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THE TEMPO VANTAGE

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A New New Deal?

All those who thought the market would return 20% in the second quarter please stand up and take a bow.

What? No one is standing? Not even me!

Yet that is exactly what happened and why I always caution against letting short-term events and emotions guide long-term investment decisions.

For the quarter, the S&P 500 gained 20.5%. Returns for other equity categories varied greatly. Utilities were up 5%, international stocks were up 15%, and technology stocks were up 34%. Other categories were somewhere between utilities and technology.

As is the case with most major events, the pandemic has created stock market winners and losers. Any company related to travel (i.e. airlines, cruise ships, oil and gas), dine-in restaurants or brick and mortar businesses (Macy's, Nordstrom's) is struggling.

At the same time companies specializing in online sales and services (Amazon, Zoom), food services (i.e. grocery stores, food processors) and home comforts/improvement (I bought a fire pit, did you?) are booming.

Thus far, companies that have benefitted from the pandemic are counterbalancing companies that are struggling with respect to stock market performance. Consider these year-to-date (through 6/30) returns:

Energy -38%
Finance -23%
Defense -20%
Real Estate -16%
Healthcare +5%
Technology +15%
Metals +18%

When you put it all together the S&P 500 was down 3% for the first half of the year.

I think we can all agree on one thing: The COVID-19 Pandemic should have a negative impact on stock market valuations. The question is: how much?

After the inevitable knee-jerk reaction when the market overreacted and fell by 35% (2/19/20 to 3/23/20) we have since recovered much of the loss and at the end of the quarter we were a bit less than 10% below the market peak.

It seems to me that 35% was too much. You may recall that last quarter I hypothesized that a 25% decline should in theory be the downside limit.

On the flip side, a flat market or even an up market seems like an under reaction. Could it be that after all the volatility the markets have settled just about where they should be (down about 10%)?

Where do we go from here?

There are many wild cards right now, chief among them are the potential for a second wave of COVID (though we are not through the first!), the potential for a vaccine, the impact of government intervention/assistance and the Presidential election.

Thus far Fed policies and government programs (i.e. The CARES Act, Paycheck Protection Program) have done a great job of holding the economy together. But these programs won't last forever. What happens when they run out?

It depends on where we are relative to the economy opening back up.

If government assistance were to end tomorrow it would be a problem as so much of the country is still grappling with record numbers of new COVID cases. On the other hand, if the rest of the country can flatten the curve as we did in the Northeast, we might be ok.

I also don't think government actions are over. My best estimate is that the next step will be to fund massive infrastructure programs not unlike the New Deal after the Great Depression. Our country sorely needs better infrastructure and paying people to work is better than paying people not to work.

Tempo Financial Advisors' 2nd Quarter Investment Performance

Tempo's Investment Programs had varying degrees of success in the second quarter. Most successful both in absolute returns as well as returns relative to benchmark was the **Tempo Lifestyle Program.** Returns ranged from 12% to 16% for the second quarter. These results were in line with benchmarks.

I am quite pleased with these results given that I have been tilting accounts to be a bit more conservative than usual.

I do not plan on any major changes to portfolios at this juncture, though you may have noticed that I did add Global Infrastructure as an overweight equity position, hoping to take advantage of what I believe will be the government's next fiscal response to the pandemic.

Tempo Dynamic Growth returned 6% in the second quarter. Normally, I would consider this an excellent outcome.

As it happens, this is about 5% below benchmarks. Not all that surprising given the volatile markets. Our models favor stable investments over volatile ones. With extreme volatility heading into the second quarter our model had us holding the minimum allowed equity. This accounts entirely for the failure to match the benchmark.

The markets are still volatile and we remain at our low equity allocation (40%) as we head into the third quarter. Current overweights include technology and healthcare.

After having its best year ever in 2019**, Tempo Dynamic Income** has been by far the biggest disappointment in 2020. We lost an additional 0.7% in the second quarter after having lost 16% in the first quarter. There is no other way to put it. The results so far in 2020 stink.

If you have Dynamic Income, should you stick with it?

I do not believe the Dynamic Income model is broken. More of a perfect storm between the swift broad-based knee jerk reaction to the pandemic and the surprisingly quick (so far) rebound.

Most clients who are invested in Dynamic Income have it as a portion of their overall portfolios. While Dynamic Income results have hurt overall portfolio returns in 2020, healthy positive returns in Lifestyle and Dynamic Growth have helped keep total returns in the ballpark of where they should be.

As it happens, in 2018 I developed a fourth investment strategy, which I call **Tempo Diversified Income**.

Diversified Income is a hybrid strategy between Dynamic Income and Lifestyle. It is designed to be even more conservative than Dynamic Income.

I have been managing a handful of accounts (including one of my own) since the start of 2019. The early results are quite promising. After gaining 5% in 2019, Diversified Income lost 6% in the first quarter of 2020, which is 10% better than our other investment Programs, and then gained 5% in the second quarter.

I will be reaching out to those of you who are invested in Dynamic Income to discuss whether it still has a place in your portfolio or if it makes sense to reduce or eliminate it in favor of Diversified Income. There is not a one-size-fits-all answer.

Reminder

Please contact us if there has been a change in your financial circumstances that would warrant a fresh perspective on your portfolio.

Daniel J. Traub