



## Quarterly Insights October 2020

Dominated by a handful of stocks benefitting from Covid-19...Facebook, Amazon, Netflix, Microsoft, Apple, and Google, the S&P 500 soared 35% from April through August, its best five months since 1938. The index fell 4% in September, but the six-month gain of 30% was still the best since 2009. During a recovery, as recently experienced, there are always investors that succumb to instinctive fears by irresistibly extrapolating possible negative outcomes of future economic and political events, often disrupting their longer-term strategic investment plans. Election years sometime exacerbate such emotional behavior and this year is no exception. Although investors intend to remain disciplined and steadfast, market volatility forces some to sell financial assets at inopportune times and others to hold excessive cash for years, disrupting preservation as well as growth of their wealth. The lesson yet to be learned: there is absolutely no consistent relationship between investors' gut feelings and the ultimate outcome of financial markets. Thus, more often than not, investors' emotionally driven decisions result in costly consequences.

Amidst this time of uncertainty, two major concerns weigh on investors' minds. First is the risk of a prolonged or steeper recession if a widely distributed vaccine drags out beyond the first half of 2021, necessitating further government stimulus for individuals and companies. More stimulus adds further doubt regarding paying back our nation's growing debt burden. No one knows for certain how long Covid-19 is going to impact many struggling individuals and companies going forward. President Trump's decision to halt stimulus negotiations until after the election adds further uncertainty to the rate of our economic recovery. For the latest information on Covid-19 and economic implications, please see our website Covid-19 Resource Page where timely information we receive from JP Morgan is posted each week. <https://iccnv.com/covid-19/>

Second are the economic implications related to a change in political parties in the White House and/or control in Congress. While fast-growing companies that are able to grow profits during challenging economic periods have carried the market for most of the recovery, select economically sensitive companies have begun to quietly lead as well, stemming from the increased support in the polls for Biden. Proactively, our firm has added two value managers to discretionary accounts. With the chance that no clear presidential winner will be announced on election night, we can expect more drama and resulting market volatility. Comparisons are being drawn to the controversial U.S. presidential election of 2000. Then the Supreme Court eventually settled the controversy on December 12 in favor of George W. Bush over Al Gore, halting a Florida recount and just prior to the Electoral College's scheduled December 18 meeting to resolve the dispute. During this time, the U.S. stock market trended lower until the ruling, without a traditional year-end rally. On the other hand, if the election process turns out to be more orderly than feared, the market may have positive implications.

It will be interesting to see if previous trends around U.S. Presidential elections prevail. In the past, the stock market has typically been stronger between September and election day when the incumbent party has won than when it has lost. Also, market weakness after incumbent party losses has often reversed in post-election years. If Biden wins there is speculation that corporate taxes will be raised. In that scenario, Wall Street analysts are forecasting a reduction in profits, curtailing capital expenditures, dividends, mergers and acquisitions, and most importantly, company stock buy backs. Public companies have been the largest segment of stock buyers in recent years, fueling the stock market gains.

At the Investment Counsel Company, we recognize that every time is different. Mark Twain agrees, "History doesn't repeat itself, but it often rhymes." In other words, some events appear to look the same, some coincidental, while others different. Regardless, our Firm's philosophy is focused on proactively preparing to continuously confront a wide range of unforeseen financial, economic, and political events. We embrace this approach over attempting to forecast future events which has a far lower probability of investors' success. Our team is grateful for the trust of our valued clients and other friends of the Firm. Every member of ICC takes this responsibility seriously and is committed to serving the best interest of our clients.

We hope that you and your family remain healthy and safe and encourage you to call us whenever we can be of assistance.

Sincerely,



Randy Garcia  
Founder and Chief Executive Officer

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