Q3 2020 COMMENTARY AND OUTLOOK

My mother used to say, “if you don’t have anything nice to say, don’t say anything at all.” Alternatively, we do think we have nice things to report about our management in the 3rd quarter of 2020 and what we think are positive times ahead. The S&P 500 Index was up approximately 8.47% for the quarter on a price return basis, and we were up on average 9.25%, net of fees, in accounts invested 100% in equities. Most of our investors have balanced portfolios with a combination of stocks, bonds, and cash; therefore, the average balanced accounts were up approximately 6.5-7.5%, net of fees. On a risk adjusted basis, we view this as very positive performance relative to the risk/return of the major averages. Remember that 5 stocks out of the S&P 500 equal more than the market weighting of the other 495. Those 5 are Facebook, Amazon, Apple, Netflix, and Google. Therefore, the S&P 500, which used to be a broad index, is more of a technology index today.

Addressing client worries today has mainly centered around the impact of the Coronavirus pandemic and the upcoming U.S. election on portfolio performance. On this front, I have 2 pieces of positive news: the U.S. Centers for Disease Control and Prevention (CDC) knows more about the virus than it did 7 months ago and the mortality rates are on the decline. Second, there have been very contentious elections in the past, and we have survived and prospered. For example, remember Bush v. Gore in 2000 and the new buzzword was “hanging chads?” Florida was the ultimate seat of judgement for the winner: George W. Bush; however, the election results of 2000 were delayed by approximately 34 days. The S&P 500 was down approximately 10% during that time. This reminds us that markets do not respond well to the uncertainty of knowing who will be the future leader of the United States. Conversely, our clients’ portfolios recovered well in a reasonable period of time, and given the tumult, the period of volatility that clients experienced was relatively short. This example confirms our commitment to the U.S. equity markets. Because we believe in owning stocks as long-term investments, we don’t trade events like delayed election results. The worst investing outcomes that we’ve seen are from the investors who jumped out of the markets in 2008 and never returned. On average, AGCA client portfolios are up from those times by 200 to 300%, net of fees. Permanent damage comes from trying to trade the market.

Our investment philosophy has always been to embrace absolute growth companies and value-oriented equities, or companies that tend to trade at a lower price relative to their earnings and other fundamentals. We would prefer to own both so that we always have an equity engine working hard in our portfolios. Our current performance has demonstrated that this type of hybrid investment strategy has been rewarding, and this makes us much more comfortable during periods of volatility.

In summary, this is a time to turn off your televisions and computers as much as possible and appreciate the fact that you own solid companies in appropriately allocated portfolios. We pledge to continue to work diligently on your behalf each and every day. We are all looking forward to 2021. Here’s to our future.

Warm Regards,

Zandy Campbell