Fall 2020
Throwing Stones

"And the politicians throwing stones, singing ashes, ashes, all fall down."
— *Throwing Stones, Grateful Dead*

What a year it has been. From stock market highs and a strong, healthy, fully-employed economy in February to a global pandemic and significant recession two months later. Masks, social distancing, limited travel and working remotely are just some of the new aspects of life that we could not have imagined in 2019.

And if COVID-19 wasn't enough, one of the most anticipated, turbulent and feared presidential elections in modern history is a month away. We are continually inundated with fear-inducing news, whether it be about mail-in-ballots with an unusually long delay in declaring a winner, the impact of the election outcome on stock prices, or the ever-present pandemic and what to anticipate as we enter fall. The presidential candidates just had their first debate and like most political issues, few agree on much other than it was a nonstop stone-throwing contest with little substance.

At Rebalance, we consistently advised our investors during the worst part of the stock market meltdown, in March and April, to "stay the course." We even built a COVID-19 resource center for our clients to help with perspective. In retrospect, we think our advice was spot-on. Had you fallen asleep in late February and woke up in late September, your Rebalance portfolio likely would be slightly higher on the year.

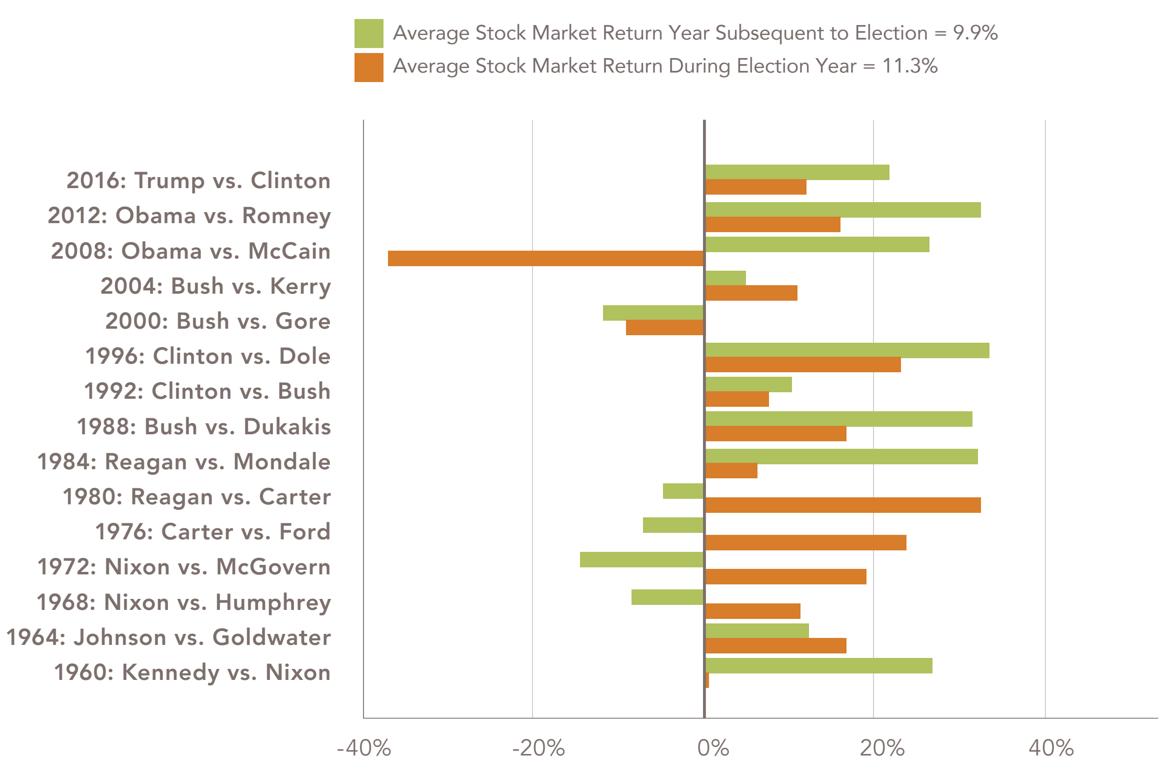
With respect to the 2020 elections is there anything an investor should be doing differently?

The 2020 Election

One way to answer this question is to look at presidential elections historically and their impact on the U.S. stock market. Chart 1 below illustrates how markets have behaved during the last 23 presidential election years and each subsequent year. The stock market was down four times during an election year and down 10 times the year after an election. The down-market years also were mostly recession years having nothing to do with the election. The average return during election years over this period was + 11.3% and it was + 9.9% in the years subsequent to the election.

Chart 1:
Stock Market Returns During & After Election Years

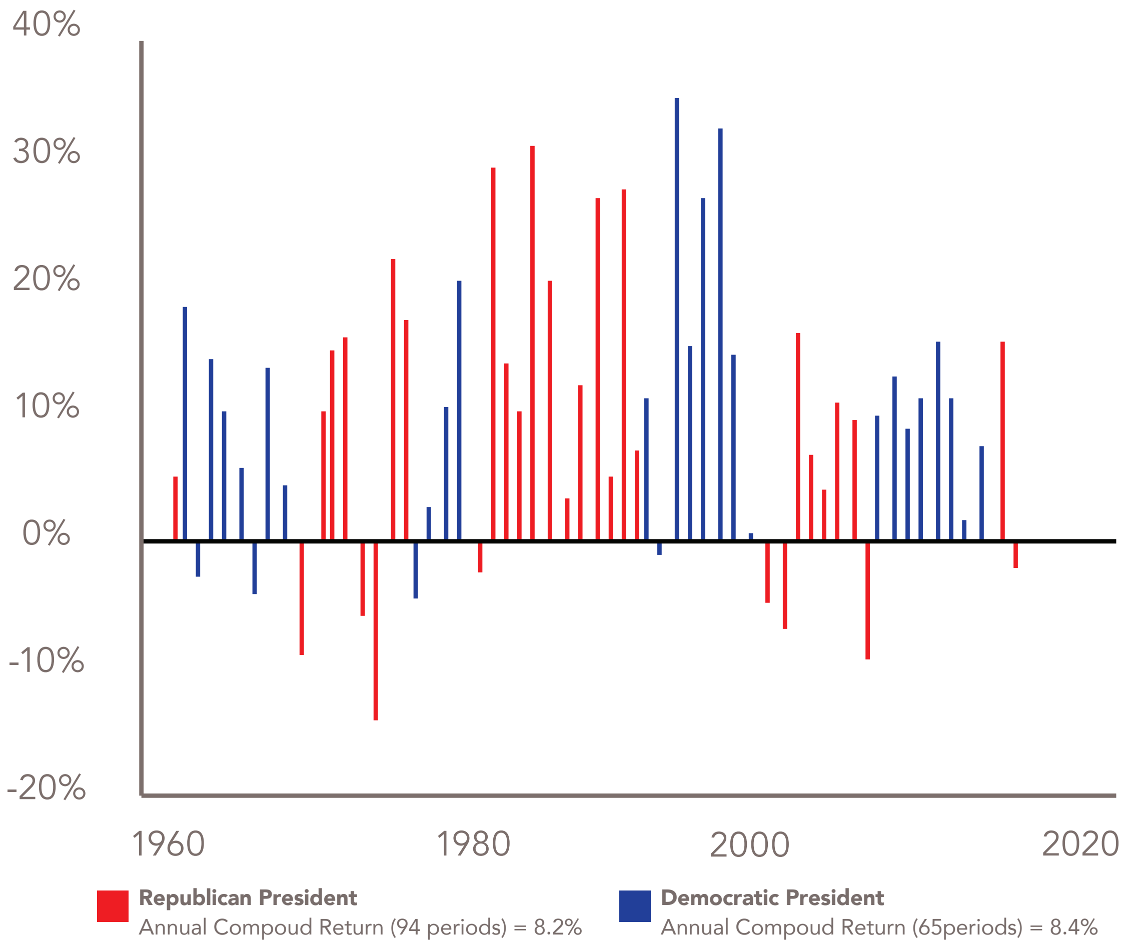
S&P 500 Index: 1960-2017



Some worry that a Biden presidency could tank the stock market. We can look at stock market returns under different ruling political parties from 1860 to 2010 for a 60% equity, 40% fixed-income portfolio. The average annual return was 8.2% per year for Republican presidents and 8.4% per year for Democratic presidents over the period measured. Again, as shown in Chart 2 below, there was no material difference in market performance between the two parties.

Chart 2:
Annual Nominal Stock Market Return

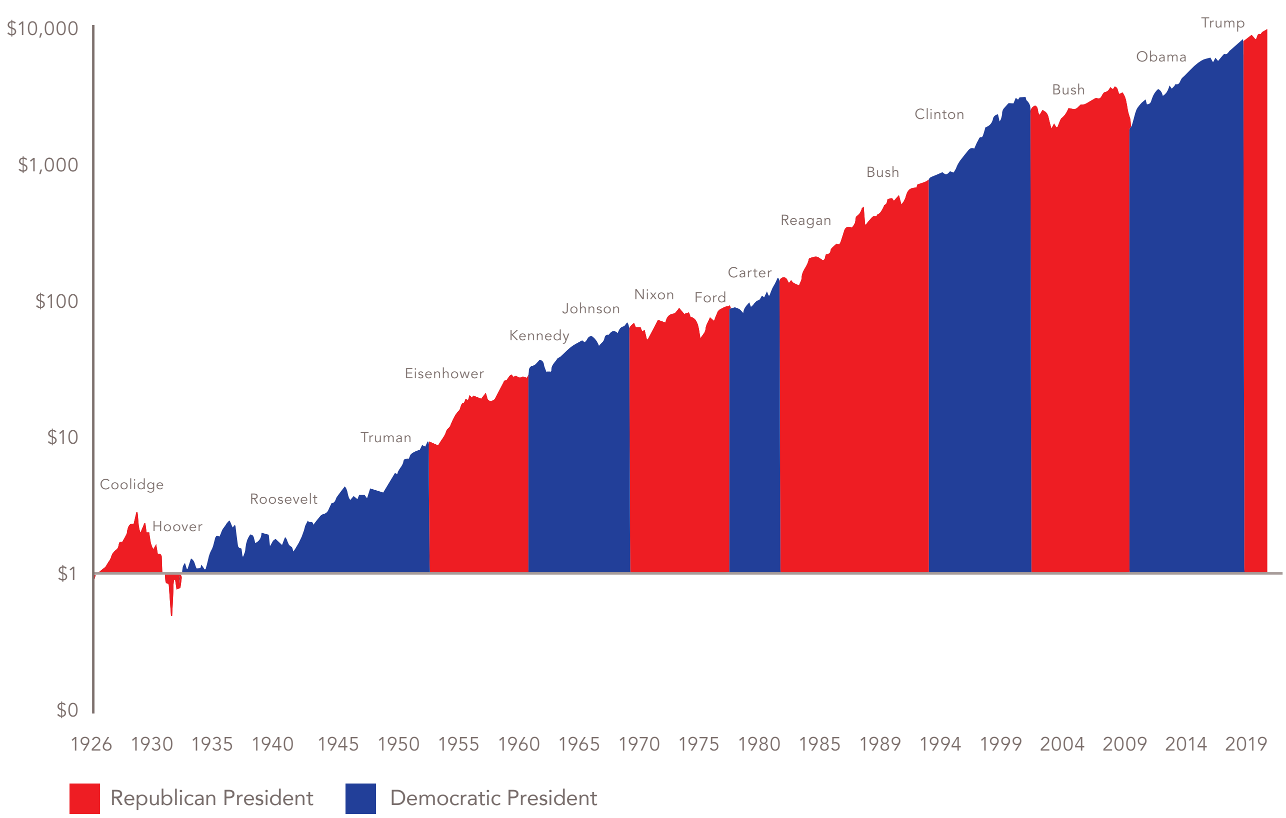
Stock Market Return during election years (40 periods) = 8.9%
Stock Market Return during non-election years (119 periods) = 8.0%



Finally, a look at the performance of markets going back to 1926 serves as a powerful reminder that stock markets go up the vast majority of the time, and under many different administrations, as shown below in Chart 3.

Chart 3:
Markets Have Rewarded Long-Term Investers Under a Variety of Presidents

Growth of a Dollar Invested in the S&P 500:
January 1926-December 2019



Worried if Biden wins or if Trump wins and the impact on your money? Worried about the vote by mail due to coronavirus and the time it might take to count those mail-in ballots? Sure, we might not know who won on election night — and possibly not for days and even weeks afterwards.

But history shows us that stock markets generally have behaved positively during both presidential election years and subsequent years and that the market has maintained its upward trend over long periods of time regardless of who ends up in the White House. Any exceptions related to the party of a president are likely more related to economic conditions than politics. The long-term average returns of a diversified portfolio of stocks and bonds is virtually the same during Republican and Democratic administrations and historically not significant for stock market performance.

Ignore the "Noise"

We suggest that you ignore the media and the "noise" about markets and, as a long-term investor, consider a few ideas.

Emotions are not an investment strategy. Humans have a tendency to make irrational decisions. It is part of our DNA. One big bias we all have is looking at the most recent information and giving it more weight than long-term data. Once we believe something to be true, we seek out information that supports our opinion while ignoring contrary information. Behavioral economics refer to this as "confirmation bias." Once this type of dynamic takes hold, we become emotional investors. This election in particular can exacerbate this dynamic.

The economic landscape may have changed — but have your goals? One of the best ways to stay objective is to have — and to stick to — a financial plan. A long-term roadmap should include what you're saving for, how much you need to put away, and how long it will take to reach your goals. A plan can provide much-needed perspective when stock market volatility and political uncertainty are high. Our circumstances may change, but it is rare that our long-term goals change. If you stick with it, your portfolio and your plan likely will survive corrections, bear markets and even difficult elections.

Rebalance's investing principles help you withstand the test of time. No matter the outcome of this election, focusing on the fundamentals can help you weather the potential stock market response. Follow your financial plan, or have a Rebalance advisor create one for you. We have more than 100 years of financial data and science that guides our basic investing principles, and that 100 years covers some extremely dire times for the country. The Rebalance strategy is meant to protect us in the face of a future that we can't predict. This could not have been more evident than in how well our clients' portfolios have recovered from the COVID-19 bear market.

Hang In There

Clients have asked if we will be adapting our portfolios given the current situation. Rather than adaptation, we stress preparation. We believe in being prepared for a market earthquake when and if one occurs. While these are unprecedented times, we have built **Rebalance** portfolios to remain steadfast throughout whatever occurs over this election cycle, just as they have through the pandemic to date. In fact, as we move closer to election day, we believe the result will be largely "priced in" by markets. We will conduct our firm's regularly scheduled portfolio rebalancing at the end of October. Our clients potentially may see additional benefits, if stock markets are dislocated at that point.

This has been a difficult year for many people and our hearts go out to all who have been negatively impacted. We encourage clients to remain focused on the long term and the idea that no matter what happens, Americans find a way to survive and thrive.

Please do not hesitate to reach out to your advisory team to discuss the current environment and any concerns that you might have.

World Markets Review – Third Quarter 2020

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q3 2020	**Stocks**				**Bonds**	
	9.21%	4.92%	9.56%	2.37%	0.62%	0.68%
Since Jan 2001						
Avg. Quarterly Return	2.1%	1.4%	2.8%	2.3%	1.2%	1.1%
Best Quarter	22.0% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	4.6% Q4 2008
Worst Quarter	-22.8% Q4 2008	-23.3% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008	-3.0% Q4 2016	-2.7% Q2 2015

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]).

The **Rebalance** Investment Committee works with two broad asset classes as the basic building blocks of our client portfolios: Growth and Income. During the third quarter of 2020 these asset classes performed as follows:

Growth Asset Classes

Large U.S. Stocks. Industrials, Consumer Discretionary, Materials, and Technology sectors led large-cap U.S. stocks higher in the third quarter while Energy, Financials and Real Estate sectors lagged. Large company stocks continue to be driven higher by improving economic measures and an ultra-accommodative Federal Reserve. As the quarter progressed, market participants seemed to favor more cyclical or economically sensitive areas over more defensive areas of the market.

Small Cap Stocks. U.S. small company stocks performed well during the quarter, although performance fell shy of their large-cap counterparts. The main reason is that small-cap indexes feature larger weights in Financials and smaller weights in the Technology sector than their large-cap counterparts. Investors also seem to have a preference for larger companies right now over small companies, where they may perceive more risk.

International Developed Stocks. Large company stocks in developed markets outside the U.S. in Europe and Japan did well in the quarter but still lag their U.S. counterparts year-to-date. Because Financials make up the largest sector in this category of international stocks, it lagged the U.S. where Technology stocks are more prevalent.

Emerging Market Stocks. Emerging market companies did well by keeping up with Large U.S. and Developed Market stocks during the third quarter but are still negative on a year-to-date basis. Emerging Market stock index performance was aided by a weaker dollar that boosts index results when translated into U.S. dollars.

Real Estate. Real estate stocks rebounded in the quarter but are still down significantly year-to-date. The rebound in this area is consistent with the recent rebound in economically sensitive sectors while negative year to-date performance can be attributed to lower occupancy rates and poor economic fundamentals for physical buildings that house offices, retail, restaurants, etc. during the pandemic.

Income Asset Classes

U.S. Government Bonds and TIPS. Government bonds moved slightly higher in the quarter, which can be attributed to "liquidity-based demand" which is when cash floods the system and seeks out safe government bonds as a store of value. Prices of high-quality government bonds rose as a result of savers seeking out safe areas to store their cash. TIPS continued moving higher in the third quarter as this market shifted from pricing in deflation to pricing in inflation, causing prices of TIPS to adjust upward.

U.S. Corporate Bonds. Investment grade corporate bond prices rose consistent with a general increase in confidence in the economic recovery and the prospects for corporate issuers.

High Yield Corporate Bonds. High yield bonds rose in the quarter. High yield bond prices often move in sync with stocks and did so as investors bought riskier assets given increased confidence in our economic future.

Emerging Market Bonds. Emerging market bonds moved higher during the third quarter driven by the tailwind of a weaker dollar and better outlook for the global economy.

Preferred Stocks. Preferred stocks are now slightly positive year-to-date after rallying strongly during the third quarter. This area is dominated by Financial issuers (Banks), a group that performed better in the quarter, lifting the performance of the preferred stocks.

The Rebalance Investment Committee

The **Rebalance** Investment Committee meets several times a year to review our client portfolio options, asset class selections, and overall economic factors. The Committee's goal is to curate client portfolios that generate the most investment return for the least amount of risk.

Rebalance and its clients are fortunate to have such respected and savvy financial experts guiding key investment decisions.

Professor Malkiel is an emeritus Princeton University economics professor, a former board member of The Vanguard Group, and the author of the investment classic *A Random Walk Down Wall Street*.

Dr. Ellis was for three decades the managing partner of Greenwich Associates, the leading strategic advisor and consultant to large institutional investors around the world. He was Chairman of the Investment Committee of the famed Yale Endowment, and he has served on the governing boards of The Vanguard Group, Yale, Harvard, NYU Stern, Exeter, the Whitehead Institute, and the Robert Wood Johnson Foundation.

Jay Vivian is the former Managing Director of the IBM Retirement Funds, responsible for over $100 billion in IBM investment funds for more than 400,000 employees worldwide.

We thank them for their input and wisdom.

Very truly yours,

Your **Rebalance** Team

The Rebalance Investment Committee meeting in New York, April, 2019 (left to right: Scott Puritz, Charley Ellis, Jay Vivian, Burt Malkiel and Mitch Tuchman)