FinancialConnections
A Bridge To Your Future

3rd Quarter 2020, 10/7/2020

IT'S HARD TO BE A DIVERSIFIED PORTFOLIO TODAY

Hi. My objective as your diversified portfolio is to provide a steady investment return over time. I know there will be times I decline, but I try not to decline as much as the general market. I also try to give you a steady ride going up but alas, I'm not going to return as much as the general market. After all, I'm diversified. When one theme zigs I try to have another that zags so regardless of what is going on, not everything goes up or down at the same time.

The more you lose, the more ground you have to make up.

Starting Balance	% Loss	$ Loss	New $ Value	To get back to original value
$25,000	10%	2,500	22,500	11%
$25,000	20%	5,000	20,000	25%
$25,000	50%	12,500	12,500	100%

In today's environment, few stocks are moving the markets so my diversification doesn't look as attractive, but over time, I believe I will prove my worth.

There are approximately 9,000 companies in the various global indexes but only **30** of them account for **70%** of the total gains over the last five years. More than half of the 30 companies are in the U.S.

Of the 30, ten stocks accounted for 50% of the gains:

U.S. 4　　China 4　　Canada 1　　Brazil 1

Even my college endowment fund brethren holding diversified portfolios have not performed well. (Source: Bloomberg.com)

I faced a similar situation in the late 1990s. Abandon diversification in favor of the indexes or continue to take the long view and lose less when the markets decline but participate when they rise. My portfolio owners did very nicely sticking with me in the first decade of 2000s. I think I'll continue as I am.

Best Regards,

Your Diversified Portfolio

P.S. If you'd like to discuss your portfolio or financial planning, please get in touch.

Inside Financial Connections Newsletter

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UPDATING SHOPPING HABITS

Everyone's shopping habits altered when shelter-in-place went into effect. The question arises how permanent are these changes. McKinsey & Co. conducted a study trying to answer this question.

Online Activity

In the past, the phrase used to be "let your fingers do the walking" when publishing the Yellow Pages. Now it is, "let your search engine identify your product options." In the "essential" category, some examples of increased activity are:

44%	over-the-counter medicine
41%	groceries
38%	household supplies
38%	personal-care products
34%	alcohol
30%	furnishings and appliances

Many people plan to continue their online shopping rather than going to the store.

Non-essential categories (discretionary) also shifted to online purchasing. Items such as skin care and makeup, apparel and jewelry moved to online instead of in-store.

Hygiene Transparency

More of us want to know what a restaurant or store is doing to keep us and the staff safe. Jill was in Little River recently and one outdoor restaurant takes your temperature before you are allowed in. You place your order in advance, they open up a "ticket" with your credit card so the employee just has to deliver your food.

This type of protocol is the only one she found this stringent. Most she's tried seem to spray the tables and staff wear masks, but Jill noticed it is hit/miss if the staff wears gloves.

Going Out Again

As different segments of businesses around us re-open, the question is will we go out again. McKinsey study says many people plan to spend more time at home. They are calling it the "rise of the homebody economy."

While some movie theaters are re-opening, people are not showing up. Many of the movies are being rescheduled to mid-2021.

The question is how much risk do you want to take? Some of our clients have stayed at home for the last six months with curbside pick-up, food delivery, etc. Others are stepping out a bit more to eat at outdoor restaurants or go on trips that allow physical distancing.

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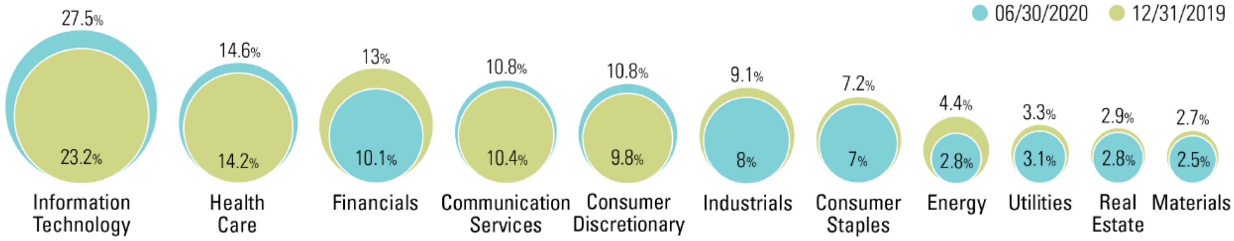
SECTOR CHANGES AS A RESULT OF COVID-19

On many occasions we mention that the economy is not the stock market. A good example is today's environment. Part of the explanation for the apparent disconnect is our personal experience.

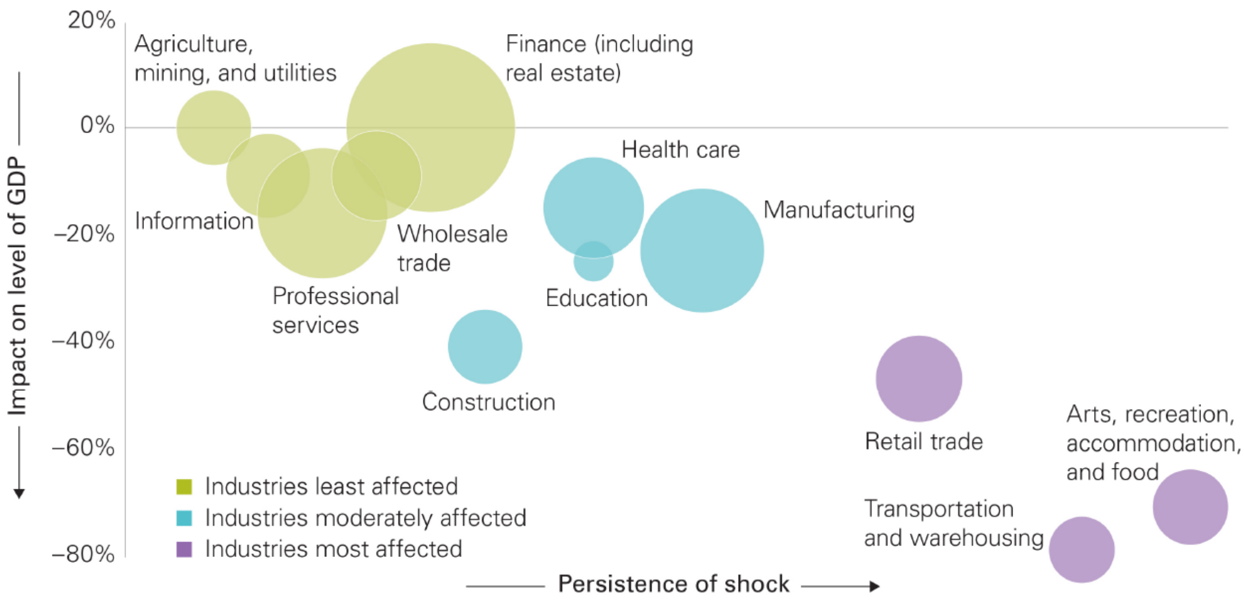
Every day we see businesses closed, restaurants closing or with limited openings; people losing their jobs, difference in traffic patterns, etc. On a wider scope, we don't see the economy as a whole. Some sectors are harmed more than others.

Below, from Vanguard Perspective, September 15, is an interesting comparison between the size of each sector in the S&P 500 on 12/31/2019 compared to 6/30/2020.



Not surprisingly, information technology grew larger as did health care.

Shown a different way, below is another chart of the pandemic's impact on the different sectors.



Recall that the stock market is a forward-looking mechanism. It is pricing what a company will be worth based on its profitability for next year, the year after, the year after that, etc. The current economic conditions are already reflected in the share price and the market is valuing its future.

BRIAN PON INSPIRES

Brian Pon received NAPFA (National Association of Personal Financial Advisors) Inspiring Leader Award. Below was his acceptance speech.

It is June 28th, 1997. I am an aspiring career changer.

I attend my first meeting of the NORCAL Study Group in the San Francisco Bay Area, hoping to find entry into this profession. (NORCAL is the financial planning fee-only study group. It is one way we earn continuing education credits.)

I was immediately inspired by the knowledge and professionals in that room.

Less than three years later, my future employer and business partner is at that meeting.

Six years after that, I ***lead*** the Study Group.

Fourteen years later, this award means that the members and the over 30-year history of the NORCAL Study Group are properly honored!

And I cannot help but think that there are young prospective planners and also career changers that our meetings will help in the future.

I want to shout out to my wife Jen—our life decisions led me on this path—family, and friends watching this on a recording.

And, I should take this moment to mention some of those who inspire me professionally.

First, I should start with my business partner Jill Hollander and my colleagues here at Financial Connections Group. 20 years later, they inspire me to this day.

Second, I know that this award is not for me, but I am pleased to accept it on behalf of NORCAL's attendees and the volunteers over the years. They make the meetings happen. Committee members Cynthia Flannigan, Lavina Nagar, Autumn Kruse, and Don Bittner and Heidi Tennant of NAPFA just completed our first virtual meeting.

Finally, I am inspired by you, the NAPFA-Registered Financial Advisor, for committing to the highest ideals of client-centered financial advice. I am always in award-winning company with you.

Thank you.

UPDATING SHOPPING HABITS

(continued)

For example, Jill was thinking of going to an event held by the local library but decided she didn't want to interact with so many people she didn't know. Her social interactions tend to be insular and she goes to the same stores. When possible, purchases are online.

We don't know what is typical. Each person/couple/family needs to identify what is right for them and their health moving forward.

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Brian Pon

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