PROFESSIONAL FINANCIAL MANAGEMENT, INC.
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QUARTERLY NEWSLETTER

Dear Client,

Greetings! As the challenges of 2020 continue to affect us all, we hope this letter finds you and your family healthy and well. Some statements are out with the remainder most likely going out late this week. Again, our transition to our new Software has held some things up but if you don't have it yet, you should shortly.

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

As the situation with COVID 19 evolves, so do our office operation safety measures. In short, the office is open and fully staffed. To continue to be so, we are adhering to the following standards of operation for the foreseeable future:

- Continue to conduct as many meetings as possible via video conference. This has been working great so far. Assuming you have the capability to do so, we prefer this as we can cover all material with screen sharing and get a chance to see you at the same time!
- Office traffic subject to the following guidelines:
    - Appointments are preferred;
    - If dropping off information or stopping in for any reason, please call ahead;
    - Masks are required (we have some available if you forget!);
    - Social distancing requirements maintained while in the office.

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We will continue to keep you updated – thanks!

MARKETS OFF THE RAILS OR JUST A TALE OF TWO MARKETS?

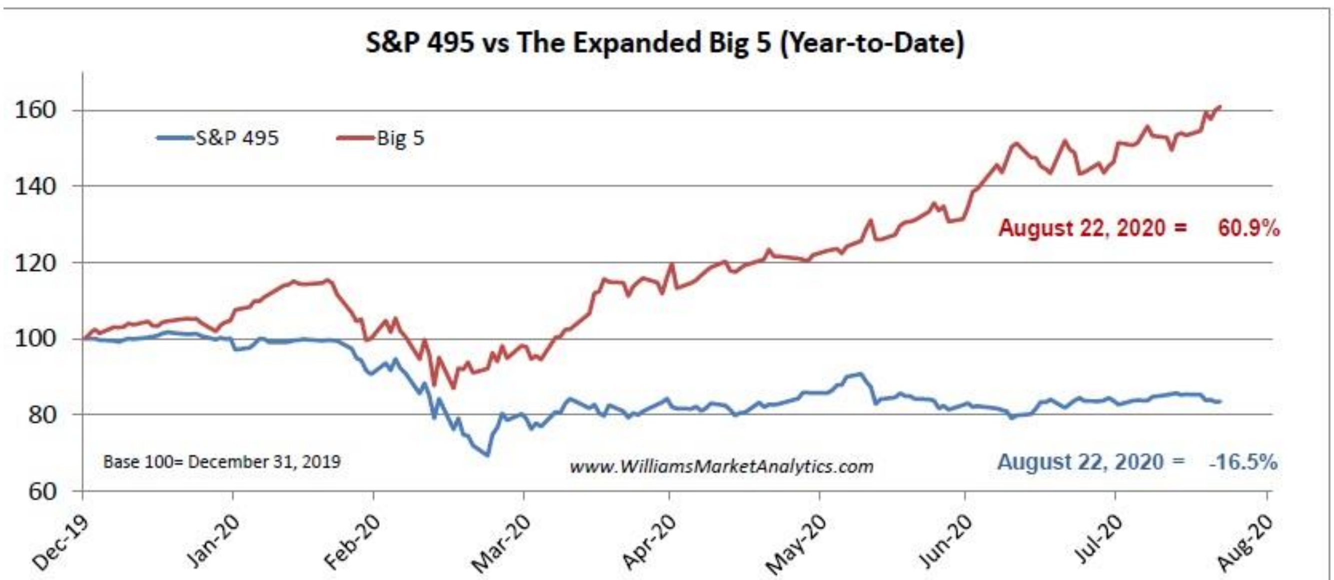
Although faltering recently, markets around the globe continued their upward march in the third quarter:

	US Stock Mkt.	***International Dev. Mkts***	***Emerging Mkts***	***US Real Est.***	***US Bond Mkt.***	***Global Bond–ex US***
Q3'20	9.21%	4.92%	9.56%	1.25%	0.62%	0.68%

Source: Russell, MSCI, Wilshire, Barclays and Citigroup

The results, especially on the domestic front, only seem to exacerbate the contention that markets have no connection to economic reality. While we continue to emphasize that markets are not mirrors of the current economy, they shouldn't be completely divergent either. And, last quarter we learned that the sole return of an index may not be indicative of "the market".

Additional market research pieces on this from Williams Market Analytics continues to emphasize this point. First, it is important to know that pure indexes are "market cap weighted", meaning the larger the company, the more influence on the index return. The graph below is an update to the information we shared last quarter, and compares performance through 8-22 of the largest eight stocks in the index, to the other 492:



The information is telling: the largest eight stocks (drivers of index returns) are up 60.9% through 8-22, while the remaining 492 stocks have a combined return of -16.5% (courtesy Williams Financial Analytics and Seeking Alpha). While many takeaways, perhaps the most revealing is that the return of an index may not tell the whole story and that maybe, the market is more representative of our overall economic health (and diversified portfolios) than at first glance.

SHOULD WE CHANGE OUR APPROACH? / DO WE STAY THE COURSE?

Hopefully this information provides transparency to what is going on in your diversified portfolio. However, it may beg the questions "should we change our long-term approach?", or, "Should we load up on the top performing or other pricey tech stocks?".

First, it's important to know you have exposure to these high-flying names, just not in the concentration you might have hoped based on the virtues of maintaining a well-diversified portfolio. However, as humans, we are subject to "FOMO", or fear of missing out. This creates a feeling that we need to find the latest hot stock, or mutual fund, and chase market beating returns. Whenever this temptation comes about, remember this: ***Trying to load up on the markets next big hit based on recent returns is more likely to detract from, than contribute to, achieving your personal financial goals.***

That's because future returns don't hinge on what has just happened, or even on what is expected to happen next. Rather, as Ken French, esteemed Professor of Finance at the Tuck School of Business at Dartmouth College and Director at Dimensional Fund Advisors explains, prices change when the unexpected occurs:

"For most investments and most investment horizons—a month, a year, five years, even ten years—
the realized return is driven far more by the unexpected return than the expected return."

This applies to the supposedly unstoppable "FAANGM" darlings of our day, as well as any of the other pandemic friendly tech stocks.

In fact, the more popular a big growth-oriented company becomes, the harder it often is for it to keep exceeding everyone's sky-high expectations. To continue outperforming its popular benchmark, it must continue to deliver bigger, better, ever more pleasant surprises. Eventually a fresh competitor steps into the ring, and the cycle begins anew.

Overall, this is how markets grow, even as the individual players come and go.

Think about this - have you ever noticed how the hero in an action-adventure movie rarely needs to defend against more than one or two challengers at a time? Even when he/she is way outnumbered, the individual attacks arrive in implausibly orderly fashion. Otherwise, the hero wouldn't stand a fighting chance.

Pundits often suggest markets are subject to an equally implausible universe, where there's always an orderly set of reasons for why "X" is about to soar, or "Y" is about to fall. In real-life markets, that's just not how it works. Everything happens all at once, all the time:

- *Who is going to be the next U.S. President? (Additional commentary emailed separately)*
- *When will a COVID-19 vaccine be available?*
- *How is Brexit really going to roll out?*
- *What are China's next moves?*
- *How much longer will the FAANGs keep growing larger than life?*
- ***What other big news is about to hit that we haven't seen coming?***

In short, investors don't stand a chance at guessing when and from where the market's next helping hand or painful punch is going arrive. This is why we continue to recommend positioning your portfolio to harness the power of markets' broad expected outcomes, rather than their never-ending torrent of erratic incidents.

We hope you continue to hold-up in what has certainly been an extraordinary year. As always, let us know if you'd like to revisit where you stand or consider your next best financial moves. We can't predict the future, but we do know one thing: We're on your side. Let us know how we can help.

And, as always, thanks for your continued trust and the privilege to serve as your Financial Advisor.

Sincerely,

Doug and Your PFM Advisory Team