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The Buttonwood

Our Thoughts On Investment Trends, An Informational Newsletter

3rd Quarter —2020

September Effect

As we mentioned one year ago, the month of October has a bad reputation. This is due mostly to the stock market crash in 1929 where the Dow Jones Industrial Average was down 20.16% for the month and 47.87% in just 56 trading days. This period ushered in the era known as the Great Depression. In 1987 the Dow Jones posted a loss of 23.22% for the month of October. On one day alone, October 19, 1987, the Dow lost 22.92% which is still the single largest percentage loss in its history. We still have the local newspapers and the Wall Street Journal from the day after to remind us.

A closer look at history tells us that the worst month for stocks, as measured by the Standard & Poor's 500 is September, which has lost -0.43% on average since 1950. The only other negative month during that time frame is February, which has lost -0.04% per month. As we mentioned last year, there is nothing of statistical relevance that explains what is called the **September Effect** or that can be used to forecast what the next September might look like. The charts below offer some interesting data relative to September stock market performance, including election years.

Standard & Poor's 500 Index - Average Monthly Price Returns Since 1950

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1.10%	-0.04%	0.98%	1.64%	0.23%	0.11%	1.13%	0.03%	-0.43%	0.82%	1.58%	1.48%

Standard & Poor's 500 - Average Monthly Price Returns During a Presidential Election Year - 1950 to 2016

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
0.16%	0.05%	1.18%	0.65%	-0.13%	1.28%	0.37%	0.94%	-0.16%	-0.74%	1.47%	1.21%

Standard & Poor's 500 Index - Monthly Price Returns 2020

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
-0.16%	-8.41%	-12.51%	12.68%	4.53%	1.84%	5.51%	7.01%	-5.77%*	N/A	N/A	N/A

*from 8/31/20 to the September low.

This year's first quarter collapse set the stage for the second quarter of 2020; the best quarter U.S. stocks would have in 20 years. This was a remarkable recovery as Congress and the Federal Reserve came forward with a $1.6 trillion stimulus package. The Standard & Poor's 500 finished the second quarter up 19.95% as the Dow Jones rose 17.77%. The chart on the next page details this and additional data relative to stock performance thus far in 2020.

DATE / INDEX	DJIA	NASDAQ	S&P 500	TSM*	MID CAP	SMALL CAP
Q1 2020	-23.20%	-14.20%	-20.00%	-21.30%	-30.03%	-32.94%
Q2 2020	17.77%	30.63%	19.95%	21.52%	23.54%	21.47%
JUL 2020	2.38%	6.82%	5.51%	5.53%	4.53%	4.03%
AUG 2020	7.57%	9.59%	7.01%	7.02%	3.36%	3.86%
7/1/20 TO 8/31/20	10.14%	17.07%	12.90%	12.94%	8.04%	8.04%
SEP 2020**	-8.03%	-11.81%	-9.60%	-9.41%	-8.87%	-10.60%
Q3 2020	7.63%	11.02%	8.47%	8.64%	4.38%	2.81%

***Total stock market, **September high to September low for each index.**

As the third quarter of 2020 began, it looked like the rally would continue. Indeed, that was the case as July and August saw stocks, as measured by 6 indices, continue in a strong upward bias. Technology stocks led the rally with more than a handful of shares hitting all-time highs. Things got so frothy that there was talk of the tech rally mirroring that of the dot-com bubble in late 1999 and early 2000. While we were not of that opinion, the rally did get our attention. Moreover, the Standard & Poor's rose 51.08% from the March 23rd low to August 12th, its best 100 trading day stretch since 1933. And finally, on September 2nd the Standard & Poor's, the NASADQ and the Total Stock Market indexes made all-time highs. A somewhat remarkable feat given 2020 thus far.

The broad market advance was attributed to an economy that continued to rebound even though select industries faced continued significant challenges. As mentioned, technology shares helped guide the market higher as well as a rebound in consumer spending. The Federal Reserve sent a strong signal that interest rates would remain low for years and raised their target for inflation to a level above 2% year-over-year.

Then perhaps, the only normal thing to happen in 2020 happened. September, the worst performing month saw the markets correct sharply in less than a month. The correction took the Standard & Poor's to a September closing low of 3,236.92, down 9.6% from its recent high and just 6.14 points above its close on 12/31/19. CNBC reported that "only a quarter of S&P 500 stocks were above their 50-day moving average, right at the border of a common oversold reading." CNBC further noted that more than one third of the stocks in the S&P 500 were at least 20% off their recent highs. The NASDAQ Composite fell to correction levels, defined as a 10% drop from a high, in three trading sessions. The quickest such fall ever. In normal times this would be a healthy pullback and a buying opportunity for a long-term investor. From where we sit this has all the markings of a healthy pullback.

What About Q4

So here we are in October – the month best known for the two historic declines mentioned earlier. It is very difficult to get a read on October 2020 for several reasons. History tells us the month is up on average 0.82% since 1950 and that it is down 0.74% during a presidential election year since 1950. History also tells us that the Standard & Poor's has gained more than 9% intra-quarter despite losing 3% or more in September only one other time. That was 1932 when it fell 14.07% in October and 14.56% for the fourth quarter. We do not think we are in for a repeat of that performance this year. It helps to remember that we had many comparisons to the 1930s earlier this year, none of which has played out thus far. We have a presidential election in November, which could be one that is unsettling to the financial markets. And we have an economy, that while it has recovered, is still dependent to some extent on government stimulus legislation. November and December are strong months for stocks on average. The Standard & Poor's is up 1.58% in November and 1.48% in December since 1950. During a presidential election year, the S&P is up 1.47% in November and 1.21% in December. Finally, the fourth quarter is the best performing quarter with an average price return of 3.92% since 1950. Having said this, we remain cautiously optimistic for Q4 2020. Our reasons include market performance year-to-date, Federal Reserve policy, and anticipated economic stimulus from Washington.

Stock performance in 2020 has not produced an extremely over valued market. The Dow Jones is down 2.7% year-to-date, the Total Stock Market and Standard & Poor's are up 3.8% and 4.1% respectively. Yes, there are unique circumstances regarding 2020 however the returns mentioned above do not point to extreme valuations. Federal Reserve policy points to an accommodative stance, which is a market positive and we anticipate more government stimulus. These factors should combine to aid an economy that has slowly but steadily improved.

Election Year

It seems very fitting when you consider all that has happened in 2020, the year would also include a presidential election. And the 2020 election is shaping up to be like none other. As we were preparing this issue of the ***Buttonwood*** and the quarterly statements, news of President Trump testing positive for the Coronavirus hit the news stand. The final effect that this will have on the election will not be known until election day or, more likely, after election day. As we said in 2016, we are not in the business of political prognostication, so we will refrain from any predictions regarding presidential election results. However, we do want to revisit the effects of the election from a historical perspective. Conventional wisdom suggests that a Republican president is better for the U.S. economy and Wall Street than a Democrat. It is said that Republicans are for less government, less regulation, lower taxes, etc. all of which supposedly strengthens the economy and supports rising stock prices. The Democrats are viewed by some as just the opposite. Tax the wealthy more, raise taxes in general, regulate Wall Street, initiate more social programs, etc. all of which supposedly hinders rising stock prices.

The chart on the next page offers some interesting insight. We went back to 1925 with Calvin Coolidge and charted the total return of the Standard & Poor's 500 each year of the presidential cycle. Almost 100 years of data shows that the Standard & Poor's had a better total return under Democratic presidents than Republican presidents.

As we have said many times, the financial markets invariably go up or down, in the long run, because of economic fundamentals more than political events or circumstances. Certainly, politics and economics will have an effect on one another, and some politicians might have lost office because of economics. But it is the economy and the underlying fundamentals that will drive the direction of Wall Street over the long term.

Party	President	First Year		Second Year		Third Year		Fourth Year, Election Year	
Republican	COOLIDGE	1925	25.8%	1926	11.6%	1927	37.5%	1928	43.6%
Republican	HOOVER	1929	-8.4%	1930	-24.9%	1931	-43.3%	1932	-8.2%
Democrat	FDR - 1	1933	54.0%	1934	-1.4%	1935	47.7%	1936	33.9%
Democrat	FDR - 2	1937	-35.3%	1938	31.1%	1939	-0.4%	1940	-9.8%
Democrat	FDR - 3	1941	-11.6%	1942	20.3%	1943	25.9%	1944	19.7%
Democrat	FRD/TRUMAN	1945	36.4%	1946	-8.1%	1947	5.7%	1948	5.5%
Democrat	TRUMAN	1949	18.8%	1950	31.7%	1951	24.0%	1952	18.4%
Republican	IKE - 1	1953	-1.1%	1954	52.6%	1955	31.5%	1956	6.6%
Republican	IKE - 2	1957	-10.8%	1958	43.4%	1959	11.9%	1960	0.5%
Democrat	JKF/LBJ	1961	26.9%	1962	-8.7%	1963	22.8%	1964	16.5%
Democrat	LBJ	1965	12.5%	1966	-10.1%	1967	23.9%	1968	11.4%
Republican	NIXON	1969	-8.5%	1970	4.0%	1971	14.3%	1972	18.9%
Republican	NIXON/FORD	1973	-14.7%	1974	-26.5%	1975	37.2%	1976	23.8%
Democrat	CARTER	1977	-7.2%	1978	6.6%	1979	18.4%	1980	32.4%
Republican	REAGAN - 1	1981	-4.9%	1982	21.4%	1983	22.5%	1984	6.3%
Republican	REAGAN - 2	1985	32.2%	1986	18.5%	1987	5.2%	1988	16.8%
Republican	BUSH	1989	31.5%	1990	-3.1%	1991	30.5%	1992	7.6%
Democrat	CLINTON -1	1993	10.1%	1994	1.3%	1995	37.6%	1996	23.0%
Democrat	CLINTON -2	1997	33.4%	1998	28.6%	1999	21.0%	2000	-9.1%
Republican	BUSH, GW-1	2001	-11.9%	2002	-22.1%	2003	28.7%	2004	10.9%
Republican	BUSH, GW-2	2005	4.9%	2006	15.8%	2007	5.5%	2008	-37.0%
Democrat	OBAMA - 1	2009	26.5%	2010	15.1%	2011	2.1%	2012	16.0%
Democrat	OBAMA - 2	2013	32.4%	2014	13.7%	2015	1.38%	2016	11.96%
Republican	TRUMP	2017	21.8%	2018	-4.4%	2019	31.1%	2020	TBD

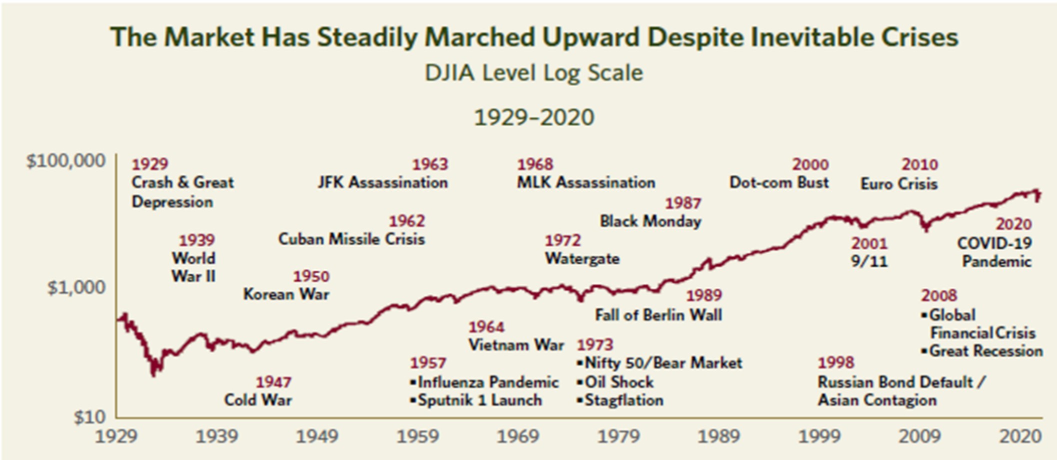
Party - Average *	First Year	Second Year	Third Year	Fourth Year, Election Year
Republican Average	4.66%	7.19%	17.72%	8.04%
Democrat Average	16.41%	10.05%	19.17%	13.96%
Overall Average	10.54%	8.60%	18.45%	11.29%

***Average annual return, not compound annual return**

Source: ACM, DFA Matrix Book

Still Bullish on America…Absolutely

One word that we have heard quite often in 2020 is the word unprecedented. It appears we tend to define significant events that we could not forecast as being unprecedented. At the same time, as the unprecedented event itself is playing out all the "experts" are telling us how we should deal with it and how it will end. From our perspective the occurrence of a crisis is not something new or different. Each event has its unique causes, each is dealt with in a different manner, and each has varying short and long-term effects. The chart on the next page from the Bureau of Economic Analysis illustrates unprecedented events going back to 1929. These events include wars, political turmoil, economic recessions and depressions, market declines, domestic unrest, and geopolitical shocks. Every time one of these events has occurred, we as a nation, have responded and adapted. The economy has recovered, and the financial markets have risen to new highs. Every time there has been a great effort on the part of our citizens and government to effectively manage the crisis.



Source: Bureau of Economic Analysis – www.bea.gov

There is a great deal of difficult work ahead of us so please know we are not casually cheerleading. But we are, at the same time, still bullish on America and capitalism. On our website, our second ***Key Tenet to Successful Investing*** is ***Belief in Capitalism, Free Enterprise, and America***. We go on to say that ***Any successful investor must embrace capitalism. We understand that there have always been significant challenges facing capitalism and the American way of life. Simply stated: there always will be. Having said that, we believe that our nation's best days lie ahead, and the capitalist concept, while not always perfect, provides the only means for individuals to accumulate wealth. It has never paid to sell capitalism or America short***.

It will pay handsomely in the long run to remember that the big fortunes that will be made, will be made by those who are willing to sit with good values over long periods of time. We are paraphrasing Robert Farrell of Merrill Lynch who authored words to that effect in a weekly market comment in January of 1984 when the Dow Jones Industrial average was at 1,259.11. It still makes sense to ***Get Rich Slow.***

"It is the experience of practically all operators in stocks that they do not wait long enough for profits."
- Wall Street Journal, April 21, 1899

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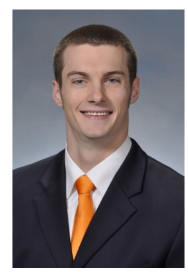

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For more information about our investment philosophy and approach, please visit www.armorycm.com.

7 Key Tenets to Successful Long-Term Investing

At its core, we believe that successful investing requires a consistent investment philosophy and discipline. We believe that buying and holding quality investments over a long period of time is the foundation for a successful investment program. Here are our beliefs for successful investing:

1. **GET RICH SLOW**
2. BELIEF IN CAPITALISM, FREE ENTERPRISE, & AMERICA
3. A DISCIPLINED INVESTMENT PHILOSOPHY IS CRITICAL
4. DON'T OVERPAY FOR UNDERPERFORMANCE
5. COMPARE PERFORMANCE CORRECTLY
6. TAXES ARE IMPORTANT
7. MANAGERS MANAGE

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Patient Investing. Steady Returns.

Successful investing is an elusive realty for many people. It should not be that way.

Investors who are willing to embrace a long-term time horizon, adhere to a conservative investment philosophy, and seek proper guidance will be rewarded. In the short run, the markets may seem volatile, in the long run, the trend is favorable for those willing to hold quality investments over time.

At ACM we believe that the underlying principles of sound investment should not alter from decade to decade. The likelihood for success is overwhelmingly in your favor if you have the required patience and proper guidance.

Please call us, we'd like to help you ***Get Rich Slow***.