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INVESTMENT COUNSEL

All That Glitters

During this time of Coronavirus uncertainty and economic stress, financial markets have provided many bright spots. Gold has glittered at an all-time high. Technology has glittered as well. Its availability has made much economic activity possible and much stay-at-home work and living feasible. Some notable tech stocks, both old and new names, have reached all-time highs as a result. Interest rates remain at all-time lows, making the search for yield more challenging. While providing little yield, money market investments still glitter when preserving principal. A look at some bright spots can provide perspective and implications for investing in the current environment.

PERSPECTIVE

It pays no income, it has no real relationship to economics, and its inflation hedging has been imprecise. Yet gold is in favor once again. Away from price movements tied to particular supply/demand imbalances (e.g., labor strife in South Africa or jewelry demand in India), the price of gold often has trended higher in periods of higher uncertainty. A pandemic is such a period. For inclusion in a portfolio, however, gold should be judged by accepted investing measures. Chart I shows the traditional trade-off of return versus risk for gold, inflation and the three primary asset classes. This period begins with the move off of the gold standard for monetary policy and the return to unlimited personal ownership of gold. Over time, gold has delivered high risk and moderate return.

The stock market recovery from the March lows has been welcome and notable. While a few stocks have reached new highs, many more have struggled. Performance of the 30 stocks in the Dow Jones Industrial Average ("DJIA") tells the story. Chart II displays the year-to-date performance from high to low. 10 of the 30 stocks posted gains with the highest being Apple at +45.3%. Other stocks with glittering performance included Microsoft, and Amazon, Alphabet and Facebook outside the DJIA. Two-thirds of the index stocks remained at losses for the year with the lowest being Boeing at -50.9%. Outcomes reflected relatively favorable or unfavorable impacts from operating amidst Coronavirus.

Preserving principal can be a priority at any time but more so at times of higher uncertainty. With many central banks lowering policy interest rates to zero or less, preservation through high quality, money market investment comes at a price. Chart III shows the trend over time in one-year returns, after inflation and after taxes, for the highest quality money market investment. Over the past 50 years, a breakeven average return, i.e. 0%, occurred at a 17% tax rate. Higher tax rates, higher inflation and low interest rates could be headwinds for after-inflation, after-tax money market returns ahead. While low to negative such returns may not be a large cost for preservation over a shorter period, it can become meaningful over time.

INVESTMENT IMPLICATIONS

While much has glittered at this unusual time, two challenges confront investors. The first is to understand why a particular investment might glitter in the future. Then it must be determined which investments should be combined into a portfolio designed for specific goals, horizons and risk tolerance. The real glitter is in the goals and their achievement.

CHART I

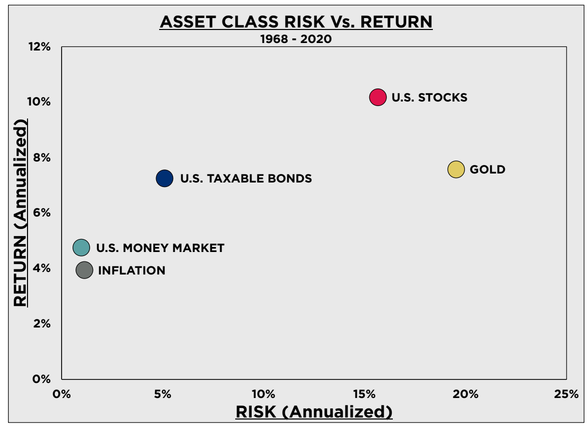

CHART II

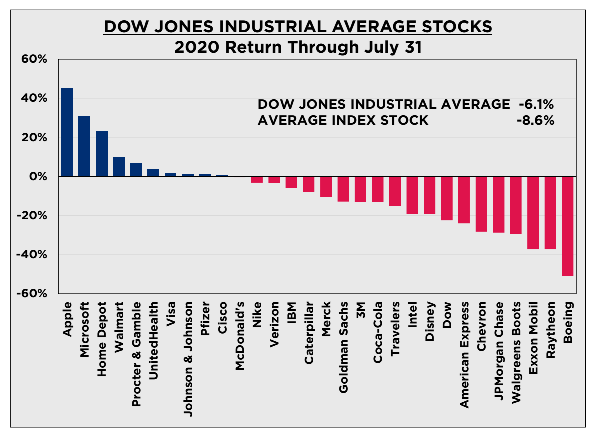

CHART III