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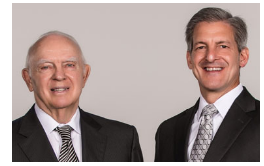

Our Scorecard – Stock Market Considerations

Opinions of The Regan Group, Inc.

	Negative	Positive for Equities	
Economic Growth	-	+	Real GDP was 9.5% lower in the second quarter than in the first quarter. Annualizing the 9.5% would result in a 32.9 annualized rate for the one quarter. Much of the measured economic activity that did happen was supported by government intervention, which ultimately just shifts the timing of economic activity from the future into the present. It is impossible to accurately estimate the impact of total stimulus spending, but most of the government spending went to consumers through unemployment benefits or IRS checks. The Federal Government borrowed from future generations to fuel spending today. This created a weird phenomenon where GDP fell, but personal income actually increased by 32.6% at an annual rate in the second quarter. While private-sector wages and salaries fell at a 27.4% annual rate in Q2 and small business income fell at a 43.1% annual rate, overall personal income rose due to government borrowing and redistribution. We think this is unsustainable, and will likely slow the recovery, especially if the government continues to extend unemployment benefits. **The good news is that we believe the recession is already over; the economy likely bottomed in late April or early May, but we think the wounds from the shutdown may take a very long time to heal**. *(Source: First Trust Advisors L.P.)*
Corporate Profits	-	+	With 289 companies having reported as of August 5 (73.3% of market cap), 83% of companies have beaten on earnings estimates, while 63% have beaten on revenue estimates, both well above long-term averages reflecting overly bearish initial estimates. J.P. Morgan's current estimate for Q2 of 2020 earnings is a declining 37.1% year over year. *(Source: JP Morgan Asset Mgt.)*
Inflationary Pressures	-	+	Headline and core May CPI both had their first monthly increases since February, containing disinflationary pressures *(Source: JP Morgan Asset Mgt.)*. The decline in energy prices and growth puts downward pressure on inflation in the short term, although we think disinflation during this recession may be less prolonged and pronounced than prior downturns.
Interest Rate Pressures	-	+	The FOMC maintained the federal funds target rate at a range of 0.00%-0.25%. They announced that asset purchases are expected to continue indefinitely to provide support to market functioning, and the Committee will maintain its current pace of gross purchases of U.S. Treasuries and agency mortgage backed securities at roughly \$80 billion and \$90 billion per month, respectively.
Liquidity	-	+	On a rolling twelve-month basis, investors continue to pull money out of U.S. equity funds while bond funds continue to receive deposits. *(Source: Investment Company Institute.)*
Sentiment	-	+	The University of Michigan's consumer-sentiment index declined in July to a reading of 70.5, down 26.3 from a year ago. *(Source: University of Michigan)*.
Valuation	-	+	We think risk assets have valuations based on a quick solution to the Covid 19 virus and a recovery to 2019 economic levels by the end of this year. We think this may be overly optimistic and have a square root shaped economic recovery outlook. We do not expect the recession to be deep nor a significant market decline from here. **We believe opportunity lies ahead, just maybe not at the record return levels of the last several years.**

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Distorted Index Returns

The S&P 500 Index is experiencing an extreme level of concentration risk, in our opinion. The top 5 companies (holdings) with the largest weight within the index now account for almost 22% of the entire index. This is the highest concentration over the last 30 years, and a level that is more than 5 standard deviations above the average during that period. The impact of these top 5 holdings is clearly visible when you examine the component returns:

1. Year-to-date returns through Q2:

Top 5 Holdings	+25.38%
Remaining 495 holdings	- 8.86%
Cap Weighted S&P 500 Index	- 3.09%
Equal Weighted S&P 500 Index	-10.56%

2. Trailing 5 Year Total Return (Annual %):

Top 5 Holdings	+29.3%
Remaining 495 holdings	+ 7.7%
Cap Weighted S&P 500 Index	+10.7%

3. Average Price-to-Earnings Multiple:

Top 5 Holdings	58x
Cap Weighted S&P 500 Index	20x

(Source: Dana Investment Advisors. All values as of 06-30-2020)

History Lesson

What can history teach us about future economic activity? Perhaps nothing precise, but history would certainly suggest that economic growth will resume and be sustainable. Recall that the concept of economic growth only became a reality in the late 18th century. Prior to that, there were many centuries of stagnant to no economic growth in the world.

The Industrial Revolution introduced technological advances that vastly improved productivity, leading to a more egalitarian economy, spreading wealth that led to increased demand and investment, and the beginning of growth as a permanent fixture of economic activity. Although halting at times, standards of living have been advancing ever since. The combination of these factors still exists, and in our country the profit motive is a strong mobilizer of economic activity.

Yes, these trends do get interrupted periodically by recessions that are typically caused by imbalances or extremes that need to be corrected, either naturally or by policy. That is what's so unusual about this recession - it was not caused by naturally corrective or policy measures. It was an exogenous event that hit us from outside and had nothing to do with the basic functioning of the economy. For this reason, once the pandemic is behind us, we think economic growth should resume. Caution is in order, however, for in all recessions there is the risk that future economic activity can be compromised by the length and depth of the recession. It is imperative that we emerge from this recession as soon as possible in order to limit future negative effects on the economy.

The Election

By design, elections have winners and losers, but the real winners have been investors who stayed the course and avoided the temptation to time the market or act on their political biases.

Our Mission

Achieve superior results for our clients by providing institutional level investment management and consulting services.

What We Do

We help clients realize their vision of the future with personalized investment planning. Our client specific strategies use independent, full-time professionals to research and manage portfolios for long-term growth of assets.

Our services include:

- **Over 50 years of experience** in both up and down markets.
- Independent, objective advice from professionals with the expertise you need to help you achieve your goals.
- Investment strategies appropriate for **long-term, serious, core money.**
- Asset allocation strategies customized to fit clients' unique needs, risk tolerance, and time horizons.
- A disciplined investment process.
- Portfolios that attempt to provide **more consistent returns with reduced volatility** over time.
- **Seek out, screen, and hire** high-quality money managers to run portfolios of individual securities.
- **Ongoing review** of the chosen managers' process, personnel, and investment decisions and report their performance quarterly.
- Replace managers when necessary.

Clients have trusted us for decades to provide their investment services.

We continue to grow and appreciate your introductions to friends and family. Our target markets are clients just like you – individuals, foundations, endowments, retirement plans, and corporations.