22nd Anniversary

RIVERPLACE · CAPITAL ·

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Sign up for our weekly blog and market updates by visiting www.riverplacecapital.com, or check us out on Facebook Live every Thursday at 12:45pm.

WHY RIVERPLACE CAPITAL?

- **Top Tier Financial Performance**
- **100 Years Investment Experience**
- **Personalized Investing**
- **Individuality of Thought**

NOTICE

Riverplace Capital is offering a free financial plan (value $1500) through 2020 for anyone during this difficult period, not just for our clients. Information is powerful and knowing how well your needs are being covered can help you make better decisions during this time of heightened uncertainty and stress. You may want to analyze a variety of "what ifs". Can you be more aggressive with your investments or should you be more conservative? If you get sick, how well can you manage through the illness? Other questions may come to mind that cold rational analysis can help you see through the fog of the moment.

Free is free and no one is under any obligation to Riverplace Capital. The Bull and his partners want to help investors make the correct decisions. In other crises, we have seen too many people do great harm to their financial futures. This can be avoided with the proper analysis and counsel. It is important to stay on a disciplined path. You may need to make changes, just do them as part of a rational plan. Let us help you.

Written by Peter E. Bower, President.

the Lonely Bull

a herd apart from same minded investment strategies

October 2020 A Quarterly Market Perspective by Riverplace Capital Number 89

Featured Sections

TALK WITH US

You cannot have not noticed; we have a presidential election coming up very soon. Some fear the outcome and even the process. Regardless of your political affiliation, this seems to be an unusually fraught season. Some investors have even considered selling down their holdings to be on the sidelines during this time.

You may remember the 2016 presidential election. Most pundits and political analysts felt sure that the outcome would be a Hillary Clinton win. Once the results began streaming in, the possibility of an upset emerged. Stock futures collapsed. Within a short time, they reversed and advanced, presaging a strong stock market rally in the final two months of 2016.

Historically, political events have little lasting impact on the stock market. It has always been good advice to not conflate politics with economics. It may be that in our form of government, economic policies can not change rapidly. Also, business has many ways to adapt. Using a political position to predict market responses rarely works. That is not to say there may not be increased volatility, there most likely will. **People do not like uncertainty, especially investors.**

Taxes can be a serious consequence of moving in and out of stocks. **The best gain is a long-term one sitting in your account that has not been taken.** The growth keeps compounding year after year without the tax haircut. In essence, the taxed amount remains in the position to earn greater returns.

So, what is our advice? Stay steady, my friends. **Endure the volatility, buy bargains if they are presented to you and take the long view.** If you would like to review your particular circumstances, ***Talk with Us.***

PERSPECTIVES

Third Quarter

Surprising in every way; that is the stock market action during this past third quarter of 2020. With a roaring pandemic, increasing trade tensions, a looming presidential election, and many other inauspicious factors, investors exhibited much more confidence in the future of business prospects than might seem probable. August was a phenomenal month for returns, September took some back, but the result is good considering.

Over the summer months, it was well documented how narrow stock market leadership had become. A handful of stocks drove index returns. These were mostly companies that benefited from the stay at home environment driven by the Covid-19 pandemic. Some of these stocks became so popular that new money crowded in, driving some up by huge percentages. This activity reflected a belief that the recent social and economic changes would be long-lived, if not permanent. (See our *Forecast* section to read what we think.)

Interest rates crashed and remained extremely low. This was driven by the Federal Reserve's policy and actions. It also signaled that their intention is to keep interest rates low for years to come. Given little alternative for earning returns on capital, more and more money was invested in stocks; especially the few large companies that looked to be obvious beneficiaries of the current environment.

The differences in performance between the anointed big-cap growth companies and just about everything else became stark. At one point, the differences between the S&P 500 and the unweighted version that does not give increased weight based upon size, approached 30%. Differences between this growth driven index and value, or mid-caps, small caps, international indices, and others was just as extreme. **This imbalance was begging for correction.**

There are many ways that extreme imbalances correct. What seems to be happening, however, is that the previous leaders undergo a correction while a broader group of stocks hold up well or even advance. This can also be referred to as a rotation among various sectors. Rotation is healthy and indicates that investors are sensitive to value and willing to look past the immediate and into the future with optimism. At Riverplace Capital, we are optimistic as well. See our *Forecast* section.

> "Don't confuse politics with economics."
>
> *-Unknown*

MAJOR INDICES

as of 9/30/2020

Large Cap Stocks (S&P 500)	4.1%
Dow Jones Industrial Average	-2.7%
Mid Cap Stocks (S&P 400)	-9.8%
NASDAQ Composite	24.5%
Small Cap Stocks (Russell 2000)	-9.6%
MSCI EAFE	-8.92%
Barclay Aggregated Credit Index	6.59%
Inflation	1.3%

Equity indices are nine-month returns excluding dividends. Note: Inflation Index is as of August. September numbers are not out until October 13, 2020 at 8:30am.

FORECAST

Economy

The economy should continue to recover. New therapies and vaccines will speed up the process. There are many estimates when these are likely to emerge. It will take time to disseminate these and get to a point where enough citizens are inoculated. Most believe that time is measured in months, not years. Businesses are already beginning to make decisions based upon the prospect of normalization. Few expect the economy to return to the same status as before the pandemic, but it should approach it.

Growth rates for the next few quarters could vary significantly, but progress. Additional fiscal support would aid that process. Riverplace Capital has stated that in an election year such additional stimulus is likely. We still believe that but the politics surrounding this are unpredictable. Even without more stimulus, the economy should recover, it will just take longer and be less comprehensive.

Equities

Having reached extremes in performance among categories of some stocks, **the market is beginning to sort out what makes sense for the expected business environment for the rest of the year and beyond.** High growth issues have been correcting while others are getting increased interest. Money flows into stocks have recently signaled this shift. We believe it is significant and will be durable.

There is little doubt that many things have changed, just to what extent? Will office work be totally abandoned or merely evolve with more options and flexibility? Like questions apply to retail and dining.

We tend to believe in a more evolutionary pace to change and that the extreme changes brought about by the coronavirus crisis will be moderated. This should begin to happen now and continue well into the new year. We believe there are many opportunities in some businesses that have been abandoned by investors in their frenzy to invest in the current beneficiaries. (See our *Strategy* section)

Fixed Income

Some time ago, Riverplace Capital threw in the towel that interest rates would eventually rise and better reflect economic activity and money demand. Unfortunately, we face the same challenges of generating income as everyone else. Some accounts have investment policies that require some allocation to fixed income securities. Here we meet the mandate by investing in high quality issues with given duration and a fixed rate of interest. In other circumstances where there is greater flexibility, we prefer using high dividend paying stocks.

Portfolios of stocks paying good dividends are more volatile but pay a much better rate of current income. If the near-term volatility is not a major concern, then the investor is in a position to benefit from the long-term appreciation of the companies represented by the stock portfolio. Companies that we select also typically raise their dividends over time. For the patient, more income, and an appreciating capital base.

INVESTMENT STRATEGY

Equities

We have maintained a foot in both the growth and value style camps. Our bias has always been with growth companies but market action over the past year has left many good stocks behind that represent terrific value. Recently we received a buy signal for the value sector based upon increases in money flows into this sector. We are adding some of these securities to portfolios. We are proceeding cautiously and incrementally. There have been several false starts to this rotation, so we want to be assured that this is a durable trend.

Growth investing will not go away. It may be that the U.S. stock market simply broadens out to other sectors reflecting more confidence in our economy normalizing. A broad market advance is more reliable than a narrow one. Riverplace Capital sees some terrific values in many stocks shunned until just recently.

Fixed Income

This is still a challenging sector. Reaching for greater returns in this sector has historically led to grief. Quality is a must. We only buy notes and bonds that meet this criterion. We require a defined maturity date and set interest rate. We keep maturities relatively short. In general, this is a dangerous time for seeking yield. Too many things can easily go wrong. Quality is paramount. High quality money funds are also a good place to park money until other opportunities emerge.

Wealth Management

With the broadening of the market, many other categories are also beginning to perform much better. Mid and small-cap indices have recently been playing some catch-up to the large-cap growth; so are international, both representing advanced economies along with emerging markets.

Our broad-based diversification approach to asset allocation in this strategy is now finally beginning to pay off. In fact, we believe that performance leadership has rotated to these categories. Therefore, our allocations are being maintained at current levels.