Gore Capital Management

Our only client is you.

A quick note before we dive in: The goal of our newsletters has always been to share the market-related information we feel is important for our clients to know. The COVID outbreak, as well as the economic and policy response, is a polarizing issue. Misinformation abounds as actors of all motivations capitalize on polarization in an effort to influence the uninformed and the easily-persuaded. We are committed to facts. We have done our best throughout this issue of the newsletter to focus on facts. Where outside opinions are mentioned, they are opinions of people we believe are also committed to presenting a fair picture.

COVID update

The new case numbers are changing too quickly for us to present anything up to date here. Johns Hopkins has a fascinating website with all of the data you could possibly dream of. The site is https://coronavirus.jhu.edu/.

The focus is now turning to reopening. As states begin to ease their lockdown restrictions it will be critical to track the rate of increase in confirmed cases. The risk of a "second wave" of infections has been noted by health policy officials the world over. Due to the virus's relatively long incubation period, we may not begin to get real clarity on the risk of a second wave until part-way into June.

There has been some notable progress on therapeutics and a vaccine, though we are still very early in the process. Two companies are leading the way in therapeutics, with early trial data suggesting their drugs do help to accelerate recovery from the virus. Six or seven major pharmaceutical companies are working on vaccines; Moderna appears to have the lead at the moment but the headlines are fluid. Although we can't say with much clarity which company or drug will come out on top, we are optimistic regarding the FDA's continued commitment to support the pharmaceutical complex in expediting trials and moving towards a vaccine (safely, of course).

Economic update

We're glad to see some relative calm returning to the markets along with a sharp rebound from the March lows. The S&P 500 is now trading around 3,000 points, roughly 10% below its value on January 1st of this year.

First quarter earnings are in and, as expected, they're pretty lousy. According to Factset, the estimated year-over-year decline in earnings for the aggregate S&P 500 is 13.8%, representing the worst drop since 2009. Interestingly, investors aren't punishing companies (by way of selling stock) for missing estimates as harshly as they have historically. We suspect investors may have actually set their expectations even lower than reality and are now simply relieved that the situation isn't as dire as they initially thought. Looking forward, second quarter earnings are expected to be even worse because the quarter covers the months of April through June. As of this writing, analysts are expecting a 41.9% drop in earnings for the second quarter (not a misprint) and a decline of around 20% for the full 2020 calendar year.

Market Statistics	YTD (as of 4/30/2020)	2019	3-Year Annl.	5-Year Annl.
S&P 500	-9.46%	30.70%	4.48%	6.07%
Dow Jones Ind. Avg.	-14.25%	24.43%	3.68%	6.08%
Russell 2000 (Small Cap)	-21.19%	25.00%	-5.02%	-0.66%
MSCI EAFE (Foreign)	-17.84%	22.01%	-1.82%	-0.62%
MSCI ACWI (Global)	-12.94%	26.60%	1.50%	2.85%
MSCI Emerg. Mkts. Equity	-16.60%	18.42%	-1.62%	-0.37%
Barclay's Aggregate Bond	4.98%	8.72%	4.82%	3.36%
S&P GSCI Gold (Spot)	11.23%	18.87%	8.47%	6.18%

Source: Morningstar

So… why is the market only down about 10% year to date? We have to admit we're a little perplexed by the setup as well, but it's important to remember that the stock market is not the economy; it's a forward-looking discounting mechanism. The market historically bottoms-out before the economy does, as investors accept the lousy data and start to look to the eventual turnaround. If we assume (and it's still a big assumption) the market bottomed in late March, perhaps the economy will bottom sometime during the second half of this year. That trajectory would be consistent with analyst expectations for earnings. Factset currently expects earnings growth of 27% in calendar year 2021, or $161 per share on the S&P 500. This is almost exactly the earnings figure analysts were expecting for the 2020 calendar year before COVID hit, meaning corporate America could (could…) be "back to normal" by the end of 2021 (all data from Factset, 5/15/20).

Keep in mind this is a simplified analysis. It doesn't account for what is likely to be a very bumpy ride over the next 12 months (if not longer). As it stands today, we feel the market is a little ahead of itself and we wouldn't be surprised to see a pause, or even a slight pullback, as data continues to emerge. If second quarter earnings are worse than currently expected, we could see some panic-selling from investors as the reality of the drop in earnings actually sinks in. Longer term, we expect the economic recovery and the market to follow a "two steps forward, one step back" model: continued volatility, but a general upward trend over the longer-term.

It should also be noted that our commentary is primarily focused on the largest corporations in America because they're traded publicly and we have the most visibility into their performance. We can't begin to assess the damage done to thousands of small, family-owned businesses around the country, many of which may be forced to close their doors forever.

Politics

Instead of wading into the murky waters of Washington ourselves, we turn to Raymond James's DC analyst Ed Mills for a few quick insights. As with COVID, the election is a polarizing issue. Our intent is not to take sides, but merely to share a few notes and observations we found interesting.

- Now less than six months out from the election, Ed puts equal odds on a status quo outcome (Trump wins, GOP keeps Senate, Dems keep House) and a "clean sweep" by Democrats (Biden wins, Dems win Senate, Dems keep House), each at a 40% probability.
- Ed believes Joe Biden's most likely pick for VP is Michigan Governor Gretchen Whitmer. Michigan's Republican swing during the last presidential election stung Democrats, and he thinks Mrs. Whitmer may help Biden recapture the state. Polling also suggests Michigan residents generally approve of her handling of COVID.
- Historically, "outsider" candidates (meaning those who have not yet participated in Washington politics) have performed better in presidential elections. On the Democrat side, Jimmy Carter, Bill Clinton, and Barack Obama were all considered "outsiders" when they successfully ran, while Michael Dukakis, Al Gore, John Kerry, and Hillary Clinton ran unsuccessful campaigns. On the Republican side, Reagan, George W. Bush, and Trump were all "outsiders," while John McCain was not. There are of course many other factors that influence elections, but this statistic does suggest Biden's path may be a little more challenging. Generally speaking, it seems the American body politic seems to like "shaking things up."

COVID has no doubt thrown a (large) wrench into the works, but the crisis may offer candidates – presidential and otherwise – the opportunity to differentiate themselves from their competition. The only thing of which we are certain: it is bound to be an aggressive race with quite a bit of mud slung by both parties.

We close this quarter's newsletter the same way we've closed the last few, with a reminder that market volatility and uncertainty are indeed the *only* certainties in investing. If the recent rollercoaster ride has you feeling nervous or wondering whether your financial plan remains intact, please do not hesitate to reach out.

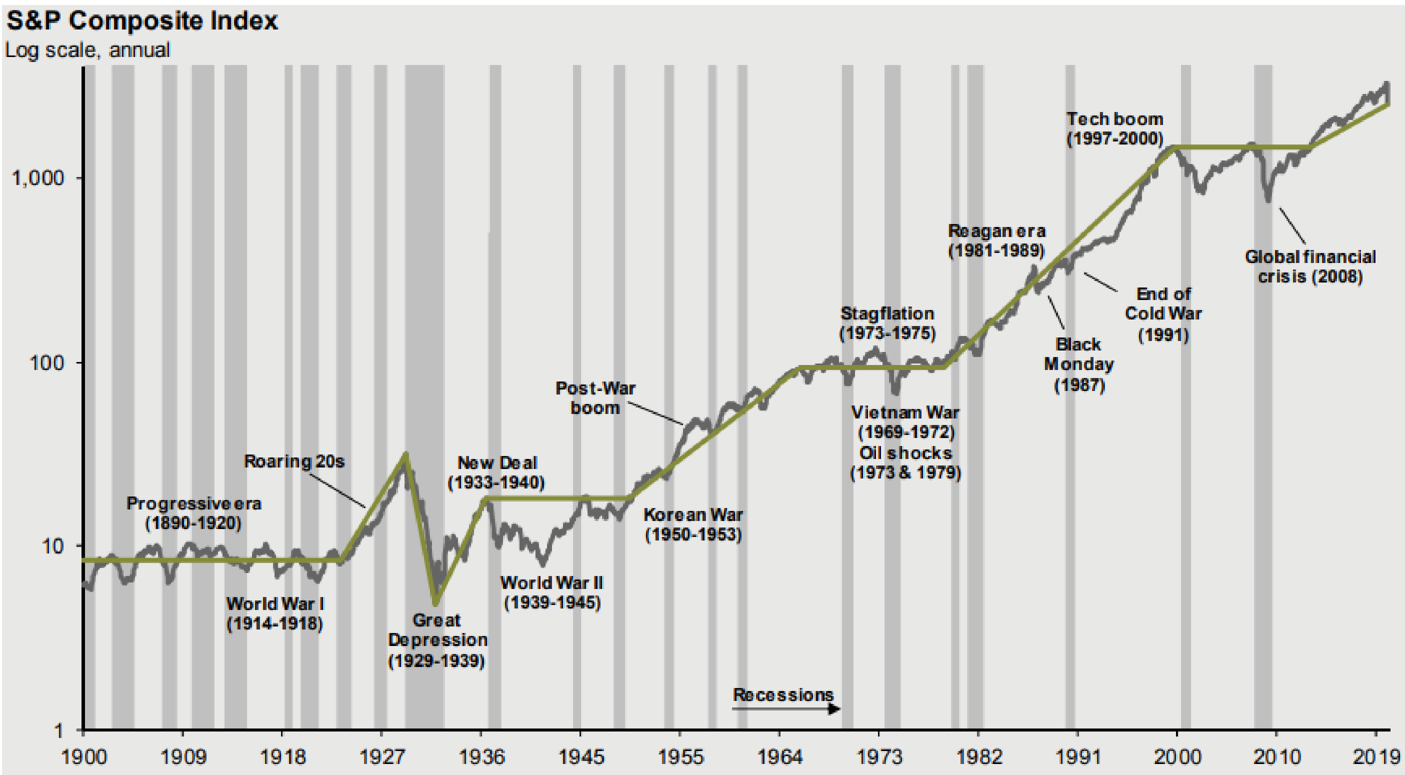
Peter, Ben & Keri

GCM's Top Holdings	YTD (as of 4/30/2020)	2019	3-Year Annl.	5-Year Annl.
PIMCO Income (PONPX)	-5.63%	7.94%	1.84%	3.49%
FPA Crescent (FPACX)	-14.84%	20.02%	-1.94%	1.00%
T Rowe Price Blue Chip Growth (TRBCX)	-0.13%	29.97%	12.51%	10.74%
Vanguard Mega Cap Value (MGV)	-15.79%	25.73%	1.48%	4.79%
American Fds EuroPacific Growth (AEPFX)	-15.47%	27.28%	0.18%	0.81%
Litman Gregory Masters Alternative (MASFX)	-6.25%	8.52%	-0.19%	0.91%
Baird Aggregate Bond (BAGIX)	4.22%	9.48%	4.54%	3.37%

Source: Morningstar

Ben's Corner

Instead of pondering some interesting financial topic in my editorial this quarter, I'm sharing with you a graphic reminder of why it's important to maintain a long-term viewpoint when investing. There are always, always, reasons to be fearful, concerned, or nervous about the market. There's no way to know what will happen in the future, but to repeat a quote from financial blogger Josh Brown, "there has never been a stock market crash that the [market] hasn't recovered from."



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.
Guide to the Markets – U.S. Data are as of March 31, 2020.

I think this is also a powerful reminder of why risk tolerance and time horizon, the two key tenants of financial planning, are so important. Even if we can't expect events like this, we can consider the effects of potential bad market environments and incorporate them into our investment strategies. A "good" portfolio isn't one that never goes down in value (that's impossible anyway); it's one that's invested appropriately for your income needs, your long-term goals, and your appetite for volatility.

Stay well and stay resolute!

Disclosure

Investing involves risk and you may incur a profit or a loss. Please carefully consider investment objectives, risks, charges, and expenses before investing.

Mutual Funds are sold by Prospectus only. Please carefully consider the fund's investment objective, risks, charges and expenses applicable to a continued investment in the fund before investing. For this and other information, call or write to for a free prospectus, or view one online. Read it carefully before you invest or send money.

The indexes are unmanaged and an investment cannot be made directly into them. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market.

Cantella & Co., Inc. does not provide legal or tax advice. For legal or tax advice, please seek the services of a qualified professional.

This material is not intended to provide legal, tax or investment advice, or to avoid penalties that may be imposed under U.S. Federal tax laws, nor is it intended as a complete discussion of the tax and legal issues surrounding retirement investing. You should contact your tax advisor to learn more about the rules that may affect individual situations.

This was prepared for informational purposes only. It is not an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable but there is no guarantee that the facts cited in the foregoing material are accurate or complete. Changes to assumptions may have a material impact on returns. Past performance is not indicative of future results. The views and opinions expressed in an article or column are the author's own and not necessarily those of Cantella & Co., Inc.

Securities and Advisory Services offered through Cantella & Co., Inc., Member FINRA/SIPC