Comprehensive Investment Management, LLC
Fee Only Personal Financial Planning
Spring 2020

A Review of the Financial Markets at March 31, 2020

May you live in interesting times. I always thought that expression meant someone was wishing you well. In fact, many people understand it to be a curse. Perhaps a spin off of the adage: No news is good news. In any case whether a blessing or a curse we are in fact living in interesting times. Included with this newsletter (page 5) is a chart that shows times have been pretty interesting over the last ninety some years. Despite some significant swoons, the economy and financial markets have sustained a clearly upward trend.

The performance described in this newsletter is the average of a select group of mutual funds. Recent market activity can be newsworthy, and is certainly that at the present time. However investment returns over longer periods, while not predictive, are significantly more meaningful.

Because of the pandemic I thought maybe, since they postponed just about everything else, they might postpone the end of the quarter. But no such luck. They tell me the quarters were set up a long time ago by Pope Julius and it would throw everything off to try and change them now.

On February 19, 2020 the S&P 500 hit its all time high. It was up 22% over where it was twelve months earlier. The point of conversation at the time was how the markets were not reacting to the news about a new virus that had been spreading among the Chinese population that had been reported first in December. It was said the Chinese government was taking steps to confine the virus to the area where it first started, and that seemed to satisfy what concerns the market may have had.

Annual Returns US Stock Funds					
Company Size	1 yr	3 yr	5 yr	10 yr	15 yr
Large Cap	-12.5	3.4	5.8	10.5	8.9
Mid Cap	-13.4	4.0	6.0	11.9	10.5
Small Cap	-15.9	2.1	4.6	10.9	9.3

When the S&P hits a high, there is a saying that it can go one of two ways from there, either up or down. Over the next two days, Thursday and Friday, February 20 and 21, it went down 2%. Over that weekend there was time to think about what that 2% may mean. On Monday the S&P dipped 4% and the rout was on. Finally the market was paying attention to the spread of this new virus. Before that week was over the S&P dropped another 12%. The Federal Reserve took its first emergency actions and cut interest rates effectively to zero on Sunday March 15th. Actions like that can help in the long term but the immediate market reaction is often fear that the Reserve knows something the rest of us don't. The next

(Continued on page 2)

Mutual Fund Categories	Quarter Return	1 Year	3 Years	5 Years	10 Years	15 Years
Short Term Bonds	**.3**	**3.7**	**2.5**	**2.0**	**2.2**	**3.0**
Intermediate Term Bonds	**.6**	**6.3**	**3.9**	**3.1**	**4.3**	**4.6**
US Diversified Stocks	**-22.0**	**-12.9**	**3.5**	**5.6**	**10.9**	**9.3**
Healthcare Stocks	**-12.2**	**-.9**	**7.7**	**4.8**	**14.6**	**12.6**
Foreign Stocks	**-21.7**	**-12.7**	**1.4**	**3.0**	**6.8**	**7.0**

The Financial Markets (from page 1)

day the S&P took its biggest one day dive since Black Monday in 1987. On March 23rd the S&P hit its bottom (so far) down 34% from its February 19th high. Boosted by trillions of dollars in Congressional bi-partisan action (yes, bi-partisan) the S&P managed to make it back by the end of the quarter to within 24% of its previous high. Even so, March was the S&P's fourth worst month ever.

Stocks

The funds that lost the least during the quarter were the healthcare funds, TRP's Health Science (-13.4%) and Vanguard's Health Care (-11%). That's not surprising because the healthcare industry usually lives up to its reputation for being recession-proof, because people still get sick even if the economy is struggling. To say the Corona virus has put us in uncharted territory is a vast understatement, and that's at least as true for healthcare as for other industries. I'm sure you have heard that the smaller firms will struggle the most, even with the government efforts to provide small business loans. To clarify, the publicly traded small cap companies in your portfolio are not really small. They have market capitalizations (outstanding shares times value per share) ranging from five hundred million to two billion.

Bonds

Although they have since recovered for the most part, our portfolio shock absorbers uncharacteristically failed to smooth the road for us as we like to expect. In the second week of March as stocks continued to decline so did bonds, on average dropping 9%. So what happened? Well, it gets brutal when everybody runs for the exit at the same time. Crisis or not there is always a need for liquidity. Some investors, like retirees, pension plans and hedge funds, are always drawing cash from their portfolios. Other investors were hit with margin calls, because they used some of their stocks as collateral. When markets are way down people sell what they can get their best price for and that will usually be bonds. Trades that in normal times are market neutral can get turned upside down in a crisis, and when there's more sellers than buyers prices will drop. Fortunately the Federal Reserve stepped in to add cash and a semblance of fiscal sanity was restored. In another move to provide liquidity, the Reserve has established a lending facility to help ease the flow of credit and meet demand for redemptions of money market mutual funds.

Annual Returns Intermediate Bonds	1 yr	3 yrs	5 yrs	10 yrs	15 yrs
Corporate	5.7	3.9	3.2	4.6	4.9
Treasury	11.1	4.9	3.3	3.7	4.4
Inflation Protected	6.5	3.2	2.5	3.3	3.7
High-Yield Corporate	-3.8	1.7	2.9	5.5	5.5
Balanced Funds With Opposing Bond/Stock Allocations					
Wellesley 65% bonds	.9	4.2	4.6	6.9	6.4
Wellington 65% stocks	-2.8	4.2	5.2	7.9	7.1

Looking Ahead

It seems like a very long time ago when our biggest concern was the potential impact of a presidential impeachment, a divisive Democratic presidential nomination and nasty election campaigns in the fall. Actually that was the last newsletter. The impeachment is over, the nomination process is probably over, but the election is still to come. It has been noted for some time that the stock market was fully priced, so there was no buffer for bad news. We were thinking new tariffs and things like that, not a deadly global virus unlike any experienced in over a hundred years. As a global society, in many ways we are much more advanced than we were in 1918, so we'll be able to handle this. For example, in Philadelphia we're not holding any parades. We have even closed the bars and liquor stores. First and foremost we have to deal with the health crisis. We should have been better prepared, but we will still get though it. Because of the hard work of our healthcare providers,5 patients will be cared for, there will be new medical treatments and eventually a vaccine. The economy will be fine. It will take time and some things will be different. I expect we will recover quicker than we did from the Great Recession. There will be no depression, but we will have a bigger than ever deficit to deal with.

Stocks Investing — A Marathon Not a Sprint

Rolling returns is a method of calculating that does not go by the calendar year. Instead every one year, three year, five year, etc. time period begins anew each month over the time frame selected. It's a more precise picture of performance than an average, which tends to smooth out the ups and downs.

The worst ten year period for the S&P ended in February 2009 with a –3% annual return. Dubbed the "Lost Decade" it includes the puncturing of the dot-com bubble and all but the last few days of the market drop during the Great Recession. The worst fifteen year return ended in August 2015, that was +3.7% per year. The worst twenty year period was a +6.4% a year. This occurred over the twenty years ending in May 1979. Since its inception in 1976, Vanguard's 500 Index fund has averaged a 12.4% gain over rolling twelve month periods. If you zero in on the twelve months following each of the funds worst ten months, the return average is +22%.

What does this tell us about stock returns over the next the ten, fifteen and twenty years? Quite possibly nothing. But history repeats itself over the long term. As a global society, what we need to work on is getting just the good parts to repeat.

LOVE THE BEAR MARKET

Spencer Jakab, Wall street Journal (abridged)

The average investor is woefully below average, relatively speaking. Compared to a computer which invests through good and bad, ignoring headlines, a fallible human can end up with a lot less money on retirement day due to greed and fear. Knowing how to handle fearful times like these offer the best opportunity to avoid lagging behind the market.

Some investors will claim they saw the coronavirus-induced bear market coming, just like there are people who say they sold ahead of the housing bubble or the dot-com crash. Maybe some of them are even telling the truth. But there were plenty of excuses to take profits over the past decade during what became the longest bull market in history—the trade war, the European debt crisis and ludicrous unicorn valuations, to name just a few. Up until a month ago, acting on them would have cost you. Similarly, trying to pick the bottom of a bear market is even more hazardous to your wealth. Being what seems like a long way from the top doesn't mean you aren't still just as far from the bottom.

A surprising share of a new bull market's returns pile up in its very early stages when people are most fearful. Take the one that ended last month. Putting $100,000 into an S&P 500 index fund on the day the bull began on March 9, 2009 and selling at last month's peak would have seen that turn into $630,000 including dividends. Waiting just three months to make sure it wasn't yet another head fake would have earned you only $450,000. If you wait for happy headlines or hopeful statistics to pounce, you will be too late. The situation will be bad and getting worse when the market makes it turn back up. Looking back at 14 spikes in unemployment going back to the 1930s, one could have bought stocks three months before the rate peaked and earned a respectable gain every single time.

Are there bargains out there now? Not really. If you believe that the damage the Covid-19 pandemic does to the global economy will be on par with the financial crisis and plan to wait until stock valuations reflect that view, it may be awhile. To fetch a similar valuation, stocks might have to drop to where the DOW drops below 15000. But every downturn is different.

If you have had it with stocks, and are convinced you have too much money in them, then take your lumps and dial back your risk permanently. But if you're merely waiting for a sign that it's safe to buy again then just hold your nose, increase your allocation to equities, and learn to love bear markets.

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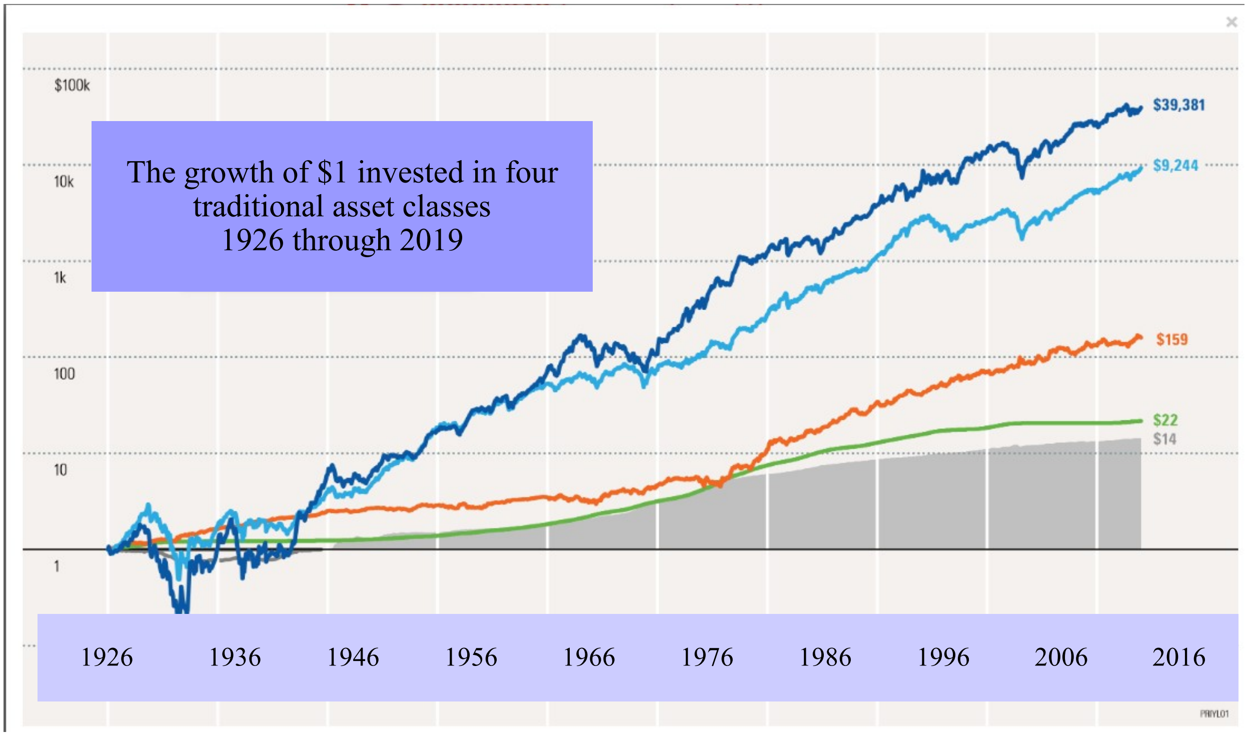
Q&A with the Editor

Q: In a past newsletter you had an excellent piece on whether the 2018 markets could handle a crisis similar to what happened in 2008. Certainly the current virus crisis is worse and will have wider breadth than 2008 in both human and economic terms. So where are we now?

A: The referenced article described a bright and a not-so bright side of where things stood. Bank reforms enacted in response to the 2008 crisis leaves us today with a banking system that is very strong and well financed. Bank balance sheets are in excellent shape. They have to be in order to pass the regular stress tests they have been subjected to. In 2008 the lending and investing polices of banks and other financial institutions were the weakest link in a weak chain, including the supposed industry safeguards, Fanny and Freddy Mac.

The not-so bright side was that since the crisis Congress had chipped away at many of the crisis-fighting tools the Federal Reserve and Treasury used to save the day in 2008. The concern was could Congress, with its well earned reputation for ineptness, come together to put various tools back in place. The answer is that in eighteen days Congress took actions that took eighteen months back in 2008. Over two trillion dollars has been appropriated to try to deal with a for-sure depressed economy. And there is more to come. Prepare yourself to hear many many stories about unintended consequences and the misappropriation and malappropriation of funds. And try not to think about the deficit. Nobody else is.

May You Invest in Interesting Times



Compounded annual returns 1926-2019 and growth of a $1 investment		
Small company stocks	11.9%	$39,381
Large company stocks	10.2%	$9,244
Government bonds	5.5%	$159
Treasury bills	3.3%	$22

Some events of note 1926– 2019

1929-1941 The Great Depression
1941-1945 World War Two
1947-1953 Polio, measles, small pox
1950-1953 Korean War
1962 Cuban Crisis
1961-1975 Vietnam War
1973 Oil Crisis
1973-1974 Watergate
1985-1986 Peak of Aids deaths
2001 Terrorist attacks
2002 Afghanistan War
2003 Iraq War
2008 The Great Recession