PROFESSIONAL
FINANCIAL
MANAGEMENT, INC.

QUARTERLY NEWSLETTER

2020 Second Quarter

Dear Client,

We hope you are having a great summer, having fun, staying busy, and most of all, staying healthy! 2020 has certainly been a trying beginning of the decade to say the least. To say the first half of this year has tested our resolve may truly be an understatement. However, this is not the first time we've faced adversity as a society and eventually we make our way through…so stay positive!

Most statements are out but our transition to a new portfolio management system has caused a delay for some – we are diligently working on getting the rest out and should be complete by the end of the week. Our reminder to you when you receive your statement: *Please take the time to compare the information on your report to your account statements received from TD Ameritrade or other custodians, and promptly contact the office should you find material discrepancies (note that there might be slight discrepancies due to the timing of the credit of dividends or transactions at quarter end). Also, if you are not receiving account statements directly (either in print or electronically) from TD Ameritrade or other custodians, notify us immediately.*

OFFICE OPERATIONS UPDATE

We have not formally provided an update on how we are handling operations amid the ongoing pandemic since our first message to you when this began, so here it is a summary:

- Originally considered an "essential" business our office has been open through the Pandemic. Our staff has the ability to work from home if needed but as of this point, we are all back in the office, are available and will continue to be going forward;
- We are trying to conduct all client/prospect meetings via video conference as you are able. This has worked out well and something we've wanted to move towards – thanks to COVID, we (like many) have mastered this process quickly and with great success – we look forward to "seeing" you!
- We are meeting with clients in office, but to protect your health and the health of staff and families, the following procedures will apply:
    - In person meeting by appointment only;
    - The office door is locked so if you wish to drop in, please call ahead so we can be ready for you;
    - Masks are required (we have some available if you forget!);
    - We will maintain social distancing requirements while in the office;
    - The office is routinely sanitized and always between client visits.

We continue to monitor the situation in accordance to guidance from the CDC, MT Governor's Office, and our local Health Department, and will keep you informed on any changes as necessary. We hope this information helps and look forward to continuing to serve your needs in the safest way possible!

Before we dive into the usual quarterly investment insights, here's some fun trivia:

> ***Did you know you have to count to 1,000 before you'll find the letter "a" in a spelled-out number?***

We thought you could use a break from the torrent of mid-year market commentaries on 2020's bipolar extremes. The general theme has been how quickly global markets sold off and came back – even as economic and sociopolitical headlines continued to stoke bonfires of ongoing upheaval.

….and the year is only half over?

In all seriousness, however, markets and their recent behavior to date have left us with more questions than answers. Our commentary will focus on what we see as the biggest "conundrum" and our thoughts to you as we continue to navigate unchartered waters.

QUARTER IN REVIEW

While a complete breakdown on markets can be found on the website, what has happened in the markets and the economy at large has been hard to miss. The year started out as a continued extension of 2019 markets, with the economy continuing to fire on all cylinders and markets (as measured by the S&P 500) moving up to all-time highs on February 19th….and then:

- In the twenty-four trading days between February 19th and March 23rd of 2020, the S&P 500 dropped 35% - the fastest bear market in history, then;
- In the seventy trading days from March 23rd to June 2nd, the S&P 500 gained 38% - the fastest bull market in history and the largest gain ever over a 50-day period.

This is most certainly a tale of two quarters, with the return numbers in both directions almost hard to comprehend in such a short time window. The market rally from the March 23rd bottom to the writing of this letter, has put the S&P 500 at a slight gain for the year with global equities only down about 5%.

The head scratcher, however, are economic stats that stand in sharp contrast to the financial markets. Q2 GDP has fallen at a 32.9% annual rate and while slightly lower, the unemployment rate is still above 11%. And if this wasn't enough, the country remains in a state of social unrest and the pandemic (which is still very much in front of us) has reared its head with thousands of new cases daily creating issues with school re-openings and stalling efforts by states to reopen the economy. With so much happening in such a short period of time, trying to make sense of things is difficult at best.

IS THE MARKET DETACHED FROM THE ECONOMY…FROM REALITY?

A perplexing question to say the least, it certainly appears to be at the forefront of investor concerns. As you know, we are not ones to provide unjustified explanations or reasons about market events – sometimes there is no clear answer. Other times, however, there are rational explanations, and while it appears things have gone completely off the rails, the Phaedrus quote "things are not always as they seem" has significance here. An understanding of investment fundamentals along with a more detailed review of market return data provide perspective on what seems to be a market out of touch with reality.

First, we need to understand that ***the market is not the economy***. We have discussed this point with you before but never has this been truer. The concept that markets are "forward looking" and not a "mirror" of what we are seeing and experiencing now (or even in the near future) is admittedly counterintuitive. Markets have historically anticipated economic change and as such are considered a ***leading economic indicator*** or forecaster of where the economy is headed. Markets collectively reflect current, consensus estimates of future corporate earnings giving us an indication of future sentiment. At this point, it is arguable markets have priced in a potential vaccine and with this, anticipate we will be past this pandemic in the next 12 – 18 months, indicating higher future returns pending an economic recovery. Conversely, unexpected news that would disrupt expectations could cause another drop in markets…who knows, this could be on the horizon.

Second, this has not been a "broad market" recovery and is strongly led by only a handful of stocks that may be considered "pandemic asymptomatic"! All kidding aside, Facebook, Apple, Amazon, Alphabet (Google) and Microsoft (already the drivers of market returns pre-pandemic) have only continued to dominate as a result of the stay-at-home economy. Information from Goldman Sachs Global Investment Research indicated that through the first part of July, these five stocks returned a total of 35%...the remaining 495 stocks were down 5% collectively. Further, only 206 of the stocks in the S&P 500 (~40%) are positive YTD. The other 299 (~60%) experienced negative returns, with 220 of these companies (~44%) down anywhere from 10 – 50% (or worse). As Jason Zweig recently wrote in his *Intelligent Investor* column in the Wall Street Journal:

> "***Seldom, however, has the gap between the haves and have-nots been as wide as it is now."***

This disparity is much more representative of what we are currently experiencing economically.

WHAT THIS MEANS FOR MY PORTFOLIO

All this said, these are confusing and emotional times. Despite logic and explanation, markets in the short-term have a great deal of "noise" that make them an enigma – it is hard to really know what is going on. If the first half of this year has taught us anything, it is to expect the unexpected. So, what's it going to be for the rest of 2020? As always, with respect to your investments, we have no idea what to expect for an encore. What we do know is that adhering to your plan most certainly helped with the unknown of the first six months, so it most likely will continue to benefit you for the next six and beyond. Maintaining focus is the key in times like these, however, and we concur with Zweig who also made this recent comment in his *Intelligent Investor* e-newsletter:

> ***"The first half of 2020 should remind us that investing isn't about conquering markets; it's about mastering ourselves."***

His article recaps the stresses investors have faced through the first half of the year, emphasizing the importance of having a disciplined plan, as investing isn't a game but rather "… a long repetitive process" (great article – click on hyperlink to read). In this context, perhaps our trivial pursuit is not so disconnected after all. We know markets are highly likely to deliver inflation-beating returns to those who can patiently "count to a thousand" while riding out the inevitable unknowns. We also know investment success may take longer than you might think – potentially *much* longer.

So, similar to what you might have first guessed about the elusive "a" in our numbering system, the initial assumptions we make about our financial and investment plans are often off-target until we take the time to think them through. As such, we continue to remind you of:

- the importance of creating and updating your financial / investment plan, and;
- the evidence on how to persistently follow your plan and participate in markets both good and bad.

As such, we continue to recommend that your portfolio be allocated appropriately between the market's higher-risk, higher-expected-return extremes, and the sheltering calm of more stable, but lower-returning holdings**.** This process is subject to both your age and risk profile and monitored so that as you move through life, we continue to achieve an appropriate balance for you and your personal financial goals. In the meantime, let others conquer the markets, as you consider these additional words from Zweig:

> ***"To be an intelligent investor is to recognize that you're in a lifelong struggle for self-control – an unending effort to keep yourself from yielding to fear or greed, believing that you know what the future holds or letting short-term news knock your long-term plans off track."***

Again, we are committed to helping keep you and your financial plan on track.

Sincerely,

Your PFM Advisory Team

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