RIDLEY COVE
FINANCIAL ADVISORS LLC

John H. Biebel, J.D., CFP®
Chief Client Advisor
617-791-3811
jbiebel@ridleycove.com

2020 Second Quarter Review

Greetings Clients:

At mid-year 2020, U.S. stocks were down 3.2%, world stocks were down 6.2%, and U.S. bonds were up 6.3%, as represented by the S&P 500 US Large Company Index, the MSCI All Country World Index, and the Bloomberg Barclays Aggregate Bond Index.

Our balanced, growth and aggressive portfolios were down 4%, 6% and 8% respectively. We would prefer to have large positive numbers at all times, but we are comfortable with our positions as we anticipate the constant rotation into the next favorite market sectors. More on that below.

When I wrote your last quarterly letter, we were just entering a new world of working from home, take-out only and remote learning. We had experienced a 34% drop in the stock markets, but we did not know that a 45% rebound would happen in a matter of weeks. Most of us were either doubtful that social and racial inequality could be recognized by enough people to make meaningful change possible, or we were unaware of its pervasiveness. Or both. As 20-year-old Chelsea McCollum said before heading to a protest in Brooklyn, “The perfect storm was everyone being stuck inside on their phones. They could not ignore this.” We have a long way to go, but I am optimistic.

I will do three things in this letter. First, I will revisit the disconnect between the global economy and the stock markets. Second, I will share an insight on the extreme volatility that we have experienced. And third, I will explain how we are positioning your portfolios to prosper.

First, the stock markets do not mirror the health of the economy. The S&P 500 is comprised of enormous companies with global sales. The average valuation of the companies comprising the S&P 500 Index is about $50 billion. The smallest company in the index is Mattel, which is valued at about $4 billion. Your local restaurants and hair salons are not included. My point is that the stock market does not reflect the financial well-being of most Americans. In fact, the companies in the stock market are focused more on access to capital and how much they will have to pay to borrow money. Ironically, when something bad happens and the Federal Reserve announces that it will lower interest rates and buy distressed assets, the stock markets often go up.

Second, we are not done with volatility. Here’s another cogent insight from Howard Marks, Co-Chairman of Oaktree Capital Management:

> “…the most optimistic psychology is always applied when things are thought to be going well, compounding and exaggerating the positives, and the most depressed psychology is applied when things are going poorly, compounding the negatives. This guarantees that extreme highs and lows will always be the eventual result in cycles, not the exception. ...in the real world, things generally fluctuate between “pretty good” and “not so hot.” But in the world of investing, perception often swings from “flawless” to “hopeless.”

We have strategies, and even more importantly, discipline, to methodically rebalance regardless of whether the markets are moving up or down. We will buy when the markets think the situation is hopeless and sell when the markets think the situation is flawless.

Third, your portfolios are positioned to prosper. Here are two of our strategies:

A. International investments. The dollar has been strong relative to other currencies and we have been buying non-US companies at a discount. Merck and Pfizer are US-listed pharmaceutical companies. Novartis and AstraZeneca are non-US-listed pharmaceutical companies. You own all of them. They all have international sales and American workforces.

B. Alternatives to growthy technology companies in the S&P 500 Index. For several years we have been allocating assets to alternative strategies, including quality, value and active management.

You constantly hear us talk about diversification and discipline, but don't take our word for it. The following paragraphs are from the Charles Schwab Mid-Year Outlook:

> **Be ready for a changing market**. The recent rotation into cyclicals has started to lift value and international stocks relative to growth and U.S. stocks. If sustained, this new market leadership by sector, style and geography in the second half of the year may catch some investors by surprise after the economic and market cycle of the past 12 years favored technology, growth and U.S. stocks. This suggests that investors who haven't rebalanced their portfolios in a while should consider doing so.
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> **Stay disciplined**. Be mindful of the emotions of fear and greed—stay disciplined, especially around diversification and periodic rebalancing. Long-term investment success does not require precisely picking market tops and bottoms. That's gambling on moments in time, while investing should always be a process over time.

I have uploaded your quarterly reports to your portals and they can be accessed via this link:

https://main.yhlsoft.com/auth/users/webportal/ridleycove.

You should have already received a separate notification with a link. If you just started working with us, you will receive your first performance report next quarter.

Please contact me if you have any trouble accessing your report, or if you have any questions about your investments, our strategy, or your financial goals. Please do not worry alone. And remember that our money is invested right alongside yours.

Sincerely,

John H. Biebel, J.D., CFP®