TRIVETT WEALTH MANAGEMENT

"In times of change and danger when there is a quicksand of fear under men's reasoning, a sense of continuity with generations gone before can stretch like a lifeline across the scary present and get us past that idiot delusion of the exceptional Now that blocks good thinking."

– John Dos Passos, 1941

What a first half to forget! The first six months of 2020 saw the advent of the worst global public health crisis in a century—since the 1918 influenza pandemic. In response, the world locked down, putting its economy into a kind of medically induced coma. Adding to the already fragile American psyche is the recent onset of an increasing level of domestic civil unrest—which has served only to exacerbate the ever-present angst, sending Americans' anxiety to stratospheric levels.

The result of this mess is an unquenchable thirst within the investing public for market prognostications and other predictions as to the ultimate degree and timing of the ensuing economic ramifications. To this point I have two observations. One, there is no shortage of talking heads excessively eager to dish out their predictions to those in the salivating public. And two, most of these financial prophecies are nothing more than a polished version of hogwash.

Permit me to take a swing at putting an even finer point on it: NOBODY KNOWS WHAT THE EVENTUAL IMPACT OF COVID-19 WILL BE. Nobody knows the impact to the unemployment rate. Or the effect to corporate earnings. Or to oil prices. And on and on it goes. It is impossible to forecast the near-term course of these things, as they—like the economy they reflect—are still largely hostage to the pandemic.

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But we do know this immutable truth: ***There has always been uncertainty, and there always will be. The details may change, but human nature does not***. And every day nearly 300 million Americans wake up with the singular goal of improving their lives—which, by the way, has been the case with every preceding generation. And on the other side of that ever-present desire are a litany of adaptive, nimble, innovative, and well-funded corporations just itching to serve that need and generate profits for their shareholders.

REVIEW AND OUTLOOK

At midyear, the best that can be said is that the first great wave of the pandemic appears to be abating, and the economy is slowly reopening. As it continues to reopen, there will inevitably be flareups in new infections (although it appears to me, as a mere casual observer, that the infection fatality rate ratio continues to look more favorable by the day). The interaction between the pandemic and the economy in the short to intermediate term is therefore perfectly impossible to forecast, as is the timing of the development of a vaccine.

The equity market crashed from a new all-time high on February 19 to a bear market low (so far) on March 23, down 34% in 33 days. **There is no historical precedent for this steep a decline in so little time. Confoundingly, it then posted its best 50 days in the history of the American stock market. Ever.**

Now I would like to draw your attention to the fact that at June 30, the yield on the 10-year US Treasury note was about seven tenths of one percent.

I infer from the current state of interest rates that though it is impossible to forecast equity earnings, dividends and prices, it can be stated as fact that **few, if any, of my clients can continue to advance toward the achievement of their long-term financial goals in bonds, at anything close to today's yields.** This is not a case for eliminating fixed income in your portfolio—we asset allocators don't think that way. But it is a case for staying the course in equities.

It should also be noted that even if the pandemic continues to subside and the economy persists in recovering, investors will still have to deal with what may be the most widespread civil unrest in our country in decades, and what promises to be a bitterly partisan presidential cycle. More on that in a moment.

"In the next breath, I remind you that not one of you is investing for the next one to four calendar quarters."

I have deliberately labored in this summary to convince you of the sheer unknowability of the short- (say, the third quarter of 2020) to intermediate- (say, through the first quarter of 2021) term economic and market outlook. In the next breath, I remind you that not one of you is investing for the next one to four calendar quarters. I say again: you and I are long-term, goal-focused, planning-driven, patient, disciplined investors. Our focus is on history rather than headlines, and our mantra is from Churchill: "*The farther back you can look, the farther forward you are likely to see*."

A TIMELY REVISIT OF OUR GENERAL PRINCIPLES

This very moment in history appears to be as good as any to take stock of our philosophical bedrock as investors. I encourage you to read these slowly.

- We believe that all lastingly successful investing is essentially goal-focused and planning-driven. All failed investing is market-focused and event-driven.

- Stated another way: Most truly successful investors I've known acted continuously on a long-term plan. Most failed investors I've known continually reacted to sudden and terrifying market shocks.
- Thus, I've found that long-term investing success is only incidentally a function of the economy and the markets. It is a direct function of how the investor reacts—or, more properly, how he/she refuses to react.
- You and I are long-term, goal-focused equity investors, acting on our plan with patience and discipline. The smaller part of what I do for you as a client is crafting your portfolio. The much larger part is helping you craft a plan and not react in stressful times like this.
- I continue to believe that the equity market can't be consistently forecast, much less timed, and that the only certain way of capturing equities' superior long-term returns is to sit through their occasionally steep but historically temporary declines.

A FLURRY OF REBALANCING

There's a silver lining in everything. And when markets fall and/or jump, without warning, it can create wonderful opportunities to capitalize on sudden capitulation. And that's the gift we were handed between February 19 (the morning the great slide commenced) and March 23 (the day equities resumed their upward trend).

Aside from encouraging you to immediately inject cash when the market drops—as is my common practice at the 10% peak-to-trough mark, and again at the 20% threshold—I have also found that the volume of standard rebalancing transactions increases. **Rebalancing is probably the closest thing we have to a free lunch in investing.** It's for this reason that I require all clients to grant me discretion on their advisory accounts—so that I can execute rebalances when drift parameters are breached. I won't take the time in this newsletter to explain the immense benefits of rebalancing or my personal methodology. But suffice it to say that I'm a firm believer in the practice.

THE PRESIDENTIAL SWEEPSTAKES, AND A DANGEROUS CONFLATION

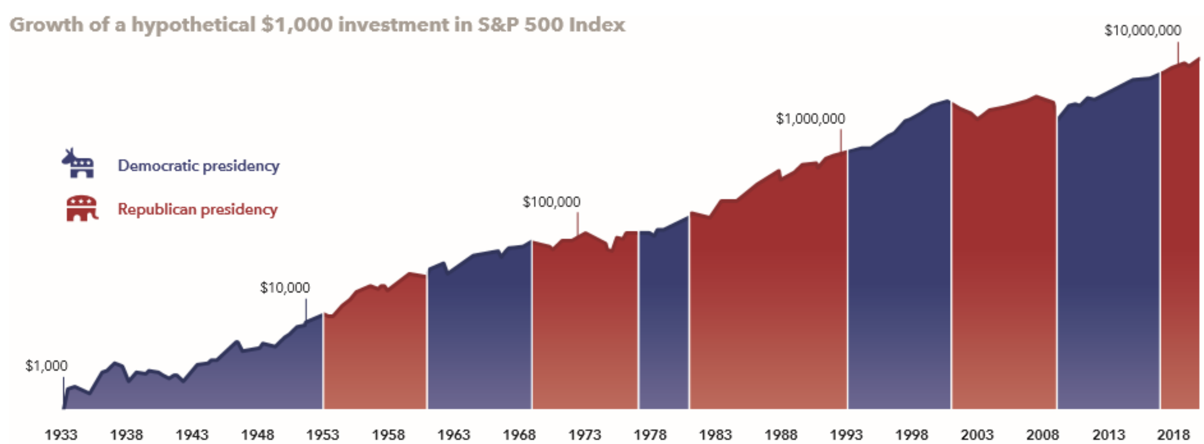
As of this writing, we are five months away from what will likely be the most heated and passion-filled election in my lifetime. The first presidential debate is scheduled for September 29 at Notre Dame University. By that point, I suspect rage throughout the Republic, on both sides of the aisle, will be abundant and without recess.

You may very well be someone who internalizes the happenings of our political process. There are those (God help us) who, every day, spend hours staring at FOX NEWS or MSNBC with bloodshot eyes, while stewing at how corrupt senator so-and-so is, or how biased news channel so and so was while covering the scandal du jour. To that, I say go for it. If politics is your entertainment venue of choice in the absence of professional sports, then cheer for your team until you run out of breath. Get passionate. Enthusiastically voice your position. It's your constitutional right. But beware. When your political leanings begin to persuade your investment decisions, you are entering dangerous waters. Passion, while serving you well in many areas of existence, proves to be an expensive enemy for your wallet.

Yes, of course, there might be a surge or slump in the equity markets depending on who wins the election. That is absolutely possible and simultaneously, wholly immaterial. Let us remember that *volatility* and *permanent loss* don't sleep in the same bed. And in the long run, that is all that should matter to the efficient accumulator of shares. And emotion, when given sovereignty over your long-term investment decisions, is utterly destructive to the accumulator.

"When your political leanings begin to persuade your investment decisions, you are entering dangerous waters."

WHICH POLITICAL PARTY HAS BEEN BETTER FOR INVESTORS?



SOURCES: Morningstar, Standard & Poor's. As of 12/31/19. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

GUIDE TO INVESTING IN AN ELECTION YEAR

As you can see on the chart from Capital Group's *Guide to Investing in an Election Year*, you are far better to allow our robust history to serve as your true north instead of whatever apocalypse-of-the-month is trending. But despite the hardcore data that demonstrates the market's long-term secular indifference to who currently hold political power, maybe you think this time is different. Heaven knows you wouldn't be the first to make this mistake. "But this time *really* is different," you say. You're going to get out in front of whatever outcome you just know is coming. So, let's observe a standard-issue market timer in action.

A MARKET TIMER OBSERVED

Let us assume that your guy does not get elected. Naturally, you think "the country is going to hell in a handbasket." And in response, you go to cash. There are two likely outcomes here. Scenario one, the market goes up. You'll think it's an anomaly. And you sure as heck aren't going to invest now! Why would you want to buy now that share prices are higher!? You're going to wait until it comes down, which you think is inevitable.

Or maybe the market does drop. Congratulations, you nailed it! But do you invest now? Probably not. After all, things are just going to get worse now that President So-and-so has four years to wreck everything. Or perhaps you do buy the dip. And then it goes up. But how long do you stay invested before selling again? Probably not too long since it's just a matter of time before President So-and-so and his terrible leadership cause it to drop again. After all, you were right the first time!

> ***"Of course, you will call it [market- timing] something else, like prudence or foresight. But these are just terms masquerading as market-timing."***

And on and on it goes. Before you know it, you are in the shark-infested waters of market-timing. Of course, you will call it something else, like *prudence* or *foresight*. But these are just terms masquerading as market timing. And while you are jumping in and out of the market, racking up trading cost, generating unfavorable short-term capital gain taxes, and taking time away from your family with meaningless analysis, the market continues its relentless long-term march onward.

UPCOMING CHANGE TO MY BROKER-DEALER

While spending some family time in Hilton Head Island, SC, I received an email totally out of the blue that **my broker-dealer, SSN, is being absorbed by a sister B/D, Securities America**. I must say that I despise unnecessary disruption. I instantly knew that I was going to have to spend more time than I cared, researching every granular detail of the transition, along with learning as much as possible about my new B/D. And that is what I've been doing since May. I have conducted a hefty amount of due diligence as to what this means for you and for me. I have spoken with representatives from Securities America, participated in multiple group transition meetings, and yes, even interviewed several other well-known firms. I really have no interest in going through another transition and switching firms. When I left Northwestern Mutual three years ago, it was a tremendous amount of work and stress, and it is not something I'm looking to repeat.

In the last week of June, I decided to stay put and let the merger run its course. This means that come September, I will be affiliated with Securities America and my relationship with SSN will terminate. **I doubt you (the client) will even notice**. Accounts numbers will remain the same. Pershing will continue as your custodian. My DBA *Trivett Wealth Management* will continue as is. My office will be at the same location. **Most importantly, I have seen no indication that there will be any cost to you.** You will, however, be receiving notifications regarding the absorption as well as a negative consent letter. I believe that most of the correspondence will be rather boilerplate, but feel free to call me if anything you receive spurs questions.

YOUR FAMILY LOVE LETTER

Some of you may have heard, but I experienced a rather frightening health scare lately. It prompted me to pen a column for our local newspaper – as I occasionally do. I felt it appropriate to reprint it in this newsletter, as it speaks to the importance of planning one's estate for that unknown, yet inevitable, moment when you run out of tomorrows. The following is an abbreviated version of my column.

On a Wednesday in mid-April, I sat in an empty exam room at an eerily quiet Johnson City Medical Center Emergency Room. I was alone. I was afraid. Truthfully, I was teetering on panic. Just an hour earlier I experienced what I just knew was a heart attack. Chest pain? Check. Nausea? Check. Dizziness? Check. Family history of cardiovascular disease? Check. I've always assumed that a heart attack was in the cards for me. My dad had a heart attack last year, and my grandfather died of one in his 50s. Was it finally my turn?

As I sat in that lonely exam room waiting on my test results, I found an immense level of clarity descend upon me, which, in turn, brought the unknowable front and center. Had my wife and I run out of days together? I love that girl and want no part of saying goodbye to her. I don't want her to be a single mom. And I certainly don't want my son to be fatherless. Was last night's bedtime "big hug n kiss" routine the last one we would get? Would he even remember me? Probably so. He's a sharp little guy. But if I'm not here, who will be his mentor? Boys need men to model after. I began thinking about what sort of legacy would be left. As these and a deluge of other questions raced in my head, I remembered that in our wills, my wife and I included a letter to survivors—a family love letter of sorts. I instantly texted my office assistant, who was kind enough to promptly email it over. I wanted to make sure that nothing was left unsaid to my son if things went bad. The following is what I had written to him in my will years earlier:

Dear Son,

As I write this, I'm watching you sleep on the baby monitor. Hopefully, I will be able to teach you these principals in person. However, if for some reason I'm not able to be with you throughout your childhood and adolescence, please always remember the following things throughout your life. Let these principles always guide your decisions.

Cultivate a relationship with God

Be kind to others

Respect your mother

Be strong in your beliefs, and humble in the messaging

Seek wisdom before intelligence

Work hard in sports and school

Keep promises

Show up on time

Educate yourself

Choose a career you love

Never make short-term decisions at the expense of long-term negative consequences

Be self-reliant

Respect women

Choose your wife carefully and seek the counsel of others when making that decision

Give back in time and money

I love you and I am proud of you.

-Dad

Fortunately, it looks like I'll be able to teach my son these things in person. The tests came back and indicated that I likely did not have a cardiac event. I still have some other tests to undergo, but it seems, at least for the moment, the scary stuff is off the table.

COVID-19 has forced its way into our lives. We can't change that. People say that this virus has forever altered our country and the way Americans go about living. I disagree. I believe that life will resume its pre-pandemic pace sooner than many think. Americans will go right back to their lives, running mindlessly from one trivial pursuit to another. Sure, you're going to see people wearing masks at grocery stores for a while, and it may be another year or so before we feel safe attending a UT football game. And yes, unemployment might take more than a few months to return to healthy levels. But five years from now, this nightmare will have come to pass. And that's good. We all could use a dose of that much-anticipated normalcy. But sadly, with this inevitable reversion to the mean, self-reflection will have commensurately waned.

So, let's all take advantage of this historically slow time, when our clocks seem to move a little more deliberately, and the minutes to reflect are all around us. For you, maybe it's a family love letter included in your will, or maybe it's something different. But don't let these days, hours, and minutes expire worthlessly. At least you won't have to experience a heart-attack scare in the process.

IN CLOSING

I hope that you all continue in perseverance during this trying time. I will continue sending emails when market forces necessitate. And as I have said in almost all of my messages to you throughout this mess, *this too shall pass*. And in the marrow of my being, I believe that. There remains a natural and cyclical rhythm to all things in our world. This is why I also believe that optimism remains the only realism. In the meantime, thank you—as always—for being my clients. It continues to be my privilege to serve you.

All my best!

Matthew J Trivett CFP® CLU® ChFC®