Outlook 3rd Quarter 2020

July 1, 2020

Currencies Commodities Bonds Stocks

Andrew Hill
Investment Advisors, Inc.
ResponsibleAdvisors.com

Andrew D.W. Hill
President & Co-Founder, CFA

Andy Hill has more than 25 years of portfolio management experience.

Andy holds an MBA from Syracuse University and a Bachelor of Science degree from Canisius College. Andy often contributes to Investor's Business Daily, Naples Daily News, and Fort Myers News Press. He has also appeared on CNBC and FOX.

Jennifer R. Figurelli
Managing Director & co-Founder

Jennifer Figurelli has 18 years of experience in the trust administration field. Jennifer has a Bachelor of Arts degree in Business Administration from Florida Southern College and a Legal Assistants Certificate from Florida Atlantic University. She also is a graduate of the Florida Bankers Association Graduate Trust School and holds a Series 65 license and Life, Health and Variable Annuity designations.

Highlights:

1. **Financial Markets Soar in Q2, but no party please**
2. **Economic Outlook**
3. **History of Pandemics**
4. **Portfolio Strategy for the Pandemic Recovery**
5. **Planning Update**
6. **Office Update**

Financial Markets Soar in the 2nd Quarter, Thanks to the Fed and Congress, but No Party Please

During the second quarter 2020, the stock market soared thanks to the actions of the Federal Reserve and Congress which helped by provide liquidity to the financial markets and loans to businesses to bridge the gap to the economic recovery.

As of June 25, the SP500 is up 19.9% for the quarter and down only 3.6% for the year to date. The SP500 has recouped about 70% of the losses since the CV-19 virus began to grip the financial markets. The reaction in the equity markets appears to be ahead of the current status of the economy which is still deep in recession. This is normal as investors tend to look forward and the hope is that the downturn is short in duration. Regardless of the reasons, the recovery of the stock market is good for the economy as many retirees live from the profits of their investment portfolios.

The bond market has also benefited from the actions of the Federal Reserve to lower interest rates and to serve as a willing buyer of bonds when no one else will (liquidity). The Barclays Bond Index chipped ahead by 2.7% during the quarter and is up 5.9% for the year. Keep in mind this index has a large concentration of government bonds that have done well due to the Federal Reserve's policies to lower interest rates and being considered one of the safest assets.

Hopefully, the worst of the crisis is over for the financial markets, but time will tell as the virus continues to take a toll upon its victims and the economy. Ultimately, a containment, treatment, and vaccination of the virus will drive the economic recovery.

In this edition, please find our thoughts on the outlook for the economy and the portfolio strategy as well as Elicha's report on the history of pandemics and Jennifer's planning updates. The final section of this newsletter includes our firm's actions to keep our staff and office visitors safe.

4081 TAMIAMI TRAIL NORTH, SUITE C-105, NAPLES, FL 34103 - ANDY HILL (239) 777 – 3188 - JENNIFER FIGURELLI (239) 777 – 3129 - WWW.RESPONSIBLEADVISORS.COM

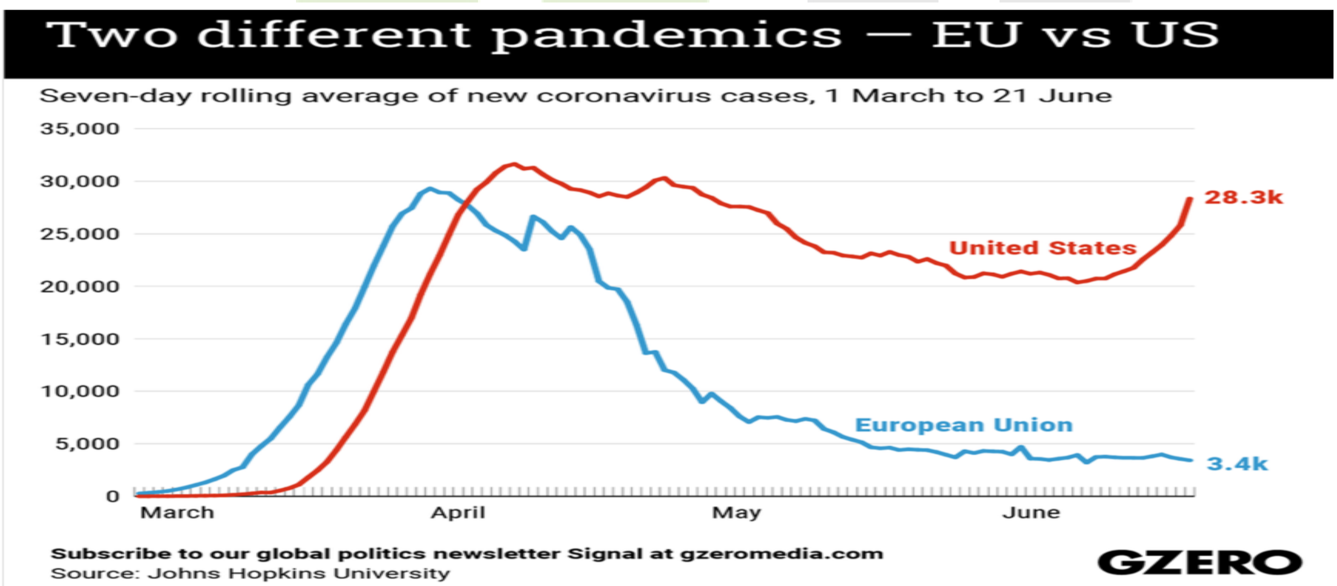
Economic Outlook

The U.S and world economies experienced a historic reduction in activity during the 2nd quarter. Economic analysts at Bloomberg see a 37% drop in GDP (Gross Domestic Product), followed by a 23% recovery in the 3rd quarter. Given the difficulty in accurate accounting and numerous anticipated revisions to the data, it is wise to watch the direction of the data points, not just one single report. We also believe that it is important to measure the economic data relative pre-COVID-19. For all of 2020, economists expect a 6% decline in GDP with a 4% recovery in 2021, so we have a ways to get back to even with pre-covid economics.

Digging deeper into the economy, employment recovered 2.5 million jobs in May after losing 20 million in April. The job gains are a positive sign, and perhaps an indicator that the economy has begun to recover. However, the job gains may be a result of the Paycheck Protection Loan program which allowed employers to rehire employees and qualify for loan forgiveness. The first phase of the layoffs focused on lower waged works, often in retail, tourism, and other hourly jobs. Subsequent layoffs may be in salaried positions as the the economic recovery may lag expectations of business owners, thus reductions in staff maybe necessary. On a similar situation, municipalities maybe focused to reduce staff due to lower tax revenues.

Personal income surprisingly jumped 10% in May, as various forms of government payments (which economists refer to as “transfer payments”) were distributed. The uptick in employment and the cash payments helped retail sales during May which were up 18% from April, but are still a long way down. Looking forward, the sustainability of the recovery of retail sales will largely depend on the trend of the virus and consumer confidence in being able to shop safely. The lack of a unified strategy and enforcement of basic health recommendatios of the CDC accounts for the concerning trends of COVID-19 cases in the US in comparision to Europe as the chart below presents.

While increased testing would account for some of the cases, the increase in COVID-19 patients at



NCH has jumpted to a record high of 61 (as of June 23, 2020), up from 49 cases two days ago and the doubling of patients in LeeHealth during June, which is not an encouraging trend.

Small pieces of economic data points to an improvement in activity in some sectors of the economy. The industry term “high frequency data” refers to data collected from multiple sources, such as, pollution, air travel or satellite photos. Signs of increased activity are evident in utility demand, transportation on roads and air, but not in public transportation. However, industrial activity is only seeing a small uptick as autos and aviation segments are dealing with supply chain issues and the Boeing 737max shutdown. The best micro-economic data is from mortgage applications that have exceeded pre-virus levels. Refinancing and new home purchases from the migration of big cities has helped real estate markets.

While the economy has experienced a hard knock down, the Federal Reserve and the fiscal stimulus programs have given the economy a chance to survive the downturn. Congress has provided $3 trillion in various spending programs led by The CARES Act and the Federal Reserve has quickly enacted almost 20 programs providing liquidity to the treasury, corporate, municipal and money markets in addition to lowering short-term interest rates to near 0%. Low interest rates have hurt savers who invest in CD's and life insurance companies that will be forced to increase premiums, while low interest rates have helped real estate and other large purchases that are often financed such as boats and RV's. Low interest rates have also helped the equity market. Investors are challenged to achieve their long-term investment objectives with fixed income since yields are so low need to migrate to equities.

Looking forward, there are several significant economic challenges facing the U.S. economy. In the short-term, COVID-19 is an obvious hurdle that the US is doing a fair job, at best, in combating. Longer term, the convergence of the growth of populism, a reduction of global trade, budget deficits and the U.S. Dollar as the dominant currency all pose an ugly combination of factors.

For years, global trade has kept countries from war, created business competition, drove inflation low and allowed countries to produce what they do best. The large U.S. economy purchased more goods than it sold to foreigners creating a trade deficit. Given that U.S. Dollar is the currency to the world, foreign countries have purchased U.S. Treasuries which were sold in order to finance our massive and growing budget deficit. While there are important supply chain considerations that have recently been overlooked in favor of securing low costs, a material reduction in global trade leads to higher inflation and higher interest rates. Should the US Dollar lose it's positioned the currency to the world, the necessity of foreign trading partners to hold US Treasuries would diminish. Given that about 40% of the revenues of the companies that make up the SP500 are sourced outside of the US, corporate earnings may fall. It should come as no surprise that China and Japan are the largest foreign holders of U.S Treasuries. Unfortunately, there isn't an easy solution to this situation however, this is a longer-term issue.

Foreign Holders of U.S. Debt

Japan	$1.266 Trillion
China	$1.072 Trillion
U.K.	$368 Billion

Summing up the outlook for the economy, the most encouraging sign has come from the business community and leadership in finding ways to combat the virus and conduct business. While some weak companies coming into the year will not survive, (Hertz, JCPenney and many oil producers), other companies have risen up to provide economic opportunities to both employees and investors. Overtime, the virus will pass, and the economy will regain its momentum, but there will be a new look, possibly a "new and improved" look to commerce.

Since 1987, I have experienced many bear markets which take an emotional toll in addition to the obvious financial loses. While pandemics are recorded in history, they have not impacted the financial markets in modern times. Restoring the economy to pre-COVID-19 levels, may take a year or two, as many states have failed to effectively prevent the transmission of the virus. As the recovery draws shape, the economic recovery may take ups and downs. Major trends in place prior to COVID-19 have accelerated. For example, the demise of weak industries and non-competitive companies have been the first to file for bankruptcy. Locally, Hertz filed for Chapter 11, as excessive debt and numerous leadership changes left the company lacking a strategy to compete against Uber and Lyft. Mall-based retailers will soon be forced out of business once the Federal loan programs run their course. Live entertainment and travel look bleak until a vaccine is available and effective. However, innovation is often the most inventive when times are the roughest. We are seeing trends accelerate rapidly such as telemedicine, advanced genomics and drug development, visual communication and robotics. One common element is a higher level of technology integration. In positioning portfolios, hopefully we continue to benefit from the positive trends and minimize exposure to the trends in decline.

The History of Pandemics

by Elicha Moore

2020 is the year of an epic era that will be marked down in history as one of the most prolific pandemics with more than 9 million confirmed cases worldwide. The United States has not been exposed to such a devastating virus since the HIV/AIDS epidemic. HIV/AIDS, beginning in 1981, was marginal and targeted high-risk groups. Unlike HIV/AIDS, COVID-19 surpasses targeted individuals from a particular social standing and has spread into the field of personal hygiene and sanitation.

Epidemics are created by specific vulnerabilities people create by their relationships with the environment, other species, and each other. A disease only originates and is spread by the society we create. COVID-19 flared up due to the majority of the world living in densely crowded cities linked by rapid air travel. The destruction of our natural habitat also plays a part in particular, bats as they are a natural reservoir in innumerable viruses that spill over to humans. Historically COVID-19 along other diseases play major part in historical change and development. It provides an analysis to societal development, demographic migration changes, revolutions, wars & economic crises. Understanding the historical background of disease is important in determining the survival of our society and species. Gaining this knowledge is a tool of defense against combatting future diseases, without this our only other line of human defense is our wit.

Throughout history, disease has proven to be difficult if not impossible to eradicate. Well into the twenty-first century smallpox remains the only disease to have been successfully eliminated. Worldwide, infectious diseases remain the leading cause of death to economic growth and political stability. Numerous public health strategies have been initiated to combat the current epidemics of the time. Modern medicine includes vaccinations, quarantine, and the “magic bullets” such as quinine, mercury, penicillin and streptomycin. Another policy though rare is concealment, denying the presence of the infectious disease.

Three closely related terms distinguish diseases according to the severity of the numbers who are exposed and the extent of geographical reach. An “outbreak” is a local spike in infection, but with a limited number of sufferers. An “epidemic,” describes a contagious disease that affects a substantial area and a large number of victims. Finally, a “pandemic” is a transnational epidemic that affects entire continents leaving behind a massive death rate.

Plagues, which fall under pandemics have afflicted civilization over fifteen hundred years. Though plagues create devastation it also has provided society the knowledge and insight in focusing on public health and medical advances. They also have an impact on art and culture. The cyclical pattern of a plague typically commences in the spring or summer and fades away with the coming of colder weather. The onset of cool weather kills off vermin and their eggs or offspring that spread the disease.

Plagues are viewed as reference points in measuring the severity of an infectious disease and the impact it makes on society. The Bubonic plague is the inescapable reference point as the worst catastrophe in human history setting the standard of how other epidemics are judged. Three stages of the bubonic plague appear throughout history. The first appearance or the Justinian Plague was names after the Byzantine emperor Justinian I, under whose reign it first appeared. This first stage originated as an epidemic disease transmitted from animals to human. It first erupted in humans in 541 CE and spanned over a period of two hundred

years until 755 when it disappears as mysteriously as it had arrived. The second stage of the plague began in Central Asia in 1330's and reached the west in 1347. The first wave of this stage commonly called the Black Death ravaged Europe from 1347 to 1353. It is theorized this wave killed half the population creating the worst disaster that ever-hit Europe. There is no clear explanation how or why the plague receded from Europe but has been recorded to decline as being the most devastating and dramatic, being the cause of "the great disaster in London" (1665-1666) and Marseille (1720-1722).

The third and final stage or the Modern Plague also originated in Central Asian erupting from social upheaval and warfare in China in 1855. The Bubonic plague during the third pandemic overwhelmingly scourged Third World countries claiming 13 to 15 million lives in India between 1898 and 1910. The final death count before receding is approximately 20 million people. Interestingly industrial nations of Europe and North America were spared from this phase.

Much has been learned historically, medically, and socially from the Bubonic plague. Inventions such as calculus, optics, and weapons has provided significant strides in today's medical advancements. Industries are making headway, innovating in simpler ventilators and washable/reusable masks. In addition, new apps on our phones provide up to date information on COVID-19. Social media, not always viewed as a beneficial aide, is a useful tool in this case, combating the spread of misinformation.

The prevention of epidemics spanning globally is largely accredited to countries development. 3rd world countries are still at a higher risk due to lack of public health education in preventative care and the financial support needed in disease surveillance.

Nationally, Florida, California, Texas. Arizona, Nevada and Missouri have recently seen a spike in COVID-19 cases. The actions of the government in each state play a part in the increase of the virus. More actions globally and locally must be considered mandatory in order eradicate this pandemic.

Recently we provided electronically & via Black Diamond portal an update on COVID-19 pandemic written by Susan Liberski, MD. If you missed the update, please let us know and we will be happy to forward the update.

Snowden, Fran M., *Epidemics and Society from the Black Death to the Present. Yale College 2019*

Portfolio Strategy for the Pandemic Recovery

by Andrew D.W. Hill, CFA

Cash levels were reduced during the 2nd quarter, as positions were added in both fixed income and equities. Following our longstanding investment process, we use high grade bonds for cash needs which are anticipated to be withdrawn from the portfolio within 3 to 5 years. This process aims to reduce short-term portfolio risk. By planning ahead for cash needs, the equity portion of the portfolio is tasked to provide attractive returns over the long-term. Stocks have historically returned about 10% per year although the expected range is from a loss of 10% to a gain of 30% in a given year. Hence, stocks are appropriate for the long-term portion of the portfolio usually defined as 5 years or longer.

Fixed Income Strategy

Most of the fixed income holdings are directed towards high grade bonds. Given the increased risks, which we identified 6-9 months ago, we began increasing the credit quality of the bonds purchased from BBB+ to A- or stronger. Since March, we have generally pushed the minimum credit rating a notch higher to A+ stronger. Due to actions of the Federal Reserve, the yields on government agency and corporate bonds offer unattractive yields although the predictability of the return of principal is high. We are finding some bargains in the municipal bond market, although enticing yields come with the challenge in finding a buyer if you want to sell prior to maturity. For enhanced returns, closed-end bond funds have failed to recover from the March sell-off to same degree as other assets. Buying closed-end funds at a 10% discount is hardly the opportunity that aggressive “newbie” investors are pursuing but could provide superior returns over time. Given the recent large issuance of convertible bonds, we have added convertible bond fund and a NextEra Energy convertible preferred stock which is yielding a 5% dividend in some portfolios.

<u>Equity Strategy-Positioned for the Long-Term</u>

Equity investors have witnessed significant changes as the virus continues to impact economic opportunities. Both the rate of decline and subsequent recovery have been surprising, although algorithmic trading and emotionally charged investors can explain a good portion of the volatility.

Due to the CV-19 impact on the economy and opportunities in the future, much will change. Over the next couple of years, it will be challenging to incorporate these many factors into earnings estimates, but the direction of the change of either “better or worse” is easier to conclude. Many companies will report a dramatic decline in 2nd quarter results that hopefully will be the low point and followed by improving results in the 2nd half of 2020 and 2021.

Characteristics of equity holdings we look for include several factors. These factors generally include growth of sales and earnings, strong financial condition, sustainable competitive advantages, and leadership in the industries which they compete. Also, we favor companies with strong policies concerning their employees, community, environmental responsibility, and diversity. Our motivation is “not to make friends but to make returns for clients”. Academic research has supported our inclusion of these factors in our detailed research process and has helped us avoid many potentially losing investments.

In reviewing our top 5 holdings, the issue of favoring companies with strong financial condition is apparent.

Standard & Poor’s Credit Rating of Top Holdings

Microsoft	AAA
Amazon	AA-
Next Era Energy	A-
Apple	AA+
Bristol Myers	A+

A major trend in the equity market recently has been the delineation of stocks as either being defensive or cyclical. Defensive stocks include technology, stables, and stay at home companies like Netflix. Conversely, cyclical stocks investors believe will benefit from the recovery from CV-19 include energy, banks, and consumer stocks including cruise lines and casinos. Most client accounts are positioned with a bias towards the defensive side, however proper diversification suggests exposure towards the counter trend. We favor the investment banks for the cyclical recovery. No change in our negative outlook for oil & gas sectors

During the 2nd quarter, we added to the JP Morgan holding, and added Goldman Sachs, one of the leaders in investment baking, Carrier Corp., the air conditioner company that is benefiting from record heat and Service Corp, the leader in end-of-life care, unfortunately they are in a growth business. While the majority of portfolio is weighted towards larger and more financially stable organizations, in the interest of proper diversification, a portion of most portfolios is invested in more speculative, younger companies. The Ark Innovation ETF, managed by Cathy Wood, has a strong record for investing in emerging technologies, that investment managers often “don’t have the guts” to buy. The Fund is concentrated in a few larger holdings, including Tesla, Inc. which is over 10%, Square, Inc. at 8%, and Invitae Corp. at 8% of the fund. The Fund has benefited from the speculative sentiment associated with the new investors often referred to as “newbie” by NBC’s Jim Cramer, who are investing in companies with high growth potential. With respect to Tesla, Inc., as an owner of its' model X, it is apparent to me that the company is producing the vehicle of the future. The battery technology and improved solar roofs is amazing. Yes, this suggests no gas expense and no utility bill. The challenge with Tesla is the lack of governance and the risk of Elon Musk leaving the company, which makes it best held in the Ark Innovation ETF (as opposed to a stand-alone holding) with other similar companies.

With cash levels still high in many portfolios, funds are available for establishing new positions. With the number of COVID-19 cases on the rise again, we will be methodical in additional investments. We are under exposed to small cap and foreign companies and we are researching provider of industrial robots.

Planning Update

by Jennifer R. Figurelli

Beware of Scams related to COVID-19

1. Bogus Charity Scams
2. Persons in Need Scams
3. Scams offering CV-19 testing, air filters, vaccines, treatments, etc.

Savings Strategies for College Graduates:

These are unusual times for college graduates who are trying to enter the workforce during a pandemic where job prospects are few and far between and during a growing rate of student loans. The 2008 Recession is a good example of how younger workers responded to this reality with millennials saving at much higher rates than their older co-workers. One of the few ways that younger workers can have some control during a market downtown is to begin saving to improve their financial standing now and in the future.

1. If a part-time job is available, take the opportunity. It might not be the ideal position, but cash flow is key.

1. If you have parents who work, try to stay on their health insurance. Under the Affordable Health Care Act, you can remain on your parent's health insurance plan until you reach age 26.

2. The faster you paydown your student loans, less you will pay for your education. The CARES Act allows you to skip student loan payments for Federal Direct Loans through September 2020.

3. Open and fund a Roth IRA right away. If you are working, have your employer set up direct deposits from your paychecks.

4. Build your credit by opening a low limit credit card (such as $500.00) and be sure to pay off the amount you spend every month.

5. Create a "to do" list every day. It will help you learn how to prioritize and be disciplined. Completing a daily checklist can also provide a great sense of accomplishment, for even the simplest tasks.

Office Update:

Safety First: How AHIA is responding to the pandemic:

While the State of Florida has announced re-opening phases for businesses as a result of COVID-19, Andrew Hill Investment Advisors, Inc. has made the decision to continue to take precautions to protect the health and safety of our employees and clients.

We are continuing to promote social distancing, and currently have one (1) staff member available in the office to receive deliveries, documents and other information. Client meetings will continue to be conducted via conference call or virtual/video conferencing.

We understand that there are situations which may require an in-person visit to our office. For safety reasons, our front door will remain locked and we ask that all visitors please call us ahead of time and upon arrival, please knock on our front door and someone will assist you as soon as practical. All visitors are required to wear a face mask/covering and observe 6-foot social distancing. If you do not have a mask available, one will be provided to you prior to entering the office. Our front door has a small mail slot located on the lower right-hand side, if you need to drop off any forms or documents.

Additional safety measures that our firm is taking include the following:

- We recently added a UV light device to kill bacteria in the air flow system in the office.
- By utilizing Fidelity's E-Signature services, our firm can operate in a secure, digital and paperless environment to provide clients with an effective and efficient process for their most time-sensitive requests.
- Coming Soon! Remote Online Notary Services
- *Do you have paperwork that needs to be shredded?* As a convenience to our clients, we are offering complimentary shredding services for up to one bag/box per client. Please call us ahead of time so that we can ensure that our shred bin has the capacity.
- *Need a face mask and/or hand sanitizer?* We have AHIA logo cloth face masks available, and AHIA logo sanitizer is on its way. Limited supplies, so please let us know!
- *Have you activated your Client Portal with Black Diamond?* The Client Portal is where you can view our firm's quarterly newsletters, your portfolio performance reports as well as get a detailed update on your current portfolio's value, transactions and other reports. You can also securely send us documents (ex. tax returns, legal documents) through the vault feature. Please let us know if you need assistance activating your account.