MARKET OUTLOOK & OBSERVATIONS

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End of Year 2020 Market Insights

The final two months leading up to the 2020 U.S. presidential election have produced tremendous short-term volatility in the markets, almost reaching correction territory of a 10% decline the month of September alone. Since the final days of October and the post-election days of November, we have seen an 8% run-up in the S&P 500 Index alone. Part of this may be attributable to the pre-certified election results proclaiming former Vice-President Joseph R. Biden (D) the winner and a presumption of a not so hostile business environment under his administration. Some of it may be attributable to the Republican Party gaining seats in the U.S. House of Representatives while ostensibly retaining control of the U.S. Senate, thus keeping some political party checks and balances between the legislative and executive branches. The most likely attribution may the positive news of a viable COVID-19 vaccine candidate from drug maker Pfizer. However, with grave concerns voiced by public health officials regarding a second wave of the pandemic, where do markets go from here?

The answer may be simpler and more obvious: how the economic cycle looks in the present. According to research compiled by Charles Schwab, whether a gain or loss in the market took place from Election Day to Inauguration Day depended on if the economy was in recession, recovery, or expansion.

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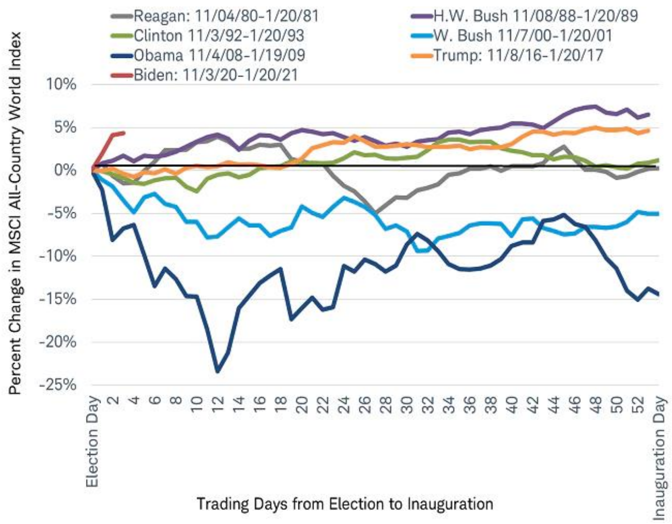

Source: Charles Schwab, Bloomberg data as of 11/6/2020. Past performance is no guarantee of future results. Indexes are unmanaged, do not incur management fees, costs and expenses, and cannot be invested in directly

The negative returns observed during the transition to the Obama and W. Bush presidencies occurred during recessionary environments, notably the Great Recession in 2008 and the Dot-Com Bubble in 2000, respectively.

Presidents Reagan and Clinton entered office during economic recoveries but the markets still experienced short-term swings as much as 5% down due to ongoing geopolitical events.

Presidents H. W. Bush and Trump transitioned to office during a long economic expansion and shareholders greatly benefited.

What sort of economic environment is the U.S. currently in? The U.S. economy experienced an economic recession at the end of the first quarter 2020 because of the spread of the COVID-19 pandemic. The stock market fell into a bear market (20% decline) in a matter of weeks, the fastest on record. However, the

Sources: https://www.schwab.com/resource-center/insights/content/election-day-to-inauguration-day-test-global-stock-markets, https://www.bls.gov/news.release/empsit.nr0.htm stock market has since recovered and non-farm payroll gains have accelerated since April's peak unemployment figure of 14.7%. Last month the U.S. economy added another 638,000 jobs lowering the unemployment rate to 6.9%. Clearly, employers and employees are finding ways to work through pandemic while many cities have restrictions in place governing business operations.

How the market fares from now until January 2021 depends on how the pandemic affects cities and economies around the world. If a vaccine is not widely available before the end of the year (as is predicted) and people do not respect social distancing and mask wearing guidance from public health officials, governments around the world may institute further lockdowns and the economy could quickly nosedive again with it.

Our portfolios have been positioned with a hedge against this possible downturn. We've recently added a bear market fund which uses short positions and options to profit when stocks decline in value. We are also allocating a larger percentage of the portfolios to cash to ride out any negative volatility and position ourselves to buy stocks at a deep discount to their intrinsic value as we did with several of our Prudent 10 buys in March.

As always, a well-diversified portfolio gives our clients the best chance for financial success in any market environment, and we encourage our clients to stay focused on their goals while maintaining an appropriate amount of risk given their investment time horizon.

At MFA Wealth, we strive to provide unparalleled services and support. Our primary concern is serving our existing relationships. As a result, we regularly reach out to our clients to identify any changes to your financial or personal circumstances. This ongoing assessment is important to help clarify your investment ideas and identify your risk tolerance, which is the level of risk of loss you are willing and able to tolerate in order to achieve your investment goals. If your circumstances have recently changed or your feel that your current investment objective or risk tolerance is not right for you, please contact your Financial Advisor.

As a reminder, you should be receiving account statements directly from your qualified custodian at least quarterly. Statements should detail all transactions during the period. If you have any questions or are not receiving account statements at least quarterly, please contact us.

Sources: https://www.schwab.com/resource-center/insights/content/election-day-to-inauguration-day-test-global-stock-markets, https://www.bls.gov/news.release/empsit.nr0.htm