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Regans' Notes

Where Are We Now??

Optimism that the U.S. may be on its way to an economic recovery has helped the broader market to hit fresh new highs in August. Lost in the optimism of the equity markets and the uncertainty of the economic headlines is the reality of corporate America, which continues to adapt to the new pandemic-affected economy.

Corporate earnings in the second quarter of 2020 declined dramatically on an absolute basis year over year, matching what seemed to be an endless flood of negative economic data for the quarter, but the pain was generally less than most analysts had feared. Great uncertainty remains about future forecasts until a vaccine is available for all, in our opinion.

Inflation fears are surfacing as we see commodity prices increasing, the impact of establishing new supply chains, and the dollar weakens.

We believe that corporate earnings will continue to improve in the latter part of this year and into 2021 as the economic environment improves. While some think current risk appetites seem high and the market overvalued, we remain cautiously bullish. We do believe that the current environment (a bullish market matched with a sputtering economy) calls for a more active and disciplined approach when making investment decisions.

What's Next??

The economy appears to be moving from a V-shaped recovery to something more mixed. Jobs data is looking shakier as we see an increase in initial unemployment claims. In contrast, housing is rebounding strongly.

We think a new stimulus package is already expected by the market participants. If no agreement is reached, a correction may occur.

High price earning's ratios could be the excuse for a pullback in the equity markets but could be delayed or averted because of significant liquidity provided by the Federal Reserve policies and comments of "not even thinking about thinking about raising interest rates" by Chairman Powell.

The possibility of higher taxes for individuals and corporations and stronger regulatory environments for certain sectors of the economy if the present administration is changed in this fall's elections.

More tension and less trade between China and the U.S. regardless of the outcome of our elections.

Low & Slow

We think this description is the best growth for an extended bull market. Contrary to popular belief, the economy does not need to grow at a fast clip for the stock market to do well. In fact, an economy that is growing too fast tends to lead to faster cycles and more frequent bear markets. (Source: RiverFront Investment Group)

Low and Slow sums up the U.S. economic growth from the 2008 Financial Crisis until the pandemic. GDP year-over-year growth since 2008 has been consistently below its long-term average of 3.1% since 1948. U.S. economic growth is expected to continue at this slower pace, particularly given that recent fiscal and monetary stimulus have borrowed from future growth. Some have worried that this slower pace of growth might not be fast enough to continue to generate attractive stock market returns. We think stocks can do better in an environment that is "low and slow" over a much faster clip because Low & Slow economies:

1. Keep inflation in-check and the Fed from having to raise interest rates to keep the economy from over-heating
2. Don't encourage companies to overbuild capacity and make them more vulnerable to economic downturns.
3. Tend to experience "Financial Bubbles" less quickly because investors are less likely to become too optimistic.

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See back page for important disclosures.

Debt

The Treasury is issuing a record amount of debt and the Fed's balance sheet has grown by $3 trillion. (Source: Federal Reserve). The Federal Reserve is providing liquidity now as they did in 2008-09. This was very powerful and necessary, in our opinion, for the short term.

These measures taken to ameliorate the recession, in terms of trying to help people in distress, while they are popular and humane, have resulted in a massive increase in the debt overhang. The pandemic will eventually go away, but the debt will remain. We believe that over-indebtedness slows economic growth. It results in increasing current spending in exchange for a decline in future spending, unless it generates an income stream to repay principal and interest.

Increased future taxes by the government will be required to pay the future interest payments on the increased debt. The result is either increased taxes or less funds available for use by other government services.

Election 2020

Significant differences appear to exist between political parties and presidential candidates. It is too early to try to predict the outcome. When facing significant uncertainty, it is natural to think of the potential outcomes as binary – either good or bad. Frequently however, big change creates both winners and losers in individual sectors and companies providing some opportunities for objective, professional investment managers.

Future Trends

Bill Gates, (Microsoft's founder) said, "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10." We agree with that comment and share below a list of some trends Capital Group Asset Management recently listed as shaping the future for investors:

- The big keep getting bigger.
- Cloud demand is sky-high.
- Innovative leaders may emerge in emerging markets.
- The prognosis looks good for a cancer cure.
- House calls are coming to health care.
- Content (communication and entertainment) is king, but streaming is the kingdom.
- Artificial intelligence could spark the next tech revolution.
- Self-driving cars may rule the roads.
- ESG (Investing based on a company's environmental, social, and governance policies) could be a pillar of portfolios.
- The U.S.-China rivalry may define geopolitics

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.