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Spectrum Investor®

Special Edition Newsletter

SPECTRUM INVESTMENT ADVISORS

Market Update

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At the end of our last newsletter we wrote, "stay diversified and avoid reacting to short-term headlines, good or bad." We've had our share of both in 2020. After hitting a new record high on February 19, 2020 the S&P 500 fell into a 10% correction just six trading days later. Altogether, that put the S&P down 7.8% year to date (2/27/20).

Why the big swing?

1. **Strong momentum:** Three interest rate cuts by the Federal Reserve in 2019, the US-China Phase One deal, and better than expected corporate earnings combined to lift the stock market to a great start in 2020. The S&P 500 had been up 5% through February 19, after rising 34.5% in 2019.

2. **Coronavirus:** The coronavirus was unexpected. China responded to the virus with an unprecedented lockdown of a city of 11 million people (Wuhan) where it first broke out. Just as the containment appeared to be working, new cases began to pop up in South Korea, Italy and Iran over the weekend of February 22, 2020.

The coronavirus is a reminder that there is no crystal ball. Life is full of surprises, which is why 10% corrections are not unusual.

How often do 10% corrections occur? Since 1980, the S&P 500 fell by 10% or more in 22 out of 40 calendar years. The S&P 500 finished with a gain for the year in 13 of those 22 years. In spite of those downturns, including the tech bubble burst of the late 90s and the financial crisis of 2008-09, the annualized total return of the S&P 500 since 1980 is 11.67% per year through February 26, 2020. This is why we encourage you to stay the course.

When suprises come into the markets, big single day movements in stock prices tend to stick around for a while. In the last five months of 2011, the S&P 500 moved up or down by more than 1% in 63 of 106 trading days; more than every other day. (It finished down 1.7% during that period). *Past performance is not an indication of future results.*

What to do?

Make sure your portfolio matches your time horizon and risk tolerance. There is a key difference between reacting to short-term headlines emotionally and repositioning to an appropriate portfolio. If you've been aggressive, or if it has been some time since you've rebalanced, it is not too late to rebalance or reduce your equity exposure. **If you're in a portfolio that matches your risk tolerance and time horizon, as much as it may be tempting to act, often the best thing to do is stay the course.** Don't forget that you may already have positions in your portfolio that are there specifically to get you through downturns.

We are here to help.

Whether you are thinking of making a change, or want to confirm your current portfolio, advisors on our team are available Monday through Friday 8-5pm central standard time. You can reach us by phone at 1-800-242-4735 or email: sia@spectruminvestor.com.

Coronavirus Brief:

"*Our greatest enemy right now is not the virus itself. It's fear, rumors, and stigma*" (Dr. Ghebreyesus, World Health Organization).

-First discovered in early January in the city of Wuhan, China.

-**The concerns in markets are about health, but more about the inevitable impact to the economy. Quarantines, travel restrictions, and missing work or school due to illness, are all circumstances that naturally lead to less economic activity.**

-Data reflecting the economic impacts of the virus will start coming in over the next few weeks.

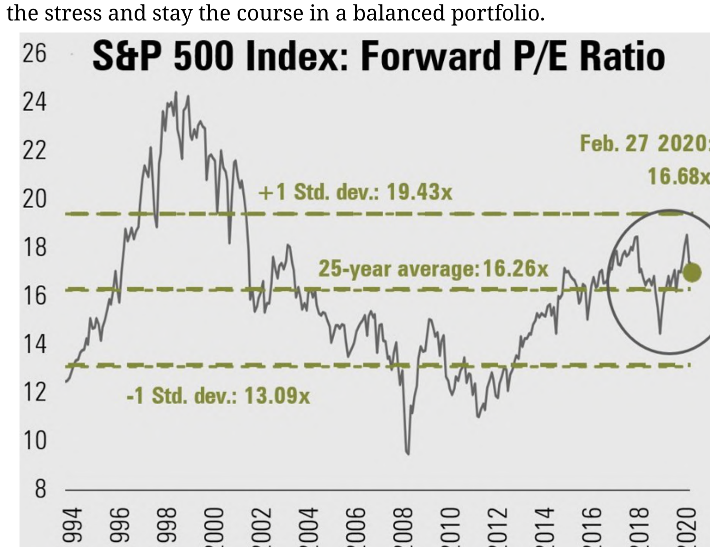
-83,650 people have contracted the virus in 52 countires, (78,959 in China). 2,812 deaths have been attributed to coronavirus worldwide.

-Symptoms are similar to the flu, primarily affecting the lungs. Many cases are mild and thousands have recovered, including the first confirmed case in the US.

-On February 25, the US CDC (Center for Disease Control) issued a statement that they expect, and are preparing for the virus to spread in the United States.

-As of February 27, the US had 59 confirmed cases. So far, only one person contracted the virus from another person here in the US. All other cases were contracted while traveling abroad, mostly to China.

Valuation update: One reason for the steep and fast downturn is that investor optimism pushed valuations higher in anticipation of stronger earnings in 2020. After the correction, valuations on the S&P 500 are now just above the long-term average. The chart below shows that in some ways this downturn may have been a correction in the most literal sense: a return to normal valuations. It may take months to get a firm grip on the impact of the coronavirus, but as stocks get cheaper, eventually buyers come back in. This is where we may see huge up days that follow big down days. Don't get caught up in it. Save yourself the stress and stay the course in a balanced portfolio.



Source: FactSet, FRB, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since February 1995, and FactSet for February 27, 2020. Average P/E and standard deviations are calculated using 25 years of IBES history. Guide to the Markets – U.S. Data are as of February 27, 2020.

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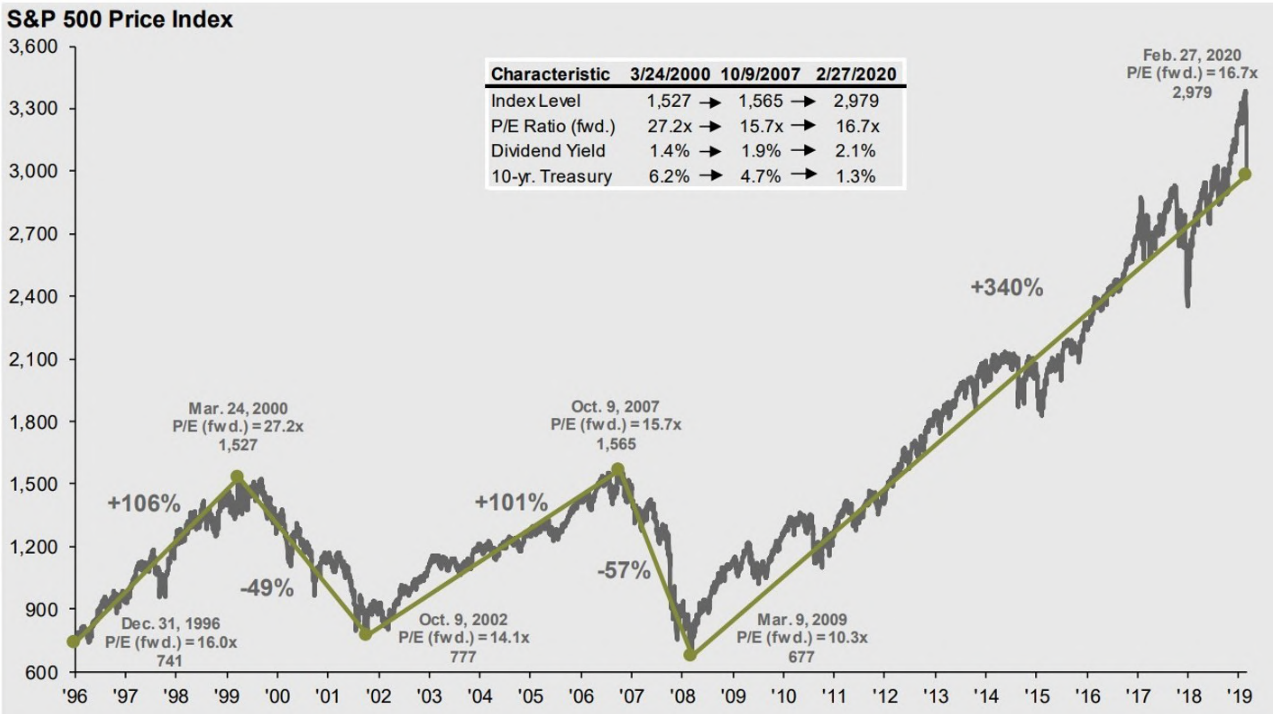
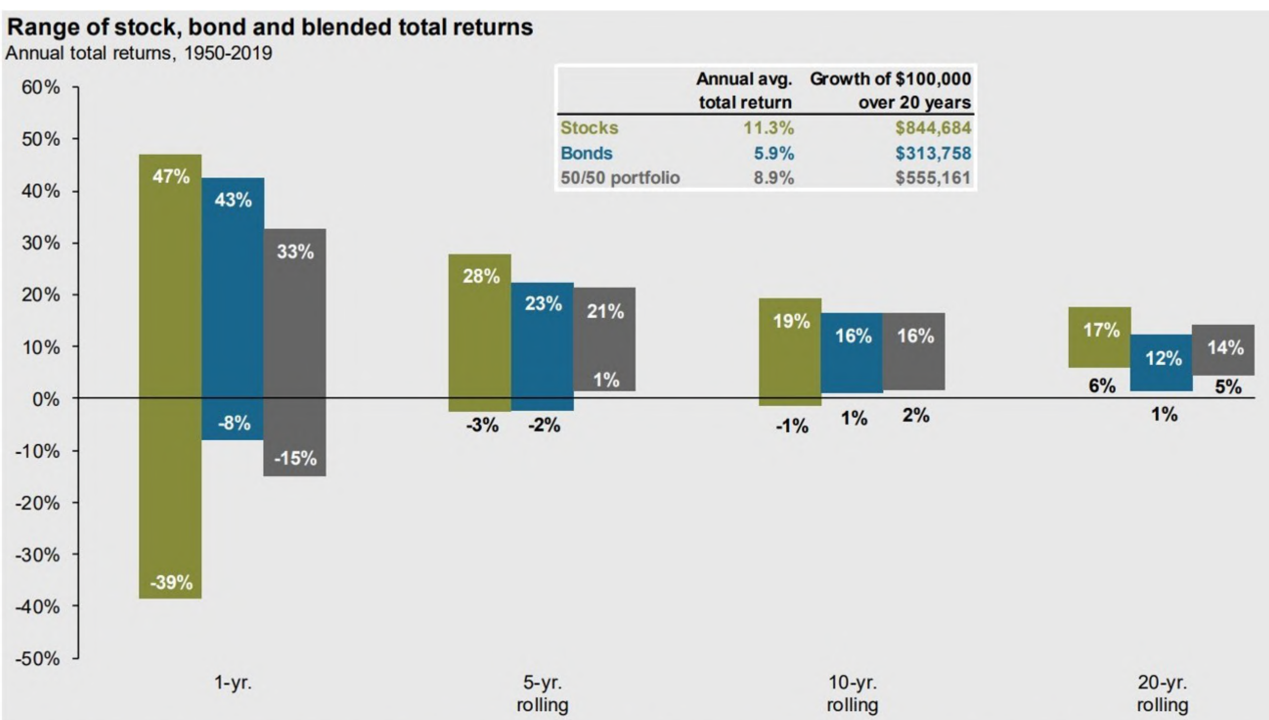
Long-term picture: The S&P 500 is still in the midst of its longest bull market run in history. That streak will end at some point, but for now, one key aspect that we have continued to point out is that stocks are more appealing in an era of low interest rates. When held through the volatility, the dividend yield alone on stocks (2.1%) can provide a higher return than a lower risk 10-year Treasury, now at just 1.3%.



Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, JP Morgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. The S&P 500 Index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US. Guide to the Markets – US Data as of 2/27/2020.

Range of returns: The green bar on the left in the chart below shows that the range of one year returns for stocks is wildly unpredictable. Yet overtime, returns in stocks trend toward a more narrow range. The grey bars show that by mixing stocks and bonds together, you can reduce the short-term risk and still produce good returns in the long-run, which is why we promote balanced portfolios.



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, JPMorgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2019. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2019. Bloomberg Barclays Aggregate Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the US. Guide to the Markets – US Data as of 2/26/2020.