.75% by the end of 2020[22].

Consistent with adopting less restrictive monetary policy, the Federal Reserve has increasingly used the balance sheet to support economic growth. The recent timeline is as follows[23]:

- As recently as early December 2018, the Fed was committed to a $50 billion reduction in the balance sheet per month going forward.
- In late December 2018, the Federal Reserve indicated it would be data dependent in subsequent balance sheet moves.
- In March 2019, the Fed announced that it planned to slow down balance sheet reductions by May 2019 and end this practice by September 2019.
- In Fall 2019, the Fed announced that it would maintain or grow the balance sheet to stimulate economic growth.
- In March 2020, the Fed announced that it would grow its treasury holdings by at least $500 billion and its agency mortgage-backed securities by at least $200 billion.
- In June 2020, the Fed announced: "will increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace to sustain smooth

[21] (Board of Governors of the Federal Reserve System)
[22] (Board of Governors of the Federal Reserve System)
[23] (Board of Governors of the Federal Reserve System)

market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions."

The Fed's balance sheet has grown from $3.8 trillion in late August 2019 to $7.0 trillion as of late June 2020[24].

Looking outside the US, the European Central Bank (ECB) has also engaged in monetary stimulus in recent years. Like the US Federal Reserve, the ECB has lowered rate expectations[25].

- October 2018 - January 2019
  - The ECB said it did not intend to raise rates through at least the summer of 2019.
- March 2019 - April 2019
  - The ECB indicated it did not intend to raise rates until 2020.
- June & July 2019
  - The ECB said it does not expect to raise rates until at least the first half of 2020.
- September & October 2019
  - The ECB maintained a 0.25% marginal lending rate but said it "expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon."
- December 2019 through June 2020
  - The ECB maintained a 0.25% marginal lending rate.

The ECB has also expanded the balance sheet[26] [27].

- In the second half of 2018, the ECB expressed a commitment toward maintaining the size of its balance sheet for an extended time period.
- In 2019 through February 2020, the ECB reinvested maturing asset proceeds and the balance sheet remained relatively flat.
- Starting in March 2020, the ECB allowed the balance sheet to grow to support economic activity. From March 2020 through June 2020 the balance sheet grew from 4.7 trillion to 6.3 trillion.

It is worth noting that Federal Reserve and the ECB short-term interest rates are at such low levels today that further rate cuts should prove less useful in stimulating economic demand. Central bank quantitative easing and accommodative fiscal policy will thus have to play a bigger role in stimulating economic activity.

To sum up, these factors suggest the economic impact of COVID-19 may be longer and/or more painful than some shallow recessions we previously experienced.

[24] (YCharts, 2020)
[25] (European Central Bank)
[26] (European Central Bank)
[27] (YCharts, 2020)

Recessions, Stock Market Corrections, Bear Markets, and Recoveries

- A recession according to National Bureau of Economic Research (NBER), which is the official arbiter in characterizing business cycles, defines an economic recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." In practice this means a recession can represent a slowdown in economic growth over a few quarters rather an actual decline in economic statistics[28].
- Business cycles since 1854 are noted below[29]. Note, NBER announced the US entered a recession starting in March 2020[30].

BUSINESS CYCLE REFERENCE DATES		DURATION IN MONTHS			
Peak	Trough	Contraction	Expansion	Cycle	
Quarterly dates are in parentheses		*Peak to Trough*	*Previous trough to this peak*	*Trough from Previous Trough*	*Peak from Previous Peak*
	December 1854 (IV)	--	--	--	--
June 1857(II)	December 1858 (IV)	18	30	48	--
October 1860(III)	June 1861 (III)	8	22	30	40
April 1865(I)	December 1867 (I)	32	46	78	54
June 1869(II)	December 1870 (IV)	18	18	36	50
October 1873(III)	March 1879 (I)	65	34	99	52
March 1882(I)	May 1885 (II)	38	36	74	101
March 1887(II)	April 1888 (I)	13	22	35	60
July 1890(III)	May 1891 (II)	10	27	37	40
January 1893(I)	June 1894 (II)	17	20	37	30
December 1895(IV)	June 1897 (II)	18	18	36	35
June 1899(III)	December 1900 (IV)	18	24	42	42
September 1902(IV)	August 1904 (III)	23	21	44	39
May 1907(II)	June 1908 (II)	13	33	46	56
January 1910(I)	January 1912 (IV)	24	19	43	32
January 1913(I)	December 1914 (IV)	23	12	35	36
August 1918(III)	March 1919 (I)	7	44	51	67
January 1920(I)	July 1921 (III)	18	10	28	17
May 1923(II)	July 1924 (III)	14	22	36	40
October 1926(III)	November 1927 (IV)	13	27	40	41
August 1929(III)	March 1933 (I)	43	21	64	34
May 1937(II)	June 1938 (II)	13	50	63	93
February 1945(I)	October 1945 (IV)	8	80	88	93
November 1948(IV)	October 1949 (IV)	11	37	48	45
July 1953(II)	May 1954 (II)	10	45	55	56
August 1957(III)	April 1958 (II)	8	39	47	49
April 1960(II)	February 1961 (I)	10	24	34	32
December 1969(IV)	November 1970 (IV)	11	106	117	116
November 1973(IV)	March 1975 (I)	16	36	52	47
January 1980(I)	July 1980 (III)	6	58	64	74
July 1981(III)	November 1982 (IV)	16	12	28	18
July 1990(III)	March 1991(I)	8	92	100	108
March 2001(I)	November 2001 (IV)	8	120	128	128
December 2007 (IV)	June 2009 (II)	18	73	91	81
Average, all cycles:					
1854-2009 (33 cycles)		17.5	38.7	56.2	56.4*
1854-1919 (16 cycles)		21.6	26.6	48.2	48.9**
1919-1945 (6 cycles)		18.2	35.0	53.2	53.0
1945-2009 (11 cycles)		11.1	58.4	69.5	68.5

- The average recession since 1854 is 11 to 22 months.

[28] (the National Bureau of Economic Research, 2020)
[29] (the National Bureau of Economic Research, 2020)
[30] (the National Bureau of Economic Research, 2020)

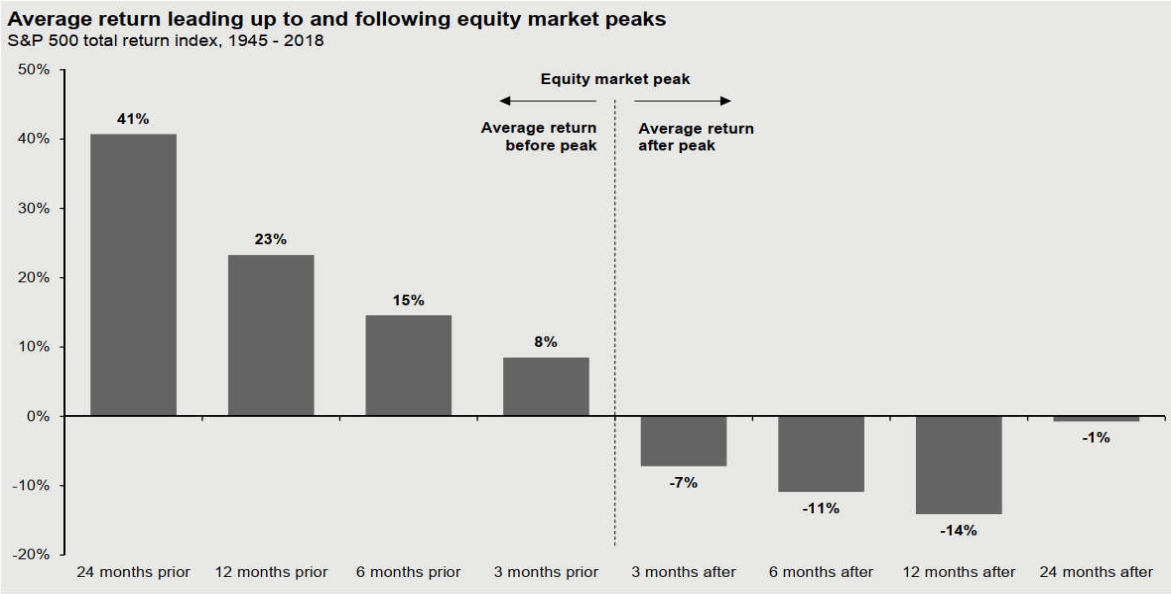
- Stock market corrections are defined as a 10-20% drop in stock prices[31]. Corrections usually occur every one to three years[32].
- Bear markets are defined as a drop of 20% or more in stock prices[33].
- 75% of bear markets have occurred around recessions[34]. Note, we plan on updating the chart below to reflect the 2020 recession and bear market once 2020 is behind us.

		Recession			
Year	S&P Annual Return	Year Before	Same Year	Year After	Year Before, During, After
1930	-25.1%	Yes	Yes	Yes	Yes
1931	-43.8%	Yes	Yes	Yes	Yes
1937	-35.3%	No	Yes	Yes	Yes
1940	-10.7%	No	No	No	No
1941	-12.8%	No	No	No	No
1957	-10.5%	No	Yes	Yes	Yes
1966	-10.0%	No	No	No	No
1973	-14.3%	No	Yes	Yes	Yes
1974	-25.9%	Yes	Yes	Yes	Yes
2001	-11.8%	No	Yes	No	Yes
2002	-22.0%	Yes	No	No	Yes
2008	-36.6%	Yes	Yes	Yes	Yes
Yes		5	8	7	9
No		7	4	5	3
Probability		42%	67%	58%	75%
Source: NBER, Morningstar					

- Since 1929, the average bear market decline is 35% with the maximum bear market decline being 61% in 1931-32[35].
- Most bear markets last less than 18 months with the average bear market lasting 10 months[36].
- The previous bear market was in 2009[37].
- In late 2018 the S&P dropped 19.8%[38]. This decline fell just short of being called a bear market and represented a correction.
- The recent March 2009 - February 2020 bull market was the longest ever[39].
- From February 19, 2020 through March 23, 2020 the S&P fell 33.9% and represented a bear market[40].
- The 41% rally from March 23, 2020 through June 24, 2020 was the fastest in history[41].

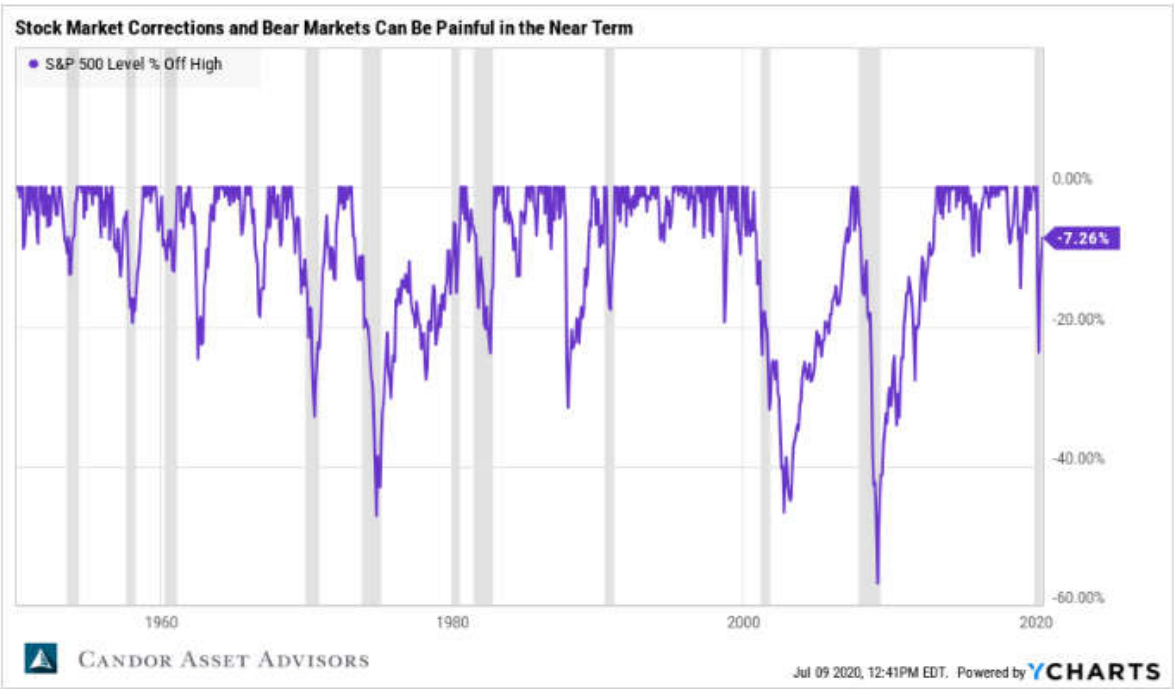
[31] (Investopedia, n.d.)
[32] (YCharts, 2020)
[33] (Investopedia, n.d.)
[34] (the National Bureau of Economic Research, 2020)
[35] (Morningstar, n.d.)
[36] (Morningstar, n.d.)
[37] (YCharts, 2020)
[38] (YCharts, 2020)
[39] (Morningstar, n.d.)
[40] (YCharts, 2020)
[41] (Khan, 2020)

Since 1945 equity returns two years after a market peak have been roughly flat[42].



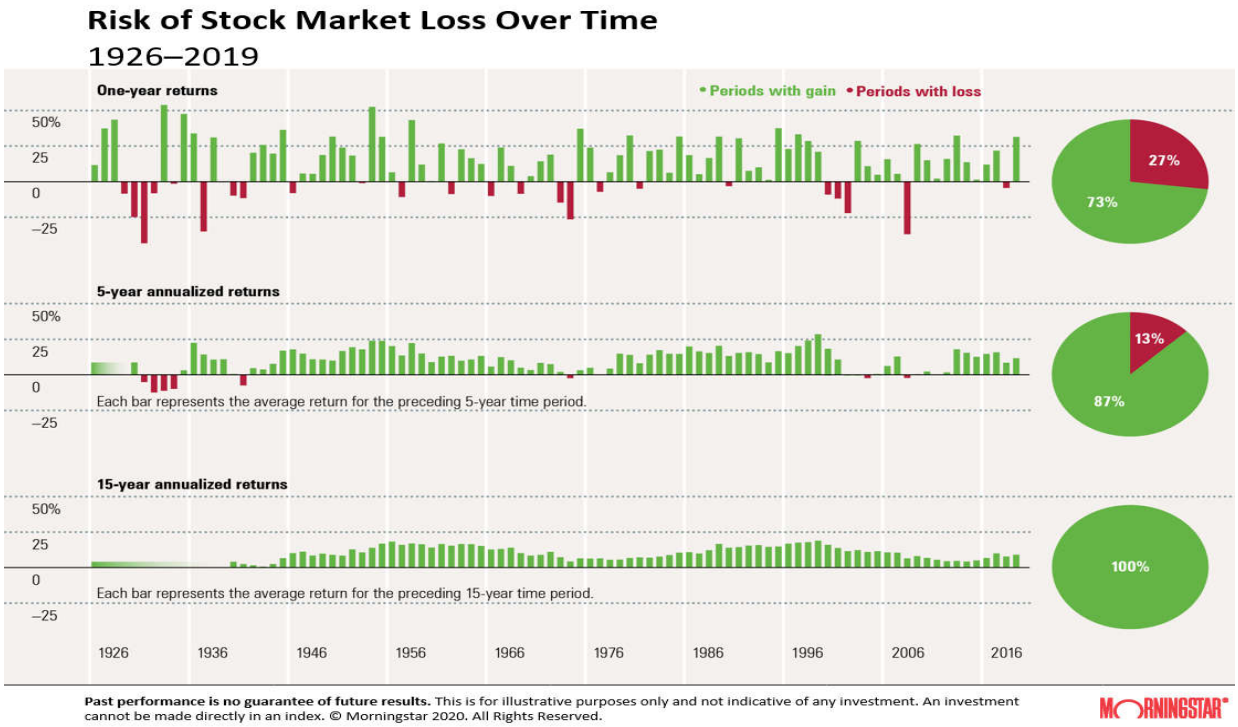
Source: FactSet, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
Chart is based on return data from 11 bear markets since 1945. A bear market is defined as a decline of 20% or more in the S&P 500 benchmark.
Monthly total return data from 1945 to 1970 is from the S&P Shiller Composite index. From 1970 to present, return data is from Standard & Poor's.
Guide to the Markets – U.S. Data are as of March 31. 2019.

- Stock market declines can be painful in the short run. We endured this earlier this year[43].



[42] (Kelly, 2019)
[43] (YCharts, 2020)

It is important to have a long-term horizon when you invest in stocks. The table below highlights the risk of negative returns falls as your time horizon grows. The Ibbotson large cap index is referenced in the chart below[44].



History suggests most stock market timing strategies have failed, so we should not panic today[45] [46].

US stock return studies since the mid 1950s suggest the same thing. Remaining fully invested generated significantly higher returns over the long run.

1954-1994 Return Study

- S&P earned a 11.4% annual return
- If you were out of the market during the best performing days
  - 2% of the time you earned a 8.3% annual return
  - 4% of the time you earned a 6.1% annual return
  - 8% of the time you earned a 2.7% annual return

1998-2017 Return Study

- S&P earned a 7.2% annual return
- If you were out of the market during the
  - Top 10 days 3.5% annual return
  - Top 30 days -.9% annual return
  - Top 50 days -4.4% annual return
  - Top 100 days -11.2% annual return

Past performance is not a guarantee or predictor of future performance. Charts are for illustrative purposes only and do not represent an actual investment or performance of any specific investment. The S&P 500 is an unmanaged index of 500 stocks that is generally representative of the performance of larger US companies. An investor can not invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Dividends are subject to reinvestment.

[44] (Morningstar, 2020)
[45] (Lynch, 2000)
[46] (Legg Mason, n.d.)

Below are some quotes that may provide valuable perspective:

- "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria." – Sir John Templeton
- "You get recessions, you have stock market declines. If you don't understand that's going to happen, then you are not ready, you won't do well in the markets." – Peter Lynch
- "The courage to press on regardless – regardless of whether we face calm or rough seas, and especially when the markets howl around us – is the quintessential attribute of a successful investor." – Jack Bogle
- "Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it." – Warren Buffett
- "For most investors, the hardest part is not figuring out the optimal investment policy; it is staying committed to sound investment policy through bull and bear markets and maintaining what Disraeli called 'constancy to purpose.' Sustaining a long-term focus at market highs or market lows is notoriously difficult. At either kind of market extreme, emotions are strongest when current market action appears most demanding of change and the apparent 'facts' seem most compelling." – Charles Ellis
- "The essence of investment management is the management of risks, not the management of returns." – Benjamin Graham
- "The Big Money is not in the buying and the selling. But in the waiting." – Charlie Munger

Closing Thoughts

To sum up, COVID-19 continues to have a damaging impact to our economy. We entered a recession in March 2020, and no one knows for certain when we will come out of it.

When investing, it's important to keep a long-term perspective as study after study suggests market timing is a fool's errand. The global stock market has persisted over time through wars (e.g., World War I, World War II, etc.), health events (e.g., 1918 Spanish flu, SARS, MERS), shocks (e.g., 9/11, Cuban Missile Crisis), bear markets (e.g., 1930s, 1973-74, 2001, 2008/9), and recessions (e.g., Great Depression, 2008/2009 financial crisis)[47].

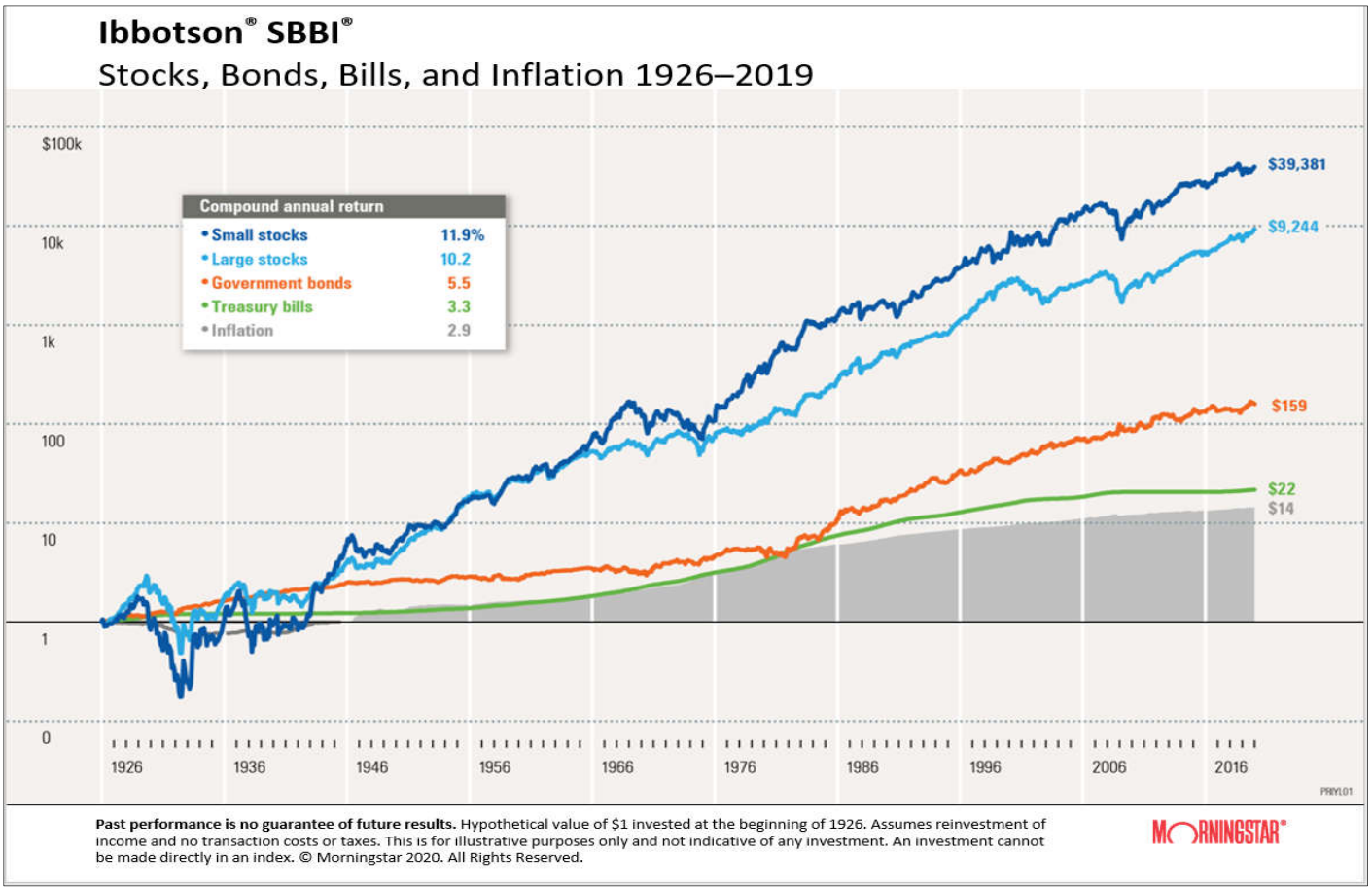


Chart: Small stocks in this example are represented by the Ibbotson Small Company Stock Index. Large stocks are represented by the Ibbotson Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond, Treasury bills by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. Source: Ibbotson

[47] (Morningstar, 2020)

Regarding your financial situation and proper asset allocation, please consider the following:

- Your liquidity needs – Make sure you set aside the proper amount of money to pay your bills, plan for near and intermediate term large purchases and address emergency events (e.g., job change/loss, medical, auto, home). An emergency fund should usually be allocated with a shorter-term time horizon.
- Your financial plan and investment time horizon – The time period usually corresponds with your life expectancy adjusted for estate planning considerations. Regarding life expectancy, studies suggest if you are healthy and have an average family healthy history you should probably plan on living until at least your mid 80s to mid 90s[48]. This observation suggests if you are:
    - Age 30-40 your financial plan time horizon is likely 45+ years
    - Age 40-50 your financial plan time horizon is likely 35+ years
    - Age 50-60 your financial plan time horizon is likely 25+ years
    - Age 60-70 your financial plan time horizon is likely 15+ years
    - Age 70-80 your financial plan time horizon is likely 5-15+ years
- Your risk capacity – How much you should allocate to stocks and fixed income usually reflects the goals of maximizing your wealth, providing for loved ones or charities and/or improving the probability that you don't run out of money. Adding a larger percentage of fixed income to your portfolio as your investment time horizon shortens generally makes sense. Diversification also helps.
- Your risk tolerance – Reflect on how you have reacted to previous market declines. Be proactive and anticipate how you would react in the future if your portfolio fell by 10-50%. When would you lose too much sleep at night and begin making bad investment decisions?

After reviewing these factors please let us know if you would like to revisit your asset allocation alternatives.

As always please reach out to us if you have questions or comments.

Sincerely,

Bill Hawes, CFA
President and Chief Investment Officer
Candor Asset Advisors

[48] (Social Security Administration, n.d.)

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