

# Q3

Market Commentary  
Third Quarter 2020

# Quarterly Market Review

Third Quarter 2020

This report features world capital market performance and a timeline of events for the past quarter.

It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

It continues with an effort to illustrate the impact of globally diversified portfolios and features a quarterly topic.

## Overview:

SAM Commentary: Is 30 the New 40?

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# Is 30 the New 40?

In Today's Low Interest Rate Reality, The Classic Portfolio Mix Needs To Be Re-thought.

Dear Partners,

Thank you for your relationship, trust, and the meaningful work you allow us to do every day. It's been a whirlwind of a year for society but there is no doubt we will continue to get through this together! We encourage our clients to focus on the positives in life, maintain a growth-focused mindset, and understand that any obstacle is a chance to learn and grow. In recent communications, we have focused on a variety of current event topics, so we thought it would make sense to take a step back and discuss a Big Picture item.

Given that people are getting married, having kids and living longer, there is a societal discussion on whether "30 is the new 20," or essentially whether everyone's personal development has been pushed back a decade from preceding generations. I have read articles, seen TED Talks, and even enjoyed a song by Jay-Z (ironically in my 20's) that discusses this very topic.

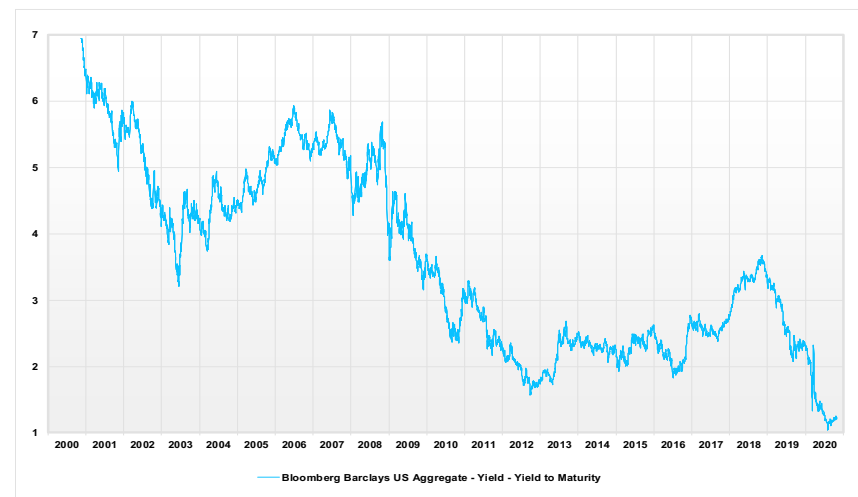
While developmental psychology is not SAM's area of expertise, we do have knowledge in wealth planning, investment management, and behavioral coaching. In these areas, we would argue that "30 is the new 40," as it relates to the weighting of fixed income in the portfolio. Said another way, the weighting of fixed income which historically has been 40% has been pushed back to 30% in the development of one's portfolio.

## "IT'S DIFFERENT THIS TIME"

"It's different this time" is typically the phrase that precedes financial folly. People use this argument to justify making a financial decision despite historical precedence that clearly demonstrates contrary factual evidence.

So, at the risk of looking foolish, whether you are in the wealth accumulation phase or financial freedom phase, the common definition of fixed income in one's portfolio needs to be thought about differently since, mathematically, things are 'different this time.'

I vividly recall joining my grandfather on a visit to his financial advisor's office when I was a kid. They discussed how he was going to live off his assets. Back then, the math was simple as he was able to obtain yields in the 7% range for high-quality fixed income, which meant he could get both a solid return to support his lifestyle needs and stability. Today those yield are closer to 1.2% using the current yield-to-maturity on the Bloomberg Barclays US Aggregate Bond Index (please see 20-year chart below).



Source: Factset

# Is 30 the New 40?

(continued from page 3)

With current yields on fixed income so low, the dual “luxury” of return and stability enjoyed by my grandfather has vanished over the past couple of decades. Today, the main value-add for fixed income is stability or psychological safety – meaning the return aspects of the portfolio will have to come from owning equities, or as we like to describe it, stakes in high-quality, profitable businesses.

## WHAT IS “RISK?”

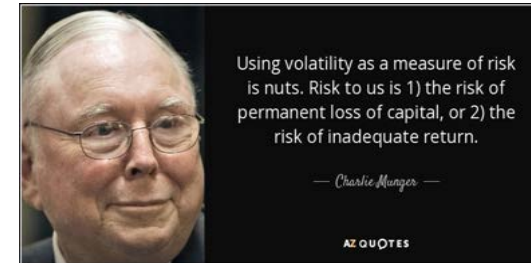
A lesson I learned from one of my favorite college finance professors is that the number one answer in finance is “it depends.” And when it comes down to how one defines risk that answer holds true.

The classic definition of risk that has been ingrained in people’s minds is volatility, or a statistical measurement known as standard deviation. It essentially measures the probable outcomes around the mean, or average. So, for example, if the average annual return on a portfolio is 8% with standard deviation of 12%, there is a ~68% chance the return will be between -4% and +20%, a 95% chance it will be between -16% and +32%, and a ~99% chance it will be between -28% and +44% in any given year.

A wide range of outcomes for sure. However, I often have quipped that “I have never seen anyone pay their bills with standard deviation.” Therefore we encourage clients to focus on the long-term, as their probability of success increases the longer their holding period (please see our Q4 2018 Market Commentary for more details).

So, sure, if one’s time horizon is one-year, standard deviation may be a good measure of risk. However, more often than not, the answer to what is risk is “it depends.” If you are trying to create wealth to hit a goal (say college, financial freedom, or buying a home), the risk is that you have a shortfall of achieving that goal. If you are in the financial freedom phase of your life, the risk is that you outlive your money, also known as longevity risk. If you are looking to pass assets on for multiple generations, the risk is failing to think with an “endowment mindset.”

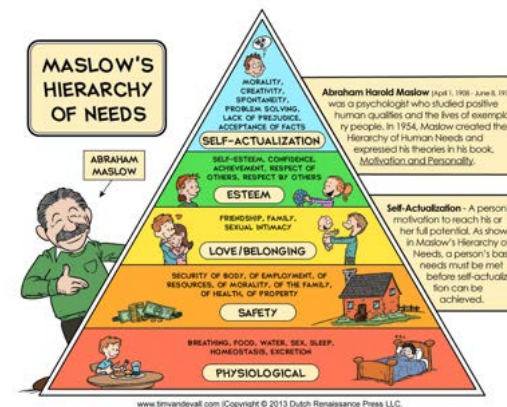
The definition of risk that is most favored by SAM is how Warren Buffett & Charlie Munger look at it:



## SETTING A SOLID FOUNDATION

Jonathan discusses often, as both our CEO and Chief Behavioral Coach, that under Maslow’s Hierarchy of Needs the first thing humans must have is basic physiological needs (food, water, sleep). The second is safety, and when it comes to investing it transforms more to psychological safety.

Therefore, when we go through the planning and investment process with our clients, it’s simple to calculate someone’s needed return (that’s just math), and their ability to invest to try to achieve that return. However, getting to the heart of their willingness is much more difficult since every individual has a unique psychological relationship with money.



# Is 30 the New 40?

(continued from page 4)

Given the yields in fixed income these days, there is a risk of inadequate returns. Thus, the main purpose of holding fixed income is to assist with psychological safety and peace of mind.

If someone is in the wealth accumulation phase of life, she may need a 100% equity portfolio to achieve adequate returns to hit her long-term goals. However, behaviorally if she can't sit tight at 100% equities during tough times, we can sprinkle in some fixed income to add stability to allow her to hold on. It's better to achieve a potentially lower return of a portfolio one can hold onto, than the higher return of a portfolio one will sell at the first downturn.

If one is in the financial freedom phase of life, think of fixed income as the multiple of annual expenses needed to sleep at night. For example, if someone has a \$4M portfolio and \$160k in expenses that need to be covered from the portfolio, a total return of 7-8% is going to help cover these expenses plus inflation and taxes. So, will having 3-4 years of one's assets in stable assets (15%) help one sleep at night, or is 7-8 better (30%)? The answer is whichever one provides the most psychological safety for that individual.

## GENERATIONAL THINKING

While developmental psychologists ponder if later developmental life events (marriage, kids, first home) are a positive or negative on society, we hope to demonstrate why the statistical facts and psychological mindset in the use of fixed income is different this time and must be pondered.

Is Jay-Z correct in that "30 is the new 20?" I have no clue. Is the classic 60/40 (60% equity/40% fixed income) portfolio the proper base case usage for investors in today's low interest rate world. It doesn't appear that way.







So in keeping with the changing times, maybe we will record our own song and call it, "30 is the new 40!"



Thank you for your continued trust and collaboration,  
*Jason and Your SAM Team*

# Quarterly Market Summary

## Index Returns



















	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
<b>3Q 2020</b>	<b>STOCKS</b>					<b>BONDS</b>	
	<b>9.21%</b> 	<b>4.92%</b> 	<b>9.56%</b> 	<b>2.37%</b> 		<b>0.62%</b> 	<b>0.68%</b> 

<b>Since Jan. 2001</b>						
Avg. Quarterly Return	2.1%	1.4%	2.8%	2.3%	1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	<b>2020 Q2</b>	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q3</b>	<b>2001 Q3</b>	<b>2008 Q4</b>
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.0%	-2.7%
	<b>2008 Q4</b>	<b>2020 Q1</b>	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2016 Q4</b>	<b>2015 Q2</b>

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

# Long-Term Market Summary

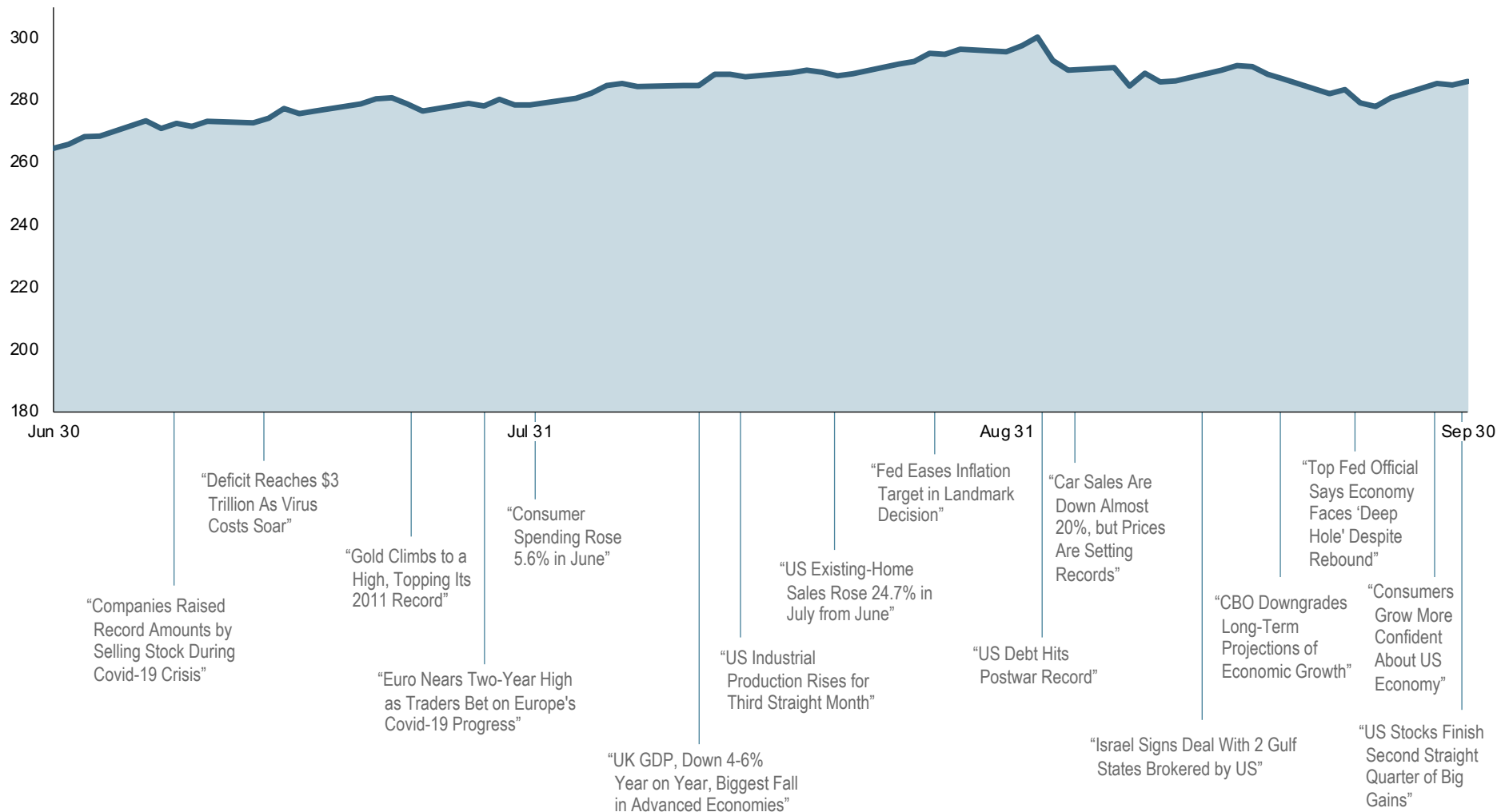
Index Returns as of September 30, 2020

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
<b>1 Year</b>	<b>STOCKS</b>				<b>BONDS</b>	
	15.00%	0.16%	10.54%	-18.58%	6.98%	1.82%
						
<b>5 Years</b>						
	13.69%	5.32%	8.97%	2.20%	4.18%	4.33%
						
<b>10 Years</b>						
	13.48%	4.37%	2.50%	5.58%	3.64%	4.06%
						

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# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2020



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

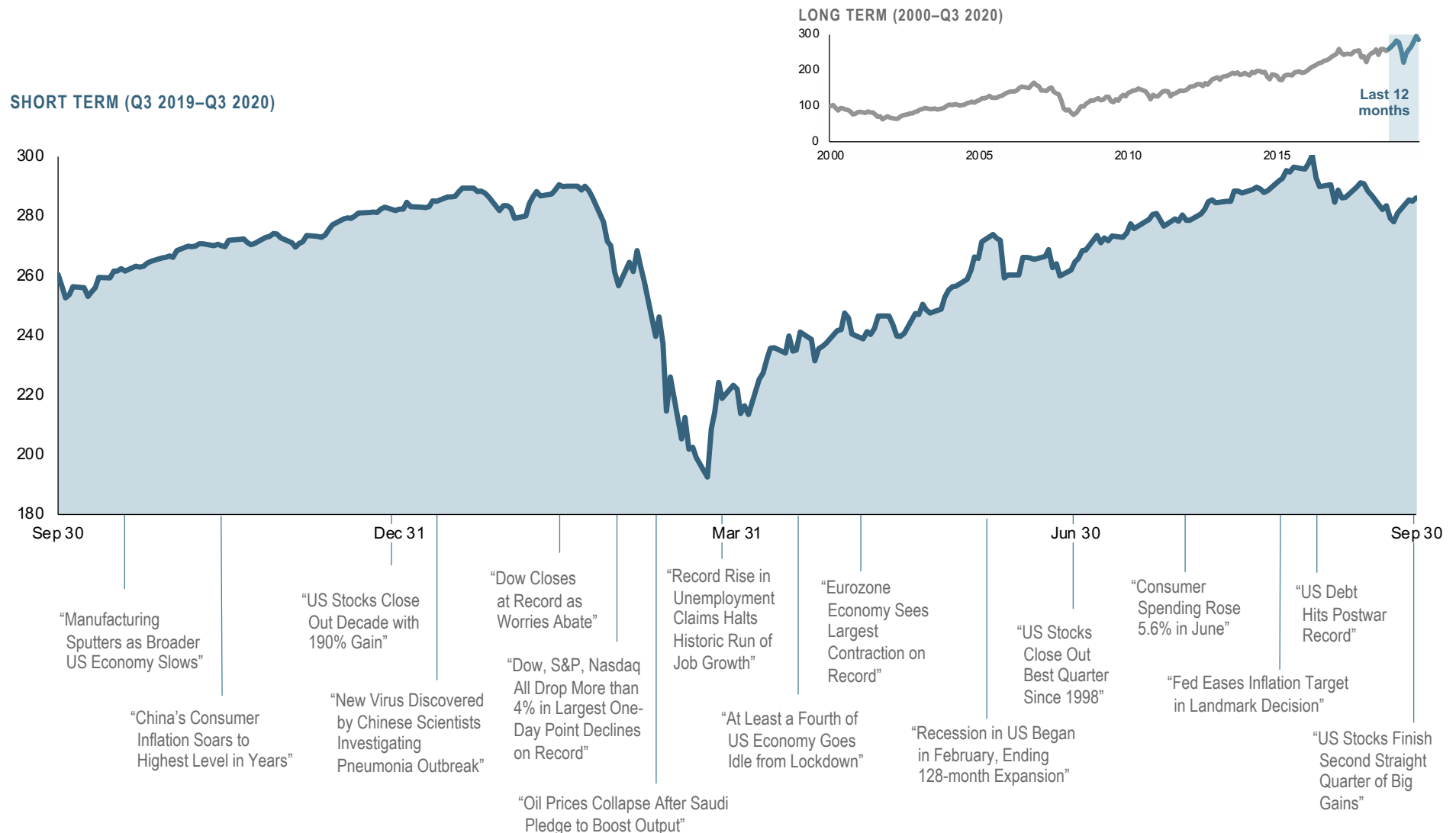
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**



# World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

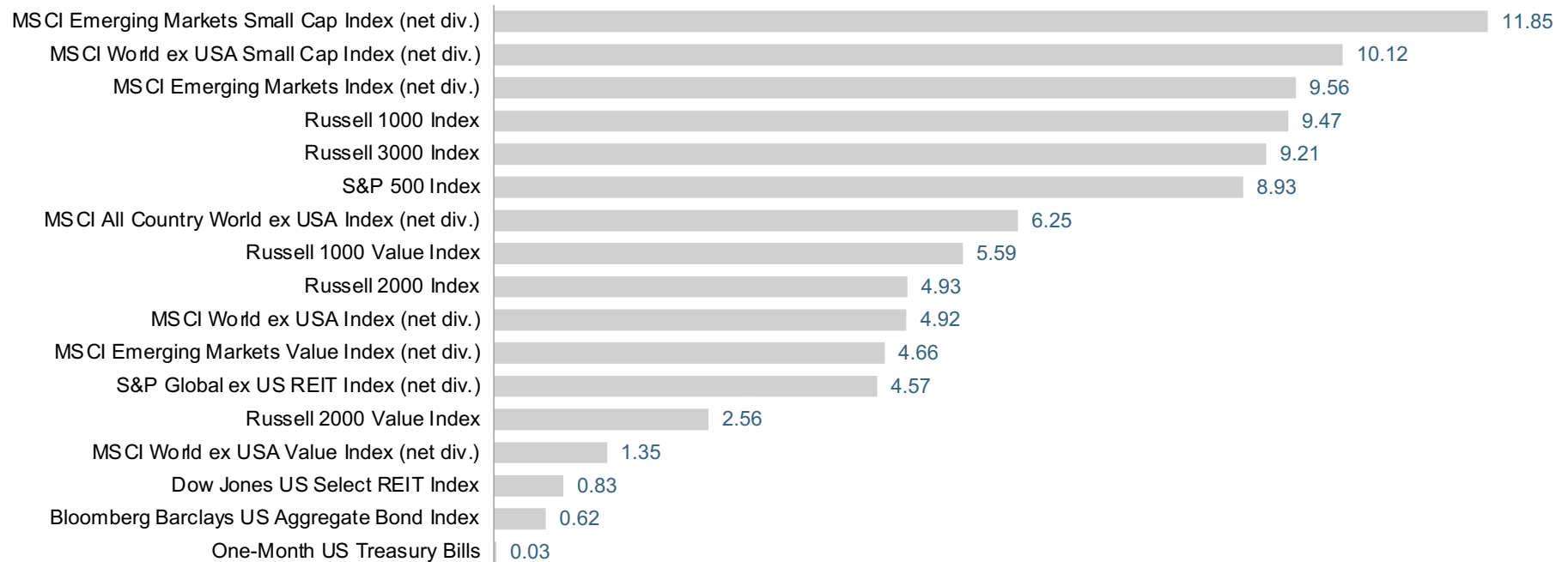
# World Asset Classes

## Third Quarter 2020 Index Returns (%)

Equity markets around the globe posted positive returns in the third quarter. Looking at broad market indices, emerging markets equities outperformed US and non-US developed markets for the quarter.

Value underperformed growth across regions. Small caps outperformed large caps in non-US developed and emerging markets but underperformed in the US.

REIT indices underperformed equity market indices in both the US and non-US developed markets.



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# US Stocks

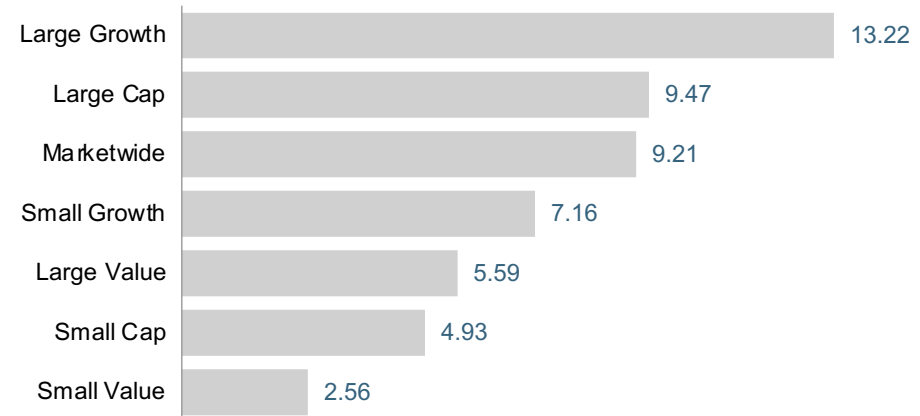
## Third Quarter 2020 Index Returns

The US equity market posted positive returns for the quarter, outperforming non-US developed markets but underperforming emerging markets.

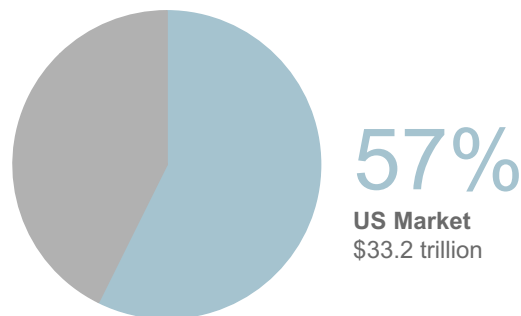
Value underperformed growth across large and small cap stocks.

Small caps underperformed large caps. REIT indices underperformed equity market indices.

### Ranked Returns (%)



### World Market Capitalization—US



### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	24.33	37.53	21.67	20.10	17.25
Large Cap	6.40	16.01	12.38	14.09	13.76
Marketwide	5.41	15.00	11.65	13.69	13.48
Small Growth	3.88	15.71	8.18	11.42	12.34
Small Cap	-8.69	0.39	1.77	8.00	9.85
Large Value	-11.58	-5.03	2.63	7.66	9.95
Small Value	-21.54	-14.88	-5.13	4.11	7.09

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved.

# International Developed Stocks

## Third Quarter 2020 Index Returns

Developed markets outside the US posted positive returns for the quarter but underperformed US and emerging markets equities.

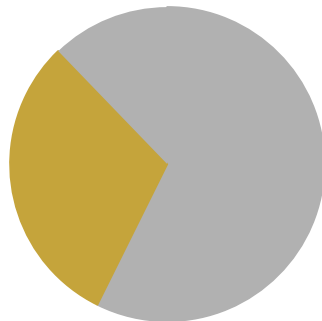
Value underperformed growth.

Small caps outperformed large caps.

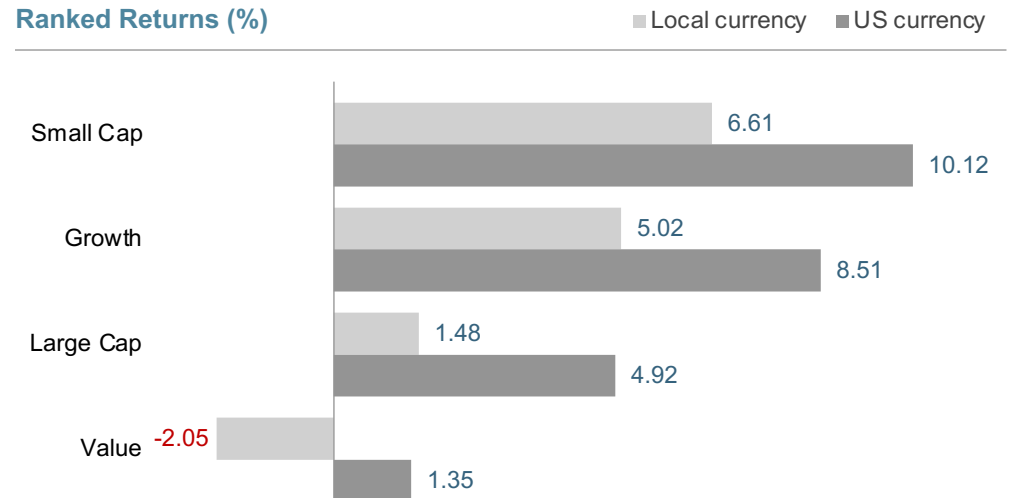
### World Market Capitalization—International Developed

**30%**

International  
Developed Market  
\$17.6 trillion



### Ranked Returns (%)



### Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	* Annualized
					10 Years*
Growth	5.13	13.64	7.06	9.09	6.61
Small Cap	-4.05	6.88	1.42	7.35	6.55
Large Cap	-7.13	0.16	0.62	5.32	4.37
Value	-18.88	-12.74	-5.88	1.38	1.99

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# Emerging Markets Stocks

## Third Quarter 2020 Index Returns

Emerging markets posted positive returns for the quarter, outperforming the US and developed ex US equity markets.

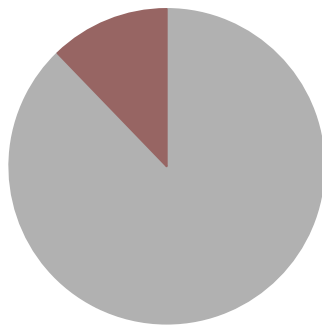
Value underperformed growth.

Small caps outperformed large caps.

### World Market Capitalization—Emerging Markets

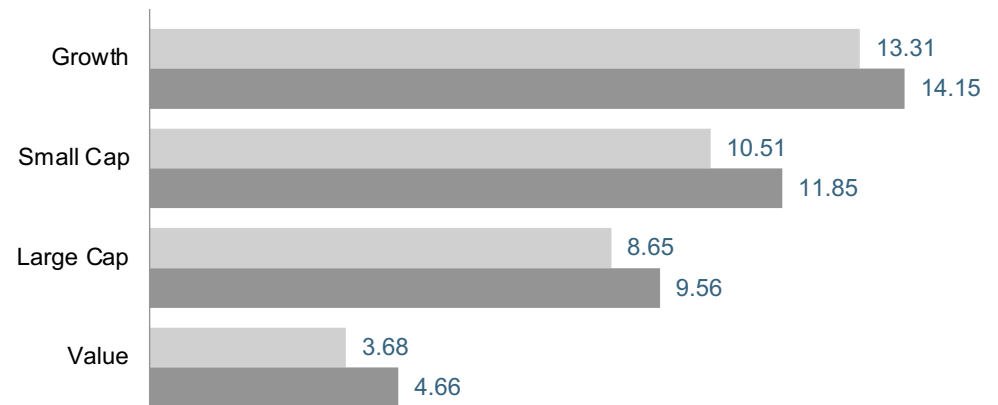
**12%**

Emerging Markets  
\$7.1 trillion



### Ranked Returns (%)

■ Local currency ■ US currency



### Period Returns (%)

\* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	12.41	27.80	7.45	13.26	5.29
Large Cap	-1.16	10.54	2.42	8.97	2.50
Small Cap	-2.40	6.89	-1.09	4.60	1.03
Value	-14.23	-5.70	-2.89	4.45	-0.44

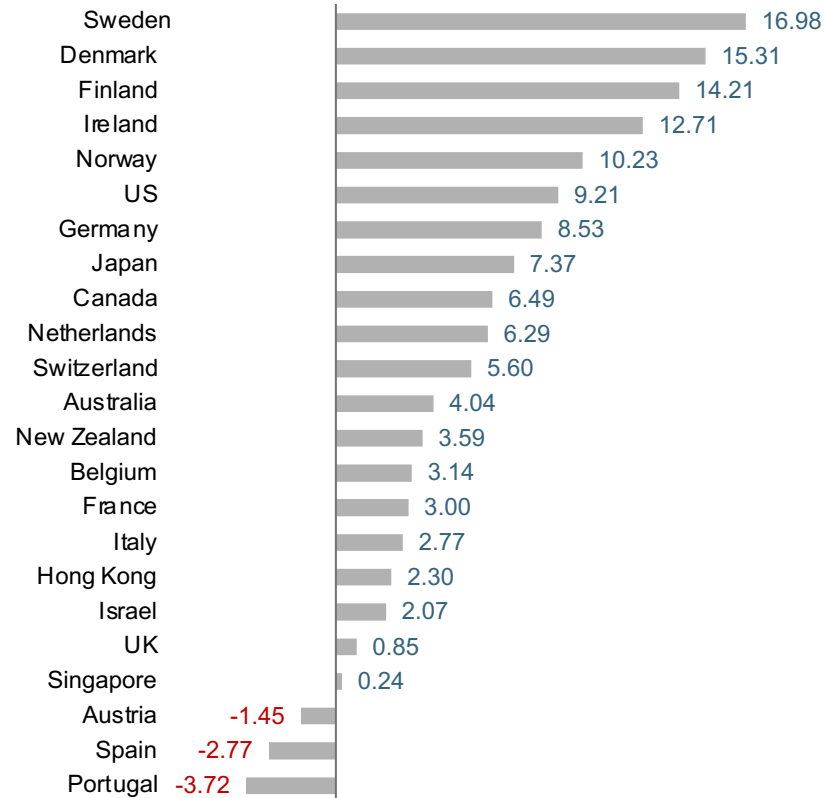
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# Select Market Performance

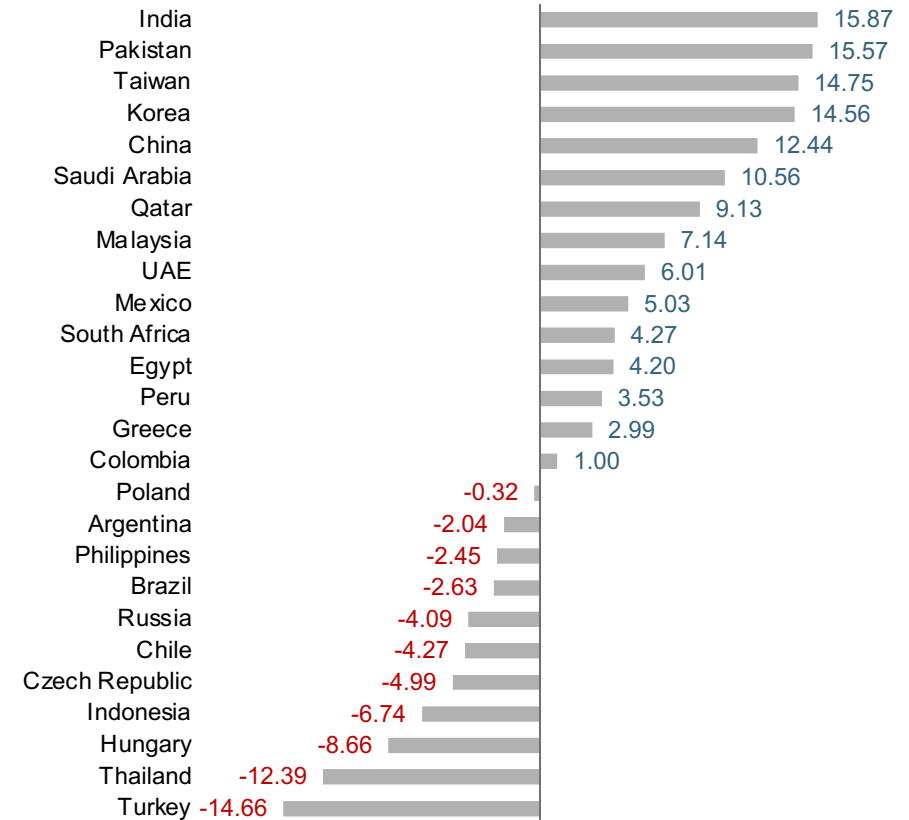
## Third Quarter 2020 Index Returns

In US dollar terms, Sweden and Denmark recorded the highest country performance in developed markets, while Portugal and Spain posted the lowest returns for the quarter. In emerging markets, India and Pakistan recorded the highest country performance, while Turkey and Thailand posted the lowest performance.

### Ranked Developed Markets Returns (%)



### Ranked Emerging Markets Returns (%)



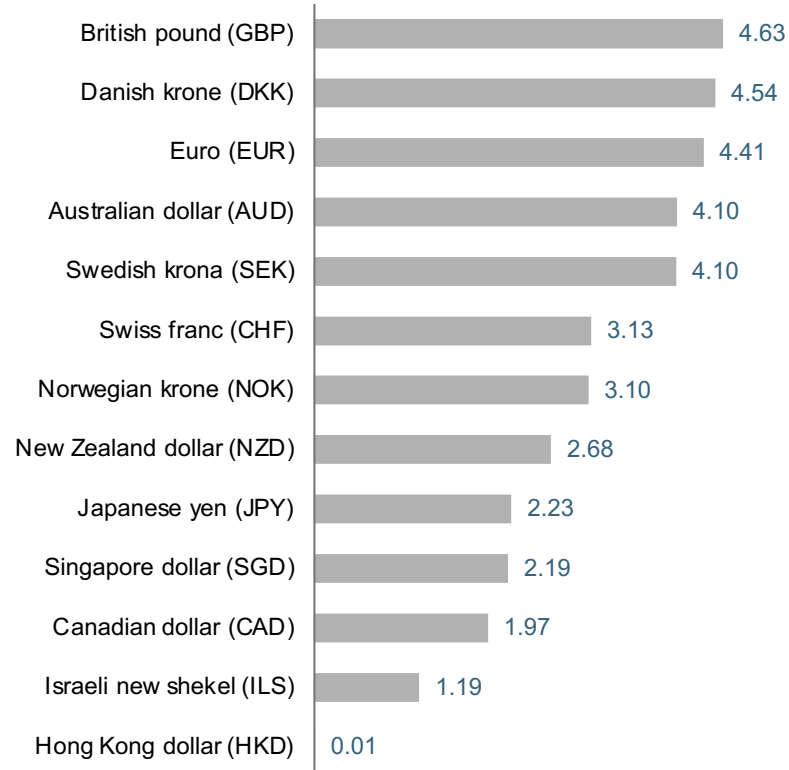
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. MSCI Index returns are in USD net of dividend withholding taxes. Country returns are the country component indices of the MSCI All Country World ex USA IMI for all countries except the United States, where the Russell 3000 index is used instead. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

# Select Currency Performance vs. US Dollar

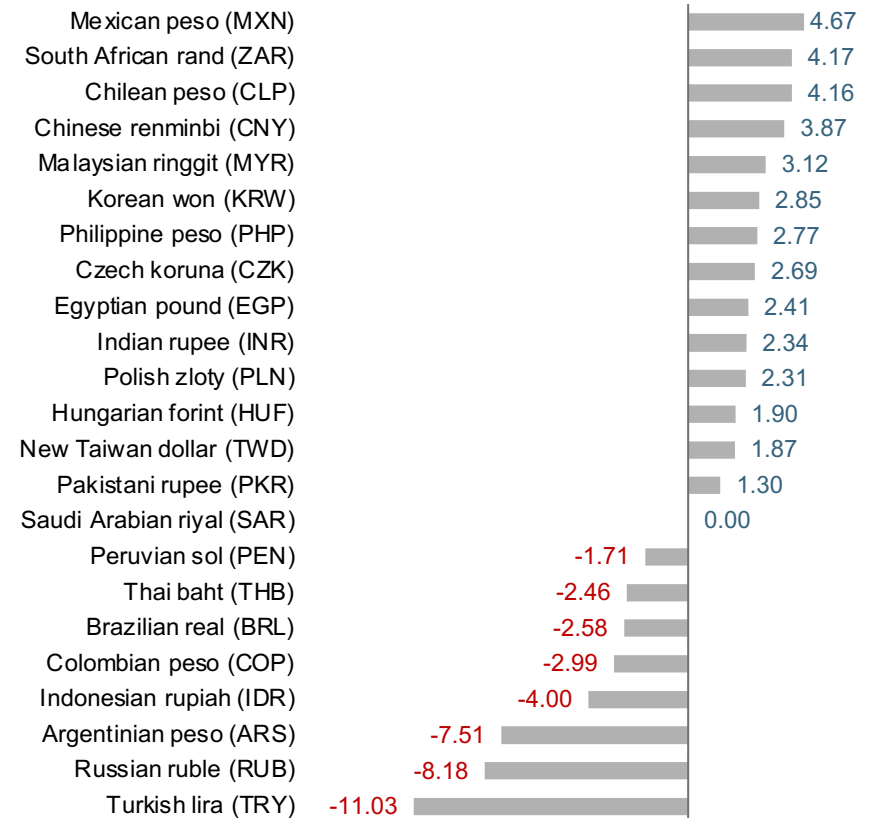
Third Quarter 2020

In developed markets, all currencies appreciated versus the US dollar. In emerging markets, currency performance versus the US dollar was mixed. Most currencies generally appreciated versus the US dollar, but some, notably the Turkish lira and Russian ruble, depreciated.

## Ranked Developed Markets (%)



## Ranked Emerging Markets (%)

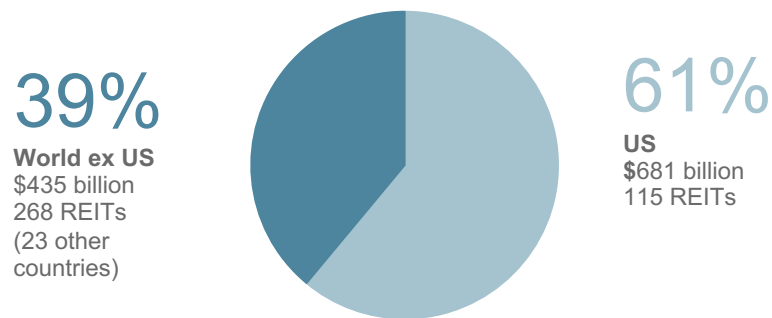


# Real Estate Investment Trusts (REITs)

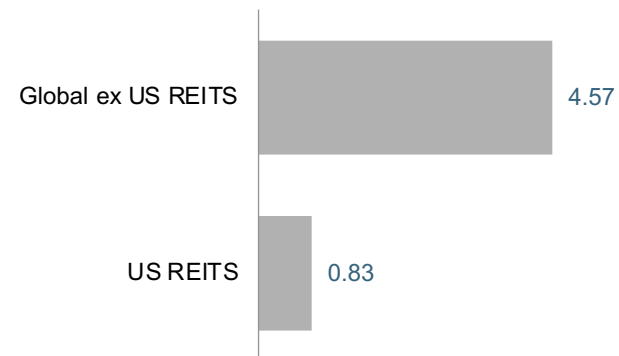
## Third Quarter 2020 Index Returns

US real estate investment trusts underperformed non-US REITs during the quarter.

### Total Value of REIT Stocks



### Ranked Returns (%)



### Period Returns (%)

Asset Class	* Annualized				
	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	-21.36	-22.33	-1.85	1.99	7.03
Global ex US REITs	-21.84	-18.37	-1.62	1.67	4.13

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



# Commodities

## Third Quarter 2020 Index Returns

The Bloomberg Commodity Index Total Return returned 9.07% for the third quarter of 2020.

Lean hogs and Silver were the best performers, returning 30.76% and 25.06%, respectively.

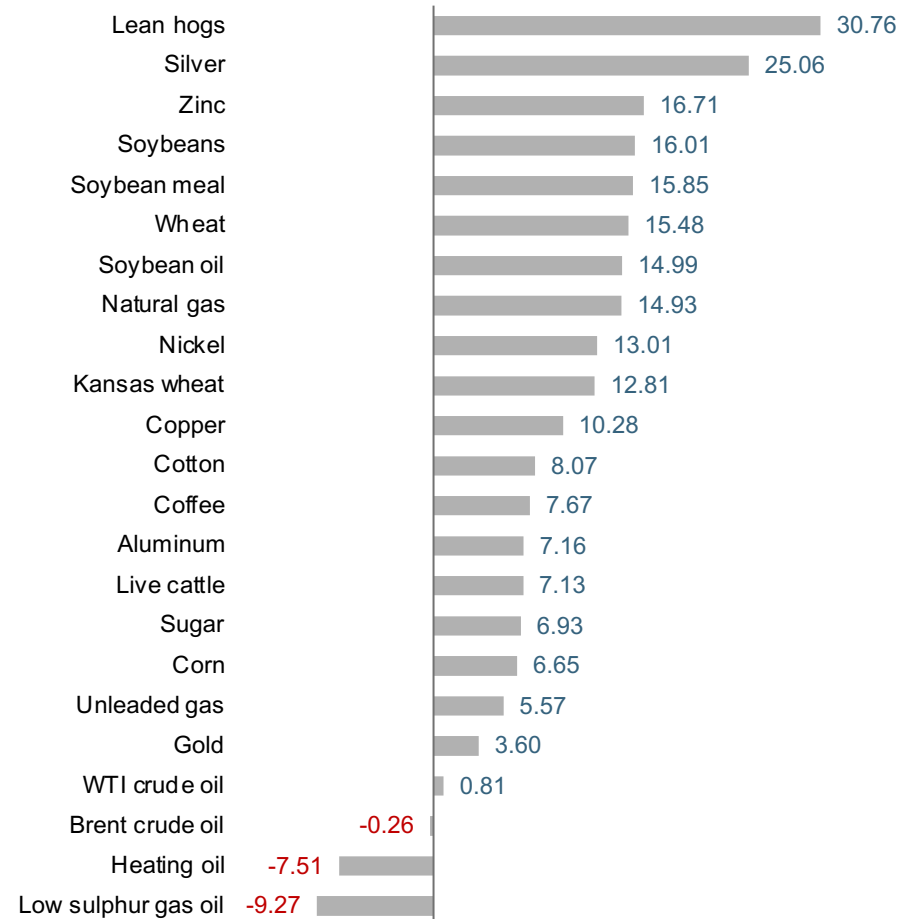
Low sulfur gas and Heating oil were the worst performers, declining 9.27% and 7.51%, respectively.

### Period Returns (%)

\* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	9.07	-12.08	-8.20	-4.18	-3.09	-6.03

### Ranked Returns (%)



# Fixed Income

## Third Quarter 2020 Index Returns

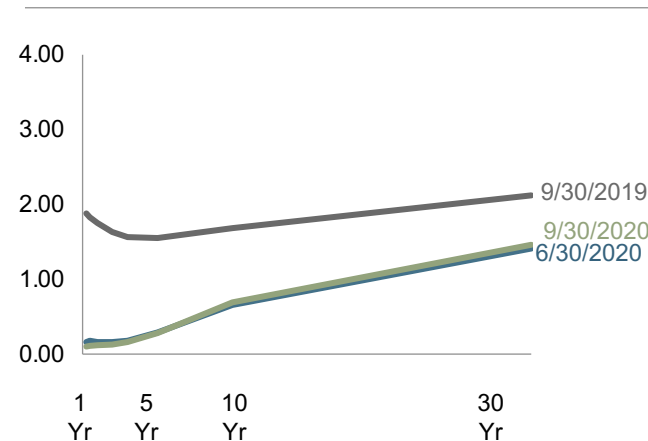
Interest rate changes were mixed in the US Treasury fixed income market during the third quarter. The yield on the 5-year US Treasury note decreased by 3 basis points (bps), ending at 0.31%. The yield on the 10-year US T-note rose by 3 bps to 0.64%. The 30-year US T-bond yield increased by 5 bps to 1.46%.

On the short end of the yield curve, the 1-month US Treasury bill yield decreased to 0.08%, while the 1-year T-bill yield decreased by 5 bps to 0.14%. The 2-year US T-note yield finished at 0.09% after a decrease of 2 basis points.

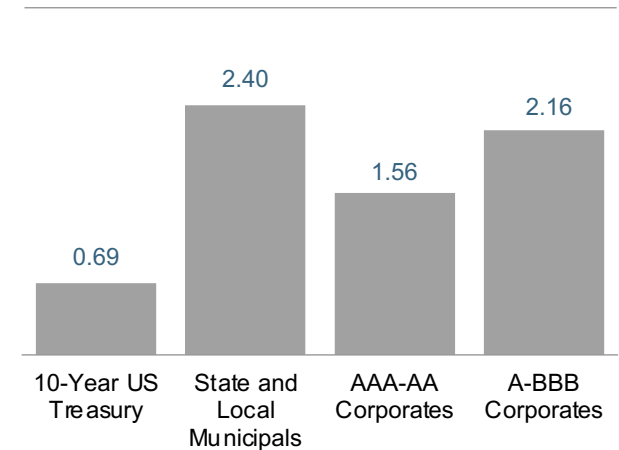
In terms of total returns, short-term corporate bonds returned 0.92% for the quarter. Intermediate-term corporates returned 1.33%.

The total return for short-term municipal bonds was 0.83%, while intermediate munis returned 1.40%. Revenue bonds outperformed general obligation bonds.

**US Treasury Yield Curve (%)**



**Bond Yield across Issuers (%)**



**Period Returns (%)**

\*Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	4.60	0.62	3.25	4.21	6.79	6.47
Bloomberg Barclays US TIPS Index	3.03	9.22	10.08	5.79	4.61	3.57
FTSE World Government Bond Index 1-5 Years	2.01	4.16	5.21	2.03	2.01	0.21
Bloomberg Barclays Municipal Bond Index	1.23	3.33	4.09	4.28	3.84	3.99
Bloomberg Barclays US Aggregate Bond Index	0.62	6.79	6.98	5.24	4.18	3.64
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.24	3.04	3.22	3.02	2.31	1.90
Bloomberg Barclays US Government Bond Index Long	0.13	21.13	16.21	11.79	8.18	7.18
ICE BofA 1-Year US Treasury Note Index	0.08	1.77	2.37	2.19	1.54	0.93
ICE BofA US 3-Month Treasury Bill Index	0.04	0.64	1.10	1.69	1.20	0.64

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Global Fixed Income

## Third Quarter 2020 Yield Curves

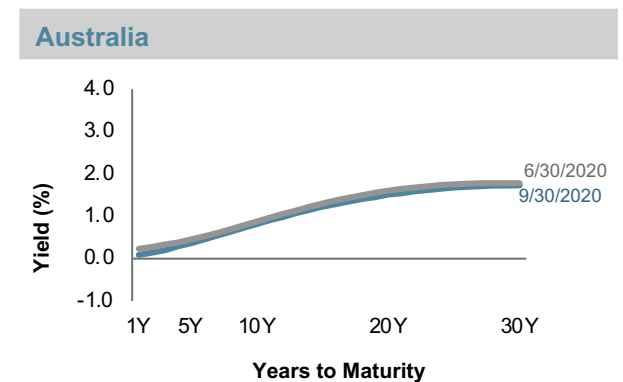
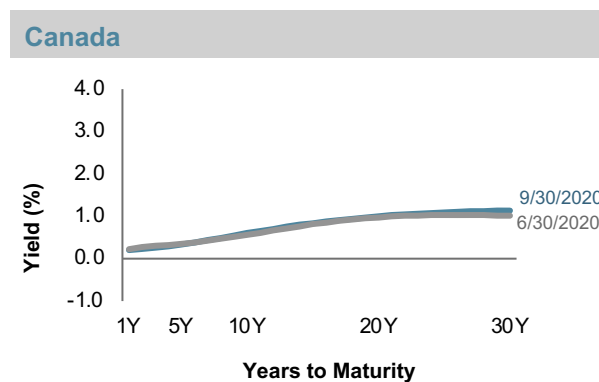
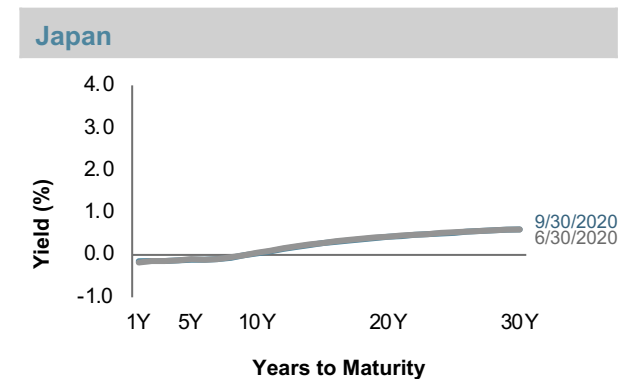
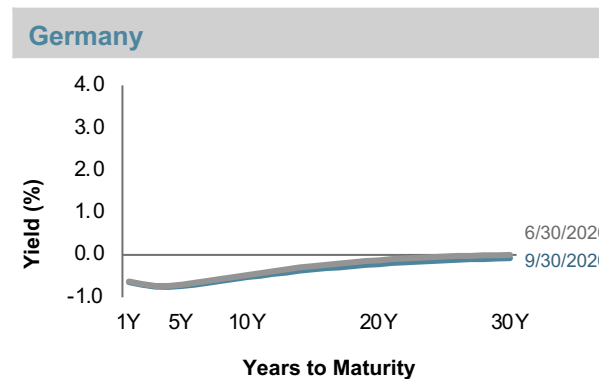
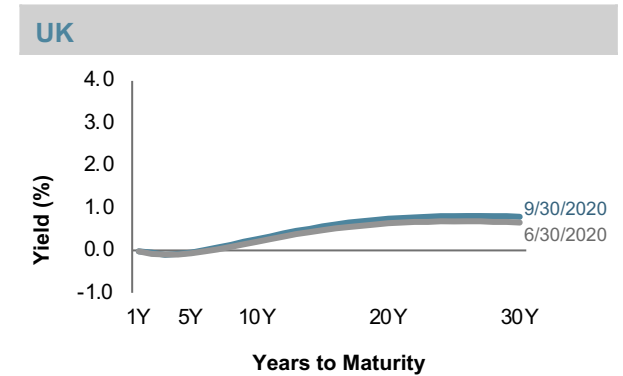
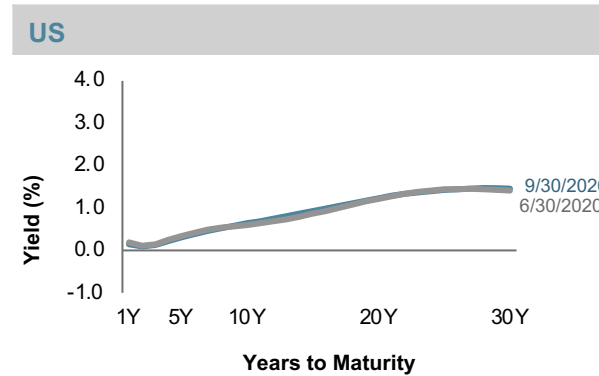
Changes in Government bond interest rates in the global developed markets were mixed for the quarter.

Longer-term bonds generally outperformed shorter-term bonds in global ex-US developed markets.

Short- and intermediate-term nominal interest rates were negative in Japan, while all maturities finished the quarter in negative territory in Germany.

Changes in Yields (bps) since 6/30/2020

	1Y	5Y	10Y	20Y	30Y
US	-5.4	-3.3	3.4	1.3	5.3
UK	0.0	1.8	6.1	10.7	13.9
Germany	-2.0	-2.8	-5.7	-9.2	-7.6
Japan	3.0	-1.1	-1.2	-1.2	0.2
Canada	-2.1	-1.9	3.9	2.6	12.2
Australia	-14.5	-8.3	-5.9	-9.6	-5.1



# Impact of Diversification

Third Quarter 2020

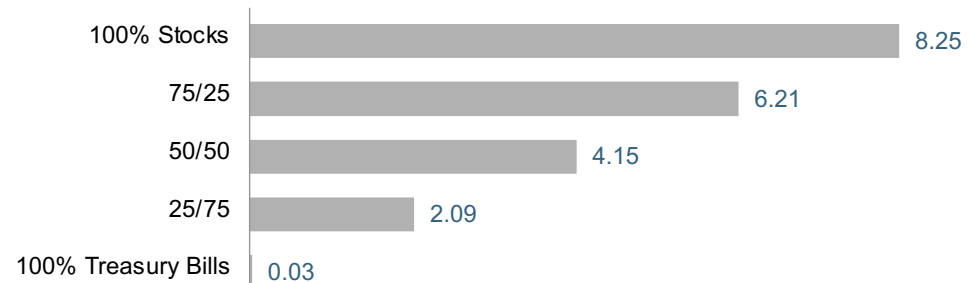
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification.

Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

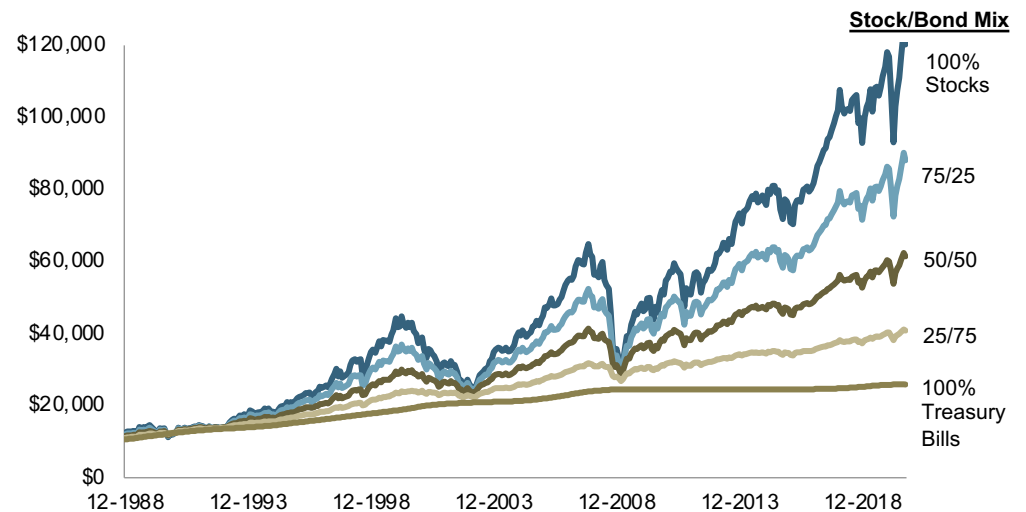
## Period Returns (%)

Asset Class	* Annualized					
	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV
100% Stocks	1.77	11.00	7.68	10.90	9.13	13.71
75/25	1.90	8.89	6.40	8.58	7.12	10.28
50/50	1.71	6.48	4.95	6.16	5.01	6.85
25/75	1.22	3.78	3.32	3.65	2.82	3.42
100% Treasury Bills	0.42	0.83	1.54	1.07	0.55	0.23

## Ranked Returns (%)



## Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio. Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

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October 2020

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