J.W. Burns & Company
Investment Counsel
Quarterly Update - October 2020

Keeping Our Eyes On The Long Term (Not On Washington)

"Markets defy easy stories - simple stories that people tell themselves are just that. Fairy tales. The market doesn't listen to your stories."
- Kevin Murphy, Fund Manager, Schroders PLC

Dear Clients and Friends,

In the third quarter of 2020, U.S. equities continued their explosive recovery from the dramatic February-March bear market. The S&P 500 Index and the Dow Jones Industrial Average both recorded strong gains of over 8%, while the technology laden NASDAQ continued to outperform, up 11.24%. Without question, it has been a U.S. centric, large-cap

recovery. In fact, small, mid, and international stocks, while up for the quarter, lagged – posting gains of 4.9%, 4.8%, and 6.7% respectively. Finally, bond returns were negligible, with the Vanguard Total Bond Index rising 0.4%.

In short, investors want the safety and predictability of quality growth stocks during the COVID-19 pandemic and that is where the majority of your portfolio is currently positioned. ***Overall, we remain pleased with the performance of your portfolio which has benefited from our disciplined investment philosophy and long-term approach.***

It should be noted, that despite the ferocious rally, the S&P 500 and Dow are around where they started the year, with the S&P up about 5% and the Dow slightly negative year to date. Furthermore, the other asset classes mentioned above are all down over 6% year to date through September 30. Nevertheless, with all the incredible challenges our country and investors have had to face, these results are somewhat remarkable.

"You may recall predictions of a depression with 30% unemployment. Instead, the job market, corporate earnings, etc., have faired much better than anyone could have expected."

Stocks have continued their breathtaking rally from the March 23 lows for three specific reasons. First, the Federal Reserve has injected massive liquidity into the financial markets, including the direct purchases of corporate bonds, providing a backstop for all markets and keeping prices from collapsing. Second, interest rates are effectively zero, providing no return for cash investors and little competition for stocks, which offer higher – and potentially growing – dividend yields. ***Third, the economy, job market, and corporate earnings are significantly better than what was initially feared back in March.*** In fact, you may recall predictions of a depression with 30% unemployment. Instead, the job market, while still suffering from COVID, has improved nicely and corporate earnings have been much better than anyone could have expected back in the spring. Indeed, as we enter third-quarter earnings season this month, we are expecting, once again, the vast majority of your portfolio companies to beat earnings expectations.

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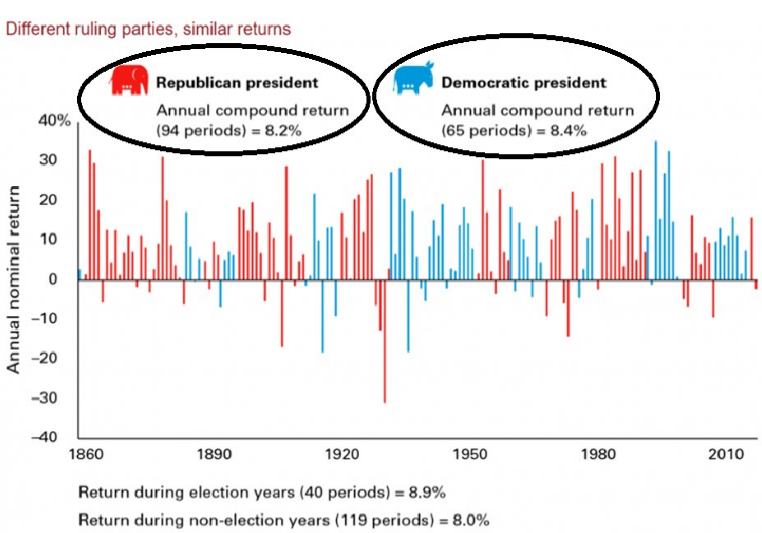
I expect a lot of handwringing and media noise around the November 3 election. Currently, many forecasters are predicting not only a Joe Biden win but also a probable Democratic takeover of the Senate. However, we all know what the political prognosis was at this time in 2016, so uncertainty surrounding the final result remains.

As I mentioned last quarter, politics and Washington shouldn't dictate your investments; the American system of government is constructed to prevent radical change from either side. The stock market, in my view, is already pricing in the probability of a Joe Biden/Democratic win and not reacting much either way. True, a Democratic sweep would likely mean higher corporate taxes and regulations. But as David Kostin, from Goldman Sachs, points out, these taxes will likely be offset in a Biden administration by a removal of tariffs and greater fiscal spending, including a large stimulus package with an infrastructure rebuild.

Finally, remember that, historically, stocks rally after Presidential elections, regardless of whether a Republican or Democrat wins. There's a line from Shakespeare's Macbeth that ends by saying: "…full of sound and fury, signifying nothing." Don't let the election interfere with your long-term investment plan. Political noise is just that– noise.



Source: Vanguard calculations of a 60% equity, 40% fixed income portfolio are based on data from Global Financial Data. Years are categorized based on which political party occupied the White House for the majority of the year.

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On the economic front, unemployment has fallen to 7.8% down from the 14.7% high reached back in April. Additionally, the job market has recovered over 11 million of the 21 million jobs lost due to COVID-19.[1] That said, the strong economic momentum we saw earlier this summer has slowed as a second economic stimulus package has stalled in Congress and as certain states have or are considering new COVID restrictions to combat an increase in case count.

Ultimately, I do expect the economy to continue to recover well into 2021 and that stock prices will continue to be supported by historically low interest rates, ample liquidity throughout the financial system, an eventual second stimulus bill, and the likely approval and distribution of a COVID-19 vaccine. So, let's dig into this a little more as we get to your questions.

Q: What are the things you're looking out for in 2021? Are you still bullish on stocks?

A: I am. Stocks historically do very well – for a number of years – coming out of a recession and that is exactly where we are now. While the recovery still has a ways to go to fully bring us out of the recession, both the economic data and earnings of S&P 500 companies are continuing to come in better than expected, and heightened cash levels held by global investors can continue to drive prices higher.

In fact, since 2018, investors have taken out over $350 billion from equity funds while also buying $750 billion in fixed income funds.[2] This means that even during this explosive recovery in the stock market that we have seen since March, global investors still have plenty of cash/bonds on the sidelines that they will need to deploy in order to earn any substantive rate of return. Furthermore, the Federal Reserve has already pledged to keep interest rates at their historically low levels until "at least 2023" and has shown their willingness to backstop the stock market by buying securities on the open market and injecting liquidity.[3] The combination of these two factors should also support equity prices and, to some extent, the emerging economic recovery.

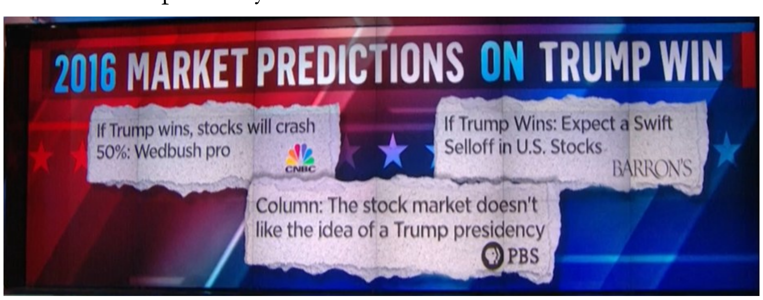
At current prices, stocks are not inexpensive, but relative to other asset classes, it is our view that stocks are the best place to be over the next few years. Most importantly, a year from now, I expect stock prices to be higher.

Q: You say not to worry about the outcome of the election. However, there seems to be a real possibility of a contested election or delayed results. What impact would you expect this to have on the market?

A: With the hyper-partisan political environment combined with millions of Americans voting by mail this year, there is certainly a real possibility of delayed/contested election results. This could roil markets in the short run, providing fodder for additional hyperventilation amongst the media outlets. Investors should be prepared for this possibility, and respond appropriately – i.e, don't sell based on political noise and media headlines. Remember, financial markets are not focused on politics or media headlines but rather on economic growth, interest rates, and the earnings power of American companies.

"We remain constructive on stocks into 2021 and believe stocks will offer the best risk-adjusted returns over the next several years."'

Below are some headlines from CNBC, showing predictions from major news sources shortly before the 2016 election. Many people were betting that a Trump victory would be dire for stocks.



During the Obama administration, the S&P 500 Index was up, on average, a powerful 13.8% per year. Under Trump, its quite similar – 12.4%. So presidential elections, no matter the outcome or political swing, tend to produce comparable results for market returns.

So, to sum up, we remain constructive on the outlook for stocks into 2021 and believe stocks will offer the best risk-adjusted returns over the next several years. The election may (or may not) turn ugly and the market could be roiled, but any eventual outcome is probably already priced in. 2020 certainly has been one of the most disruptive years in our lifetimes, ***but it has surely put to bed the notion that investors can, in any way, shape, or form, time the direction of the overall stock market.***

Instead, here at J.W. Burns & Company, we stay focused on ensuring that your portfolio is appropriately constructed and positioned in great companies, with great managements, with outstanding long-term growth prospects. So, naturally, it is our view that the best course is to be prepared for the inevitable ups and downs ahead while keeping our eye on the long run.

Thank you for allowing us to continue to serve your investment needs. Enjoy the fall!

Best Wishes,

Jim

James C. Burns, CFA
President

P.S. - The JWB family has some exciting news. This past August, our Director of Operations, Kellie Wheeler, became a grandmother for the first time. Her daughter, Ashley and husband Noah, gave birth to a healthy baby boy Canaan, or Cane for short.

Kellie has been with J.W. Burns now for over seven years and is an invaluable member of our team – overseeing firm operations, account service, and office management. You likely have worked with Kellie at some point whether it be for processing paperwork, accessing your account online, or transferring money. We like to say that Kellie does the job of three people at any other firm and does it better than anyone. We are grateful for the experience and, more so, the unrelenting dedication she brings to our clients and our company. Kellie embodies the J.W. Burns motto: work hard, have fun, get the job done!

Congratulations to Kellie and her husband of 34 years, Brian, on their first grandchild and please enjoy the pictures below.

1 Fidelity U.S. Economic Events and Analysis

2 Bryn Talkington, Requisite Capital Management

3 Haverford Fall 2020 Outlook.