



Tax preparation, tax planning, and tax advisory services offered through Munc & Cooper CPA's, LLP dba Fiduciary Financial Group. Investment advisory services offered through Advisor's Fiduciary Group LLC dba Fiduciary Financial Group, a Registered Investment Advisor in the States of California, Idaho and Georgia, an affiliated entity. These services are only provided to clients who sign an engagement letter and/or financial advisory agreement. This presentation is NOT meant to be used as tax, legal, or investment advice, but rather just for informational purposes. Past performance is no guarantee of future results. Investing involves risk including the possible loss of principal.

Q1'2020 Economic Update

Tax Prep & Planning | Portfolio Management

www.ffgwealth.com

Boise | SF Bay Area

208-319-3557 | 415-785-3778

OUR TEAM

Decades of accounting, tax, investment management & financial planning experience



Richard Davey

Co-Founder, Managing Member
CPA, CFP®



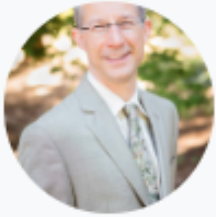
Trevor Scotto

Co-Founder, Private Wealth
Advisor
CPA, CFP®



Shayne Cooper

Tax Partner, Investment Advisor
Rep
CPA, MS Tax



Ian Munc

Tax Partner, Investment Advisor
Rep
CPA



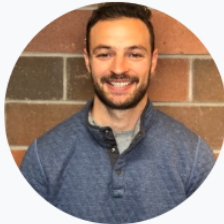
Travis Raish

Portfolio Manager and
Investment Consultant
CFA



Alex Boeri

Wealth Manager
CFP®



Victor Torres

Technology Advisor



Ben Fookes

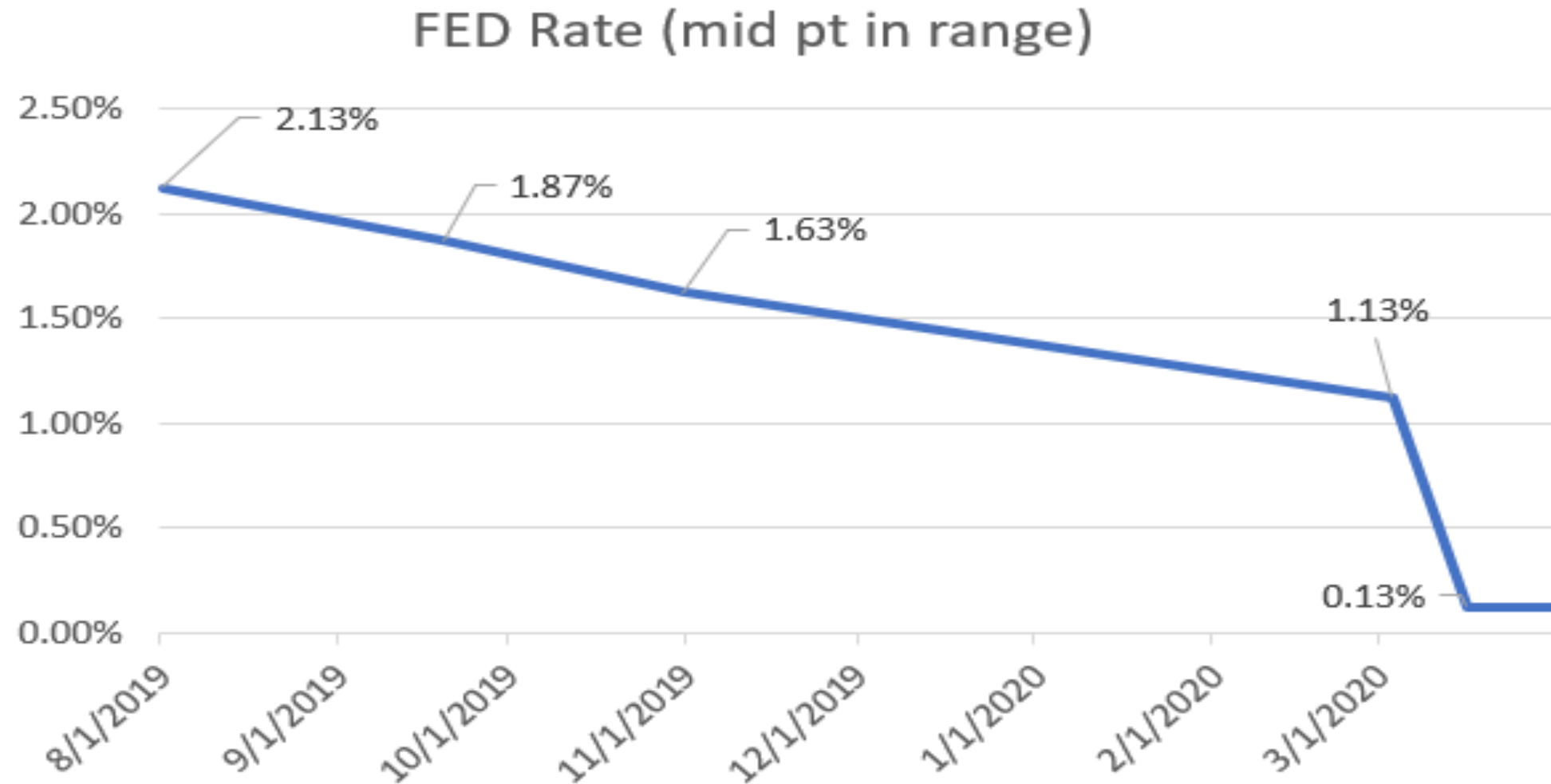
Finance Intern

Topics Outline

- FED Reserve Actions Update
- Employment
- Deficits & Debt
- Stock / Bond Valuations
- Recessions & Recoveries
- Global Asset Class Performance – Q1 '2020 & 2019
- A Case for Some Optimism
- CARE ACT Update

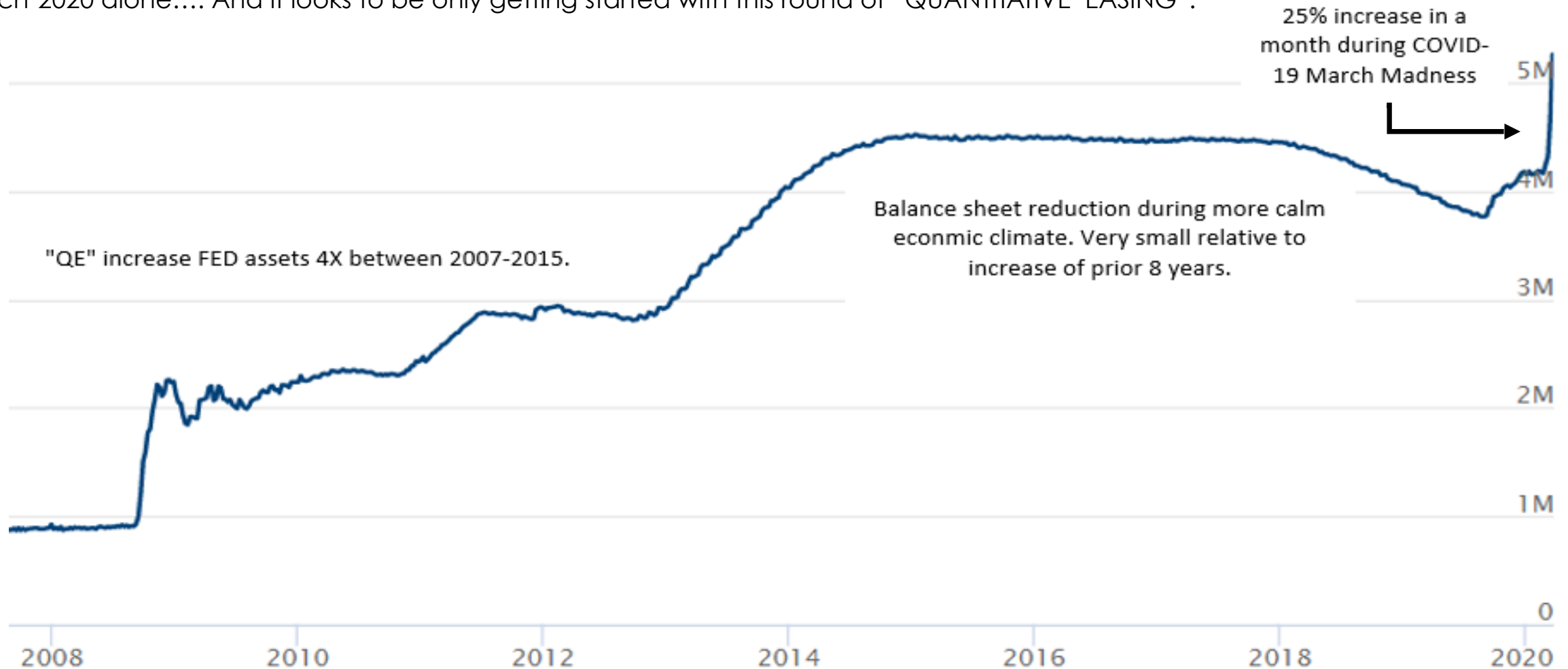
FED RESERVE: Interest Rate Policy

After concerns over a looming global recession in Q4'2018, the FED began steadily reducing rates in 2019. Amidst the global pandemic, steady changes were abandoned for an immediate reduction of the FED Funds Rate to 0.00-0.25% range.



FED Reserve: Open Market Operations

The FED controls the amount of money in circulation through “open market operations”. In times of market distress, the FED will buy back treasury bills from large banks & securities dealers to increase the amount of money in the system in the hands of the public. We can see FED actions over time by looking at the size of the FED's balance sheet. The FED increased assets on their balance sheet > 400% during the 2007-2008 great recession. Through recent rapid stimulus, the FED has yet again increased it's balance sheet by 25% in March'2020 alone.... And it looks to be only getting started with this round of “QUANTITATIVE EASING”.



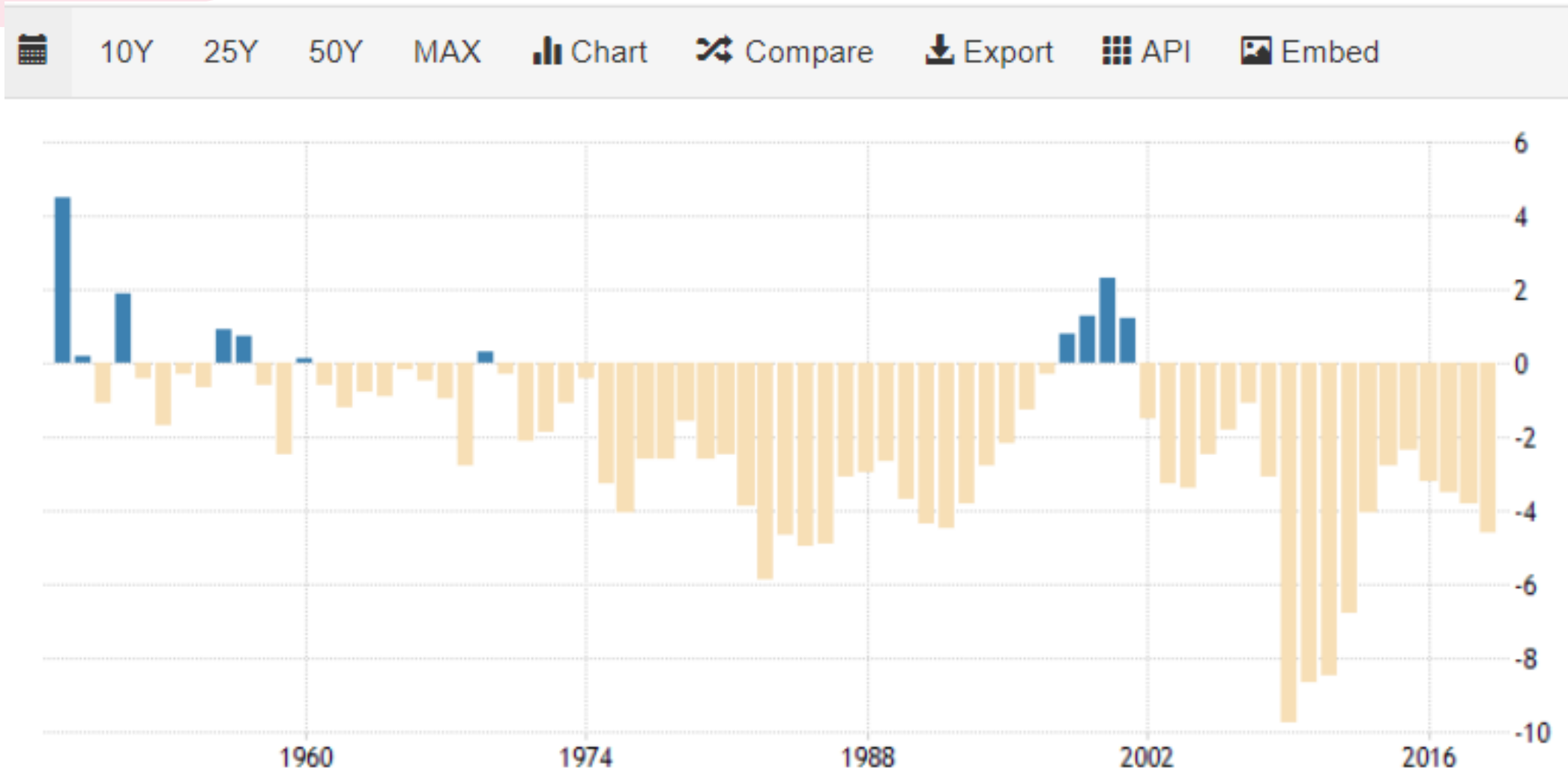
Unemployment – It's Hard to Chart Such a Skew

For the last week of March, unemployment claims were more than 4X higher than the worst week of the 2007-2008 recession.



DEFICITS & DEBT (Deficits as % of GDP since 1950)

Let's look at monthly budget deficits over the last 80 years. Even “pre” COVID-19 STIMULUS (where tax receipts will drastically fall and gov't spending is rapidly rising), deficits were severe.



Stock Valuations

Has the recent drop made stock prices more reasonable?

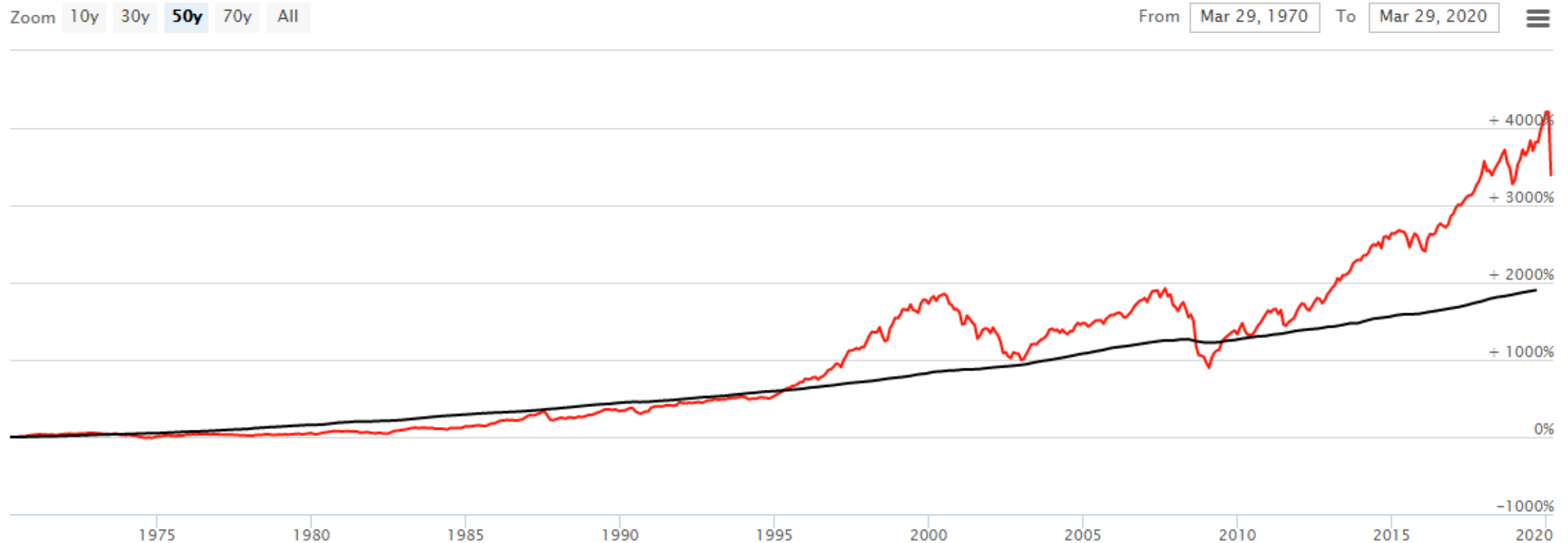
In short, yes. As of February 18, 2020 (the highest market close) stock prices as measured by the Cyclically Adjusted Price-to-Earnings ratio were above levels seen at the peak in 1929 and in 2007. That said, the broad market still isn't "cheap" by historical measures. Many are suggesting however that historical measures of stock market value must be taken with a grain of salt considering 0.0% interest rates and a rapidly expanding money supply / FED balance sheet.



Stock Valuations - Growth of S&P 500 vs. Growth of US GDP (Real Productivity)

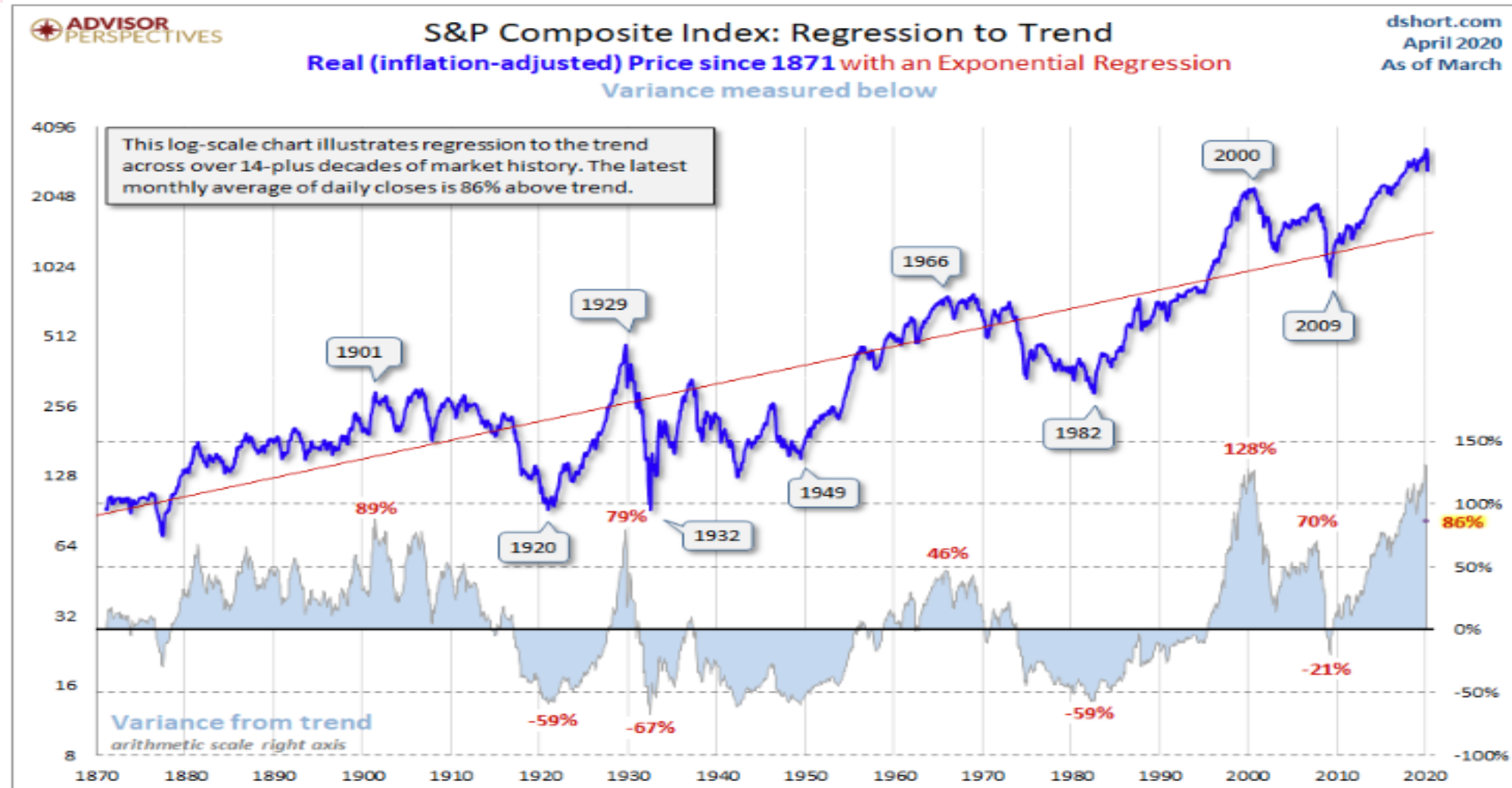
For decades leading up until the 1990s, stock market growth and GDP were more in line. Since then, we have fallen victim to 'boom and bust' cycles with stocks far outpacing GDP growth for sustained periods but then seeing more extreme bear market sell-offs (50% on the S&P 500 in 2000-2002 and 57% from 2007-2009). The recent sell-off has helped close the gap, but this chart still exposes how "ahead of real productivity" the stock market has gone in recent years.

S&P 500 vs. GDP



Stock Valuations – Reverting to the mean (trend line)?

Looking at the last 15 decades of market data, we can draw a “trend line” through the growth of US stock prices. Using this trend line, we can see how far above or below stocks have moved relative to a long-term “average growth rate” to identify distortions. As of 4/1/2020, stocks were still 86% above the long-run trend line vs. 120% above at 1/1/20.



Bond Valuations – 10 Year Treasury Yields

Bonds haven't offered such dismal return potential EVER (as measured by yield). There has never been a worse time (in history) to be an income-investor.



Bond Valuations – High Yield Bond Spreads (vs High Credit Quality Corp Bonds)

For the last 5+ years, we have been very skeptical of owning high yield bonds as the incremental yield above higher credit quality bonds was low. They looked particularly unattractive considering how low overall yields were as a trade off for the permanent loss risk inherent in lower credit quality bond issues (higher bankruptcy risk). In the last month, high yield bonds have become more attractive as investors are demanding more yield to take on bankruptcy risk. Effective yields on the ICE BofA US High Yield Index have increased from just over 5% in mid February to over 9% as of 3/31/2020.



Recession & Recoveries–

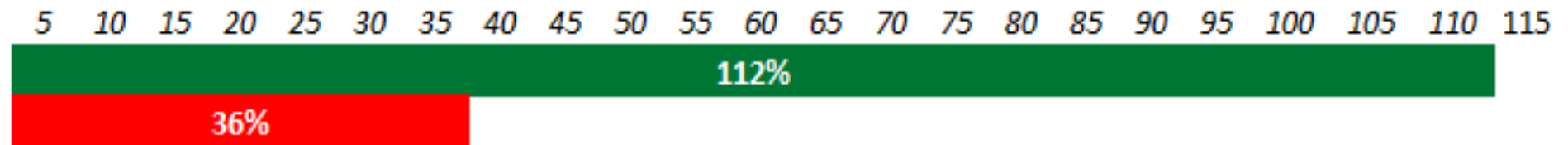
A picture speaks 1,000 words. But to summarize, bull markets gain more than bear markets lose and we spend more time in bull markets than bear markets (on average).

Bull & Bear Markets Since 1928

Cummulative % Move

Bull Market (bottom to top)

Bear Market (top to bottom)



Time in Bull & Bear Markets

Duration in Days

Bull Market (up)

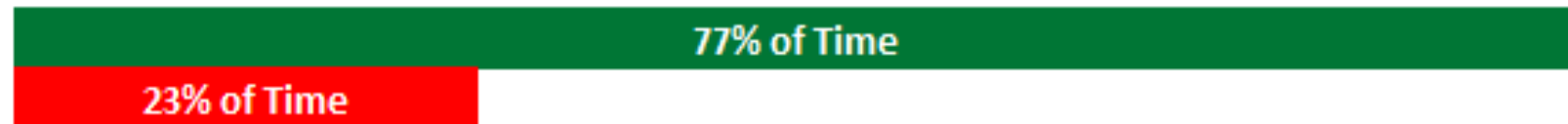
Bear Market (down)



Time Spent in Bull/Bear Market

Bull Market (up)

Bear Market (down)



Global Asset Class Performance (the data)

2019 Returns and First Quarter 2020 Returns

Category	Ticker Symbol	Description	2019	Q1'2020
Major World Stock Indices	SPY	S&P 500	31.3%	-19.5%
	DIA	Dow Jones	25.1%	-22.6%
	MDY	Mid Cap Stocks	25.9%	-28.4%
	IWM	Small Cap Stocks	25.4%	-30.6%
	QQQ	Nasdaq 100	39.1%	-9.4%
	IWF	Russell 1000 Large Growth	36.1%	-14.1%
	IWD	Russell 1000 Large Value	26.3%	-26.7%
	IEV	European 350	23.6%	-24.3%
	EWJ	Japanese Stocks	19.2%	-16.9%
	MCHI	Chinese Stocks	22.7%	-10.4%
	INDA	Indian Stocks	6.6%	-30.5%
Bonds Indices	EEM	Emerging Market Stocks	17.7%	-23.7%
	GOVT	US FED Gov't Bonds	6.7%	8.5%
	TFI	US State/Local (Muni) Gov't Bonds	7.5%	0.2%
	LQD	US High Credit Rating Corp Bonds	17.1%	-3.2%
	JNK	US Low Credit Rating Corp Bonds	15.0%	-12.8%
	IAGG	International Bonds	8.2%	0.5%

Category	Ticker Symbol	Description	2019	Q1'2020
Benchmark Funds	AOR	Growth (~60-70% Equity)	19.0%	-13.3%
	AOM	Moderate (~40-50% Equity)	15.5%	-8.6%
	AOK	Conservative (~25-35% Equity)	13.8%	-6.3%
USA Industry Sectors	XLY	Consumer Discretionary Stocks	28.4%	-21.5%
	XLP	Consumer Staples Stocks	27.4%	-13.0%
	XLE	Energy Stocks	11.9%	-50.7%
	XLF	Financial Stocks	31.9%	-31.9%
	XLV	Healthcare Stocks	20.6%	-12.7%
	XLI	Industrial Stocks	29.1%	-27.1%
	XLB	Materials Stocks	24.2%	-26.3%
	RWR	Real Estate Investment Trusts	22.7%	-28.6%
	XTL	Telecommunications Stocks	12.0%	-14.9%
	XLK	Technology Stocks	50.0%	-12.0%
	XLU	Utilities Stocks	26.0%	-13.5%
Tangibles	DBC	Broad Commodities Index	12.2%	-29.2%
	N/A	US Crude Oil (Futures)	32.5%	-66.4%
	GLD	Gold Bullion	18.4%	5.5%

Data as of market close - 3/31/2020 - pulled from morninstar.com >> performance by ticker symbol

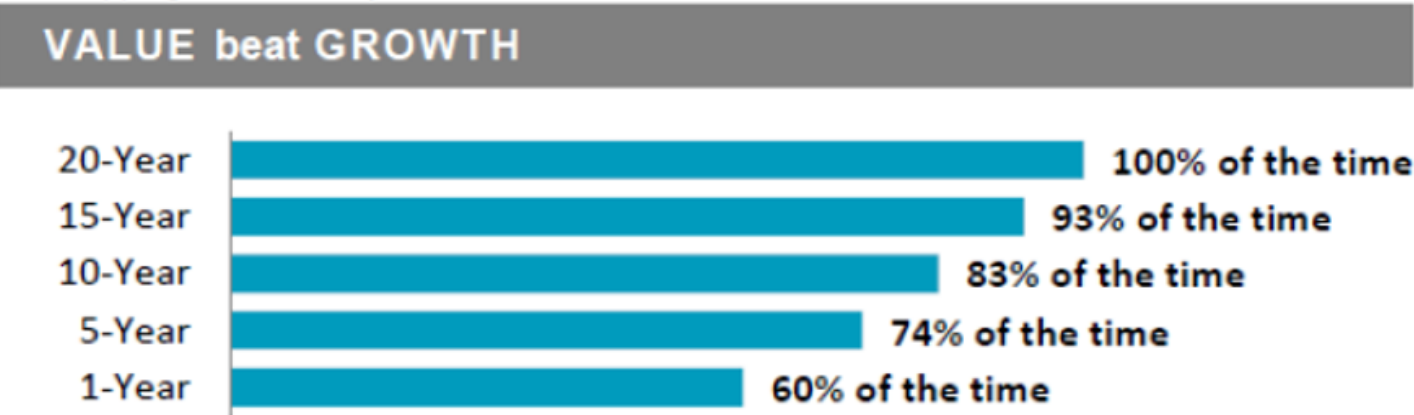
Global Asset Class Performance – (narrative)

- Clearly, the only place to “hide” from the virus as an investor was in sovereign bonds and gold. All other asset classes we track fell.
- Value investing (as measured by the Russell 1000 Value index) underperformed growth investing (as measured by the Russell 1000 Growth Index) by over 12.5% in Q1'2020 alone. This exacerbates / perpetuates the trend of the last decade of value investing underperforming growth. For the 10 years ended 3/31/2020, IWD (Russell 1000 Value) has returned 6.85%/yr vs. 12.20%/yr for the growth portion of the index. This is the LARGEST 10-year discrepancy in favor of growth investing (5.35%/yr) since the beginning of available data in 1928.
- Technology and healthcare sectors of the S&P 500 held up the best, down ~12% & 13% respectively as opposed to energy, financials, and real estate investment trusts losing ~50%, 32%, and 29% respectively during the quarter.
- Mid-sized and small company stock indices lost ~45-55% more than the S&P 500.
- Commodities suffered significant losses across the board except for gold. (data from Koyfin.com)
 - WTI Crude ~60%
 - Copper: ~20%
 - Live Cattle: ~33%
 - Cotton: ~26%
 - Sugar: ~22%
 - Ethanol ~36%
 - Silver: ~16%
 - Corn: ~12%
 - Soybeans: ~26%
 - Steel: ~13%

Global Asset Class Performance – FFG continues to emphasize value vs growth style stock investing – A look at the Fama / French NYSE Value vs Growth Study explains why

Numerous studies citing the poor performance of active management (Morningstar's annual mutual fund manager survey for one) suggest alternating between value and growth stock strategies based on short-term predictions of market movement is highly unreliable in driving solid performance. Alternatively, over long time periods, consistent application of value investing has generated alpha with high degrees of probability. It's for this reason why we will always emphasize value stocks in our portfolios vs. growth stocks. The data below analyzes rolling forward returns on NYSE value stocks vs NYSE growth stocks as measured by price-to-book value over varying time periods dating back to 1926. Since that time, the value segment of the NYSE has outperformed the growth segment 83% of 10-year trials tested (991 trials in total). Unfortunately for value investors, the last 10-year period ending 12/31/2019 happens to be one case in the 17% group (1-83%) where a value emphasis has not generated higher returns.

Overlapping Periods: July 1926–December 2018



Value is Fama/French US Value Research Index.
Growth is Fama/French US Growth Research Index.
There are 871 overlapping 20-year periods, 931 overlapping 15-year periods, 991 overlapping 10-year periods, 1,051 overlapping 5-year periods, and 1,099 overlapping 1-year periods.

Some Reasons to be Optimistic as an Investor

- The #1 reason – it's been VERY profitable to be an optimist when it comes to investing over the last 100 years
- Never in human history has the ENTIRE world united to fight a common enemy (the virus.) Mobilization on this scale has only occurred in times of world war. If you believe in human ingenuity, perseverance, and innovation, it's not crazy to think solutions to this pandemic will be developed sooner than most expect.
- Treatments such as hydroxychloroquine combined with zinc are showing anecdotal promise of decreases in mortality and symptom length although it's too soon to tell if widespread treatment for all infected is merited. Luckily, these drugs are "off patent", meaning they can be mass-produced by generic drug makers allowing for more rapid production.
- Cash (not just dollars, but Euros, Yen, etc) is being devalued at an alarming rate by central banks around the world. Emphasizing investments that have intrinsic value is crucial:
 - ✓ Stocks – ownership in companies. Whatever the currency of the day, owning a share of a company's future profits has lasting value.
 - ✓ Commodities – we will never stop needing sugar, metal, cocoa, corn, oil, etc. While producers of commodities face risks such as bankruptcy, the commodity itself will always retain value.
 - ✓ Real Estate – again, owning land/buildings will always have utility no matter what happens to cash, our gov't debt, etc.
 - ✗ Bonds: Bonds (i.e. loans) only have value in the currency in which they are denominated. While there is stability (low volatility) in high credit quality bonds, the money you are being paid back is losing value every day from inflation.
 - ✗ Cash: If governments dump more cash into circulation, your dollars you hold have become relatively less valuable in terms of their purchasing power. This is not to say that ample cash reserves aren't important, only that sitting in 100% cash is NOT a viable investment strategy.

CARES Act (some footnotes)

- Businesses who have a PPP loan forgiven by the Small Business Administration will not pay income tax on that debt forgiveness
- Taxpayers under 59 ½ will not be charged the 10% penalty for an early withdrawal from their IRA (or other retirement-type account)
- If you take a distribution, you have 3 years to pay it back in. The usual caps on contributions won't apply to those paybacks.
 - If you don't pay it back, you have 3 years to pay the income tax on that distribution.
- Required minimum distributions (RMDs) are suspended for 2020.
- The allowable loan amount from your 401k has been increased from \$50k to \$100k in 2020.
- If you already took a loan from your retirement account and the due date was this year, it is delayed for a year.
- \$300.00 of charitable contribution deductions will be allowed for all taxpayers in 2020, not just those that itemize their deductions. In other words, if you take the standard deduction, you will be able to also deduct up to \$300 in charitable contributions in excess of the standard deduction.

Conclusions

- The FED has nearly exhausted its interest rate policy tools having driven FED funds rates to 0.00%.
- The FED still has other ammo in that it can expand its OPEN MARKET OPERATIONS (quantitative easing) via the purchasing of not only treasuries, but mortgage backed securities, municipal bonds, and possibly even stocks (government ownership of airline stocks is a real possibility). We are likely to see QE stimulus and FED balance sheet expansion that could rival 2008. The effect of this last time was prolonged/significant inflation in stocks/real estate over the subsequent decade.
- The combination of actual surges in lay-offs AND the reduction in barriers for qualification for unemployment could result in 30%+ unemployment in the short-term (Spring/Summer 2020) per projections released by the St. Louis Fed. This was expected due to the # of jobs that had to be furloughed as a result of nationwide quarantine efforts. The lasting damage of this spike in unemployment is not yet quantifiable. It's the duration of the spike that is so unknown and so vitally important to mitigate. Pro-longed increases in unemployment (if the virus is unable to be contained) will cause significant damage to our country's fiscal situation in the form of swelling deficits and debt, which were already a major threat to our nation pre-COVID 19.
- While stock market valuations have surely become more reasonable after the ~25% drop from the 2/19/2020, long-term measures of value (SHILLER P/E, S&P 500 relative price growth vs. GDP growth, and S&P 500 price levels above long-term regression/trend lines) suggest stocks have plenty of room to fall before reaching what would be more historically "average" valuations. This must be balanced against unprecedented stimulus via low rates and quantitative easing which DOES support higher valuations as cash is devalued and money supply increases.

Conclusions

- Bear markets are usually MUCH shorter and less severe to the downside than bull markets are to the upside however, there are exceptions. There are cases around the world where bear markets were sustained far longer than anticipated. For instance, the Japanese Nikkei 225 is still below its 1990 peak – 30 years later. The EUROSTOXX 50 index is now below where it was in March 2010, with a 10-year trailing return including dividends of 0.03%/yr!
 - It's these extreme bear market cases that demonstrate the importance of GLOBAL DIVERSIFICATION across asset classes (stocks, commodities, real estate, and bonds). Emphasizing diversification in this way provides the highest probability of positive returns in excess of inflation over time.
- Value stock investing has dragged for the last decade, but these aberrational periods of lower performance relative to growth stocks happen (just like the 1990s) and is not sufficient evidence in our eyes to deviate away from a strategy that has demonstrated such consistent success over long-time frames.
- Optimism usually pays off in stock market investing. The world is mobilized against a common threat with unprecedented scientific and technological capability. We believe humanity and the global capitalist economy can beat COVID-19. Further, our government's (and other governments around the world) stimulative response with interest rate & monetary policy is stock-investor friendly and CASH hoarder UNFRIENDLY.
- The CARES Act provides immediate relief via tax breaks, loans, and grants to MILLIONS of Americans. Make sure to familiarize yourself with the provisions that may impact you to avoid missing opportunities.

Bibliography (MLA)

- Slide 4: "Open Market Operations." Board of Governors of the Federal Reserve System, Federal Reserve, 31 Mar. 2020, www.federalreserve.gov/monetarypolicy/openmarket.htm.
- Slide 5: "Credit and Liquidity Programs and the Balance Sheet." Board of Governors of the Federal Reserve System, Federal Reserve, 31 Mar. 2020, www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm.
- Slide 6: United States Initial Jobless Claims. Trading Economics, 31 Mar. 2020, www.tradingeconomics.com/united-states/jobless-claims.
- Slide 7: United States Federal Government Budget. Trading Economics, 1 Apr. 2020, www.tradingeconomics.com/united-states/government-budget.
- Slide 8: Shiller PE Ratio. Multpl.com, 1 Apr. 2020, www.multpl.com/shiller-pe.
- Slide 9: Longtermtrends, 1 Apr. 2020, www.longtermtrends.net/market-cap-to-gdp/.
- Slide 10: Mislinski, Jill. Regression to Trend: Another Look at Long-Term Market Performance. Advisor Perspectives, 1 Apr. 2020, www.advisorperspectives.com/dshort/updates/2020/04/01/regression-to-trend-another-look-at-long-term-market-performance.
- Slide 11: "10 Year Treasury Constant Maturity Rate." FRED Economic Research, Federal Reserve Bank of St. Luis, 1 Apr. 2020, fred.stlouisfed.org/series/DGS10.
- Slide 12: "ICE BofA US High Yield Index Option-Adjusted Spread". FRED Economic Research, 1 Apr. 2020, fred.stlouisfed.org/series/BAMLH0A0HYM2.
- Slide 12: "ICE BofA US High Yield Index Effective Yield". FRED Economic Research, 1 Apr. 2020, <https://fred.stlouisfed.org/series/BAMLH0A0HYM2EY>.
- Slide 13: Solin, Dan. Take the "No Advice" Challenge. Advisor Perspectives, 1 Apr. 2020, www.advisorperspectives.com/articles/2020/04/01/take-the-no-advice-challenge.
- Slide 14/15: Morningstar.com, Morningstar, 1 Apr. 2020. Search by ticker symbol references >> performance tab >> calendar year returns (for 2019) and trailing returns (for Q1'2020 performance)
- Slide 15/16: Value vs. Growth Fama/French Research Index Rolling Return Study. Dimensional Fund Advisors, mydimensional.com
- Slide 15: KOYFIN, 2 Apr. 2020, <http://www.koyfin.com/cmtv>.
- Slide 18: Santucci, Danny C. "Coronavirus Tax Summary." eTax Alert, Western CPE, 31 Mar. 2020, www.westerncpe.com/blogs/etax-alerts/post/2020/03/31/coronavirus-tax-summary.
- Slide 19: Cox, Jeff. "Coronavirus Job Losses Could Total 47 Million, Unemployment Rate May Hit 32%, FED Estimates." CNBC Markets, CNBC, 30 Mar. 2020, www.cnbc.com/2020/03/30/coronavirus-job-losses-could-total-47-million-unemployment-rate-of-32percent-fed-says.html.
- Slide 20: Nikkei 225 Index - 67 Year Historical. Macrotrends, 1 Apr. 2020, www.macrotrends.net/2593/nikkei-225-index-historical-chart-data
- Slide 20: Morningstar.com, Morningstar, 1 Apr. 2020. Search by ticker symbol "FEZ" >> performance tab >> trailing returns >> 10-year returns