June 2020

Here are selected year to date return numbers through the end of May.

Stock Indexes

	(As of 05/31/20)*
Dow Jones Industrials	-11.10%
S&P 500 Index	- 5.80%
NASDAQ Composite	5.80%

	(As of 05/31/20)*
Russell 1000 Growth Index	5.23%
Russell 1000 Value Index	-15.70%

	(As of 05/31/20)*
Russell 2000 Index	-15.95%
Russell 2000 Growth Index	-6.65%
Russell 2000 Value Index	-25.65%

Bond Index	**(As of 05/31/20)***
Barclays Cap. Aggregate Bond Composite Index	+2.67%

(Source: The Wall Street Journal & Russell Investments websites)

*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

FINANCIAL AND INVESTMENT PLANNING

In recent public comments Federal Reserve Chair Powell indicated that the central bank is likely to keep short term interest rates near zero through 2022. This indicates the bank's view on the depth of the coronavirus caused recession as well as its duration.

In my experience low interest rates are good for borrowers, like home buyers and operating businesses, and bad for savers.

For example, based upon my reading, here are some current facts regarding money market funds. According to Crane Data, which monitors money market funds, nearly half- 48% of U.S. money funds had zero or one basis point – 0.01% - yields as of May 29th. Meanwhile, the yields on another 20% of assets were between two and ten basis points.

Money market fund sponsors may have to subsidize their funds to avoid negative yields. For example, the T. Rowe Price government money fund has current expenses, including administrative and management fees of 0.42% of assets. But on June 11th the funds current gross yield - the income from its investments - was only 0.31%. **Source: New York Times**

The gap is likely to widen. That is because money market fund managers must continuously purchase new securities, and these will be paying lower rates than securities purchased earlier.

What does this mean for investors? Longer time readers know that I believe cash, bank deposits and money market funds are not investments. As such they offer no total return potential. The market value cannot, should not and does not fluctuate.

Cash is cash. It is part of a person's financial asset portfolio. Cash is for known and anticipated needs. This portion reminds me of the old adage: "I am not interested in the return on my money, but the return of my money." I have learned/observed that in troubling times like these, some investors are fearful and inclined to sell financial assets and sit in cash. In my career this has been a losing strategy for people who are trying to make their capital/money grow faster than the rate of inflation, but with an acceptable level of risk.

May was a positive period for global stocks and bonds. Who knew a pandemic and recession would be good for equities? The three month and year to date periods are more mixed in performance.

	1 month	**3 month**	**Year to date 5/31/20**
S&P 500	+4.76	+3.59	-4.97
MSCI World ex U.S.	+4.25	-4.23	-14.42
Bloomberg Barclays U.S. Aggregate (bonds)	+0.47	+1.65	+5.47

Source: Blackrock

While U.S. small cap stocks enjoyed a very good May, they still significantly lag large caps on a year to date basis.

	1 month	3 month	Year to date 5/31/20
Russell 1000 large cap	+5.28	+3.44	-4.91
Russell 2000 small cap	+6.51	-5.18	-15.95

Source: Blackrock

And growth stocks continue to dominate performance/return numbers.

	1 month	3 month	Year to date 5/31/20
Russell 1000 Growth	+6.71	+10.45	+5.23
Russell 1000 Value	+3.43	-4.61	-15.70

Source: Blackrock

As I write this letter we have experienced the largest one day decline for U.S. stocks since the large drop in March.

It is difficult for me to believe everything is fine and that global equity markets are through discounting the unknown duration and severity of the coronavirus pandemic. Now is the time to stick to your investment strategy and avoid those two enemies of the successful investor – fear and greed.

Thank you for taking the time to ready the newsletter and for listening in to Money Talk.

Warm regards,

Carl

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- **Past performance is not indicative of future results.**
- The Dow Jones Industrials is an index of 30 stocks that is considered representative of the overall market.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.
- The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- The Russell 2000 Index is an unmanaged index of small cap securities which generally involve greater risks.
- The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equities
- The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equities.
- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

- The Barclays Capital U.S. Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.
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