The Challenges and Opportunities in the U.S. Stock Market

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American Association of Individual Investors (AAII)
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CANDOR ASSET ADVISORS

Challenges

- COVID-19 continues to take a toll
- Inflation is rearing up
- Margins may be vulnerable
- Valuations are elevated

1st Challenge:
COVID-19 continues to take a toll

COVID-19 has taken a tremendous toll and reported related deaths are probably understated

COVID-19 Deaths As of 11/17/21

							% of World	
	Officially Reported Deaths	Per 100,000	Estimated Excess Deaths	Per 100,000	Vs Official Estimate	Implied Population	GDP	Population
By Select Area								
United States	767,433	230.5	945,000	283.8	23%	332,942,733	24.5%	4.2%
European Union	823,522	184.2	945,000	211.4	15%	447,080,347	21.4%	5.7%
Japan	18,333	14.5	15,300	12.1	-17%	126,434,483	5.8%	1.6%
Canada	29,485	77.5	16,050	42.2	-46%	38,045,161	1.9%	0.5%
South Korea	3,187	6.2	(550)	(1.1)	-117%	51,403,226	1.8%	0.7%
China	4,636	0.3	840,000	54.4	18019%	1,545,333,333	16.2%	19.7%
India	464,623	33.3	4,250,000	304.6	815%	1,395,264,264	3.3%	17.7%
Brazil	611,851	285.9	700,000	327.1	14%	214,008,744	2.1%	2.7%
Russia	254,229	174.2	930,000	637.2	266%	145,940,873	1.8%	1.9%
By Continent								
Asia	1,200,348	25.7	9,740,000	208.5	711%	4,670,614,786		59.4%
Africa	221,109	16.1	2,060,000	150.0	832%	1,373,347,826		17.5%
Europe	1,370,160	182.9	2,350,000	313.7	72%	749,130,672		9.5%
Latin America & Caribbean	1,532,364	233.7	2,230,000	340.1	46%	655,697,047		8.3%
North America	796,918	214.8	964,000	259.8	21%	371,004,655		4.7%
Oceania	3,088	7.1	(2,180)	(5.0)	-171%	43,492,958		0.6%
Total	5,123,987	65.2	17,341,820	220.5	238%	7,863,287,945		
% Of Population	0.07%		0.22%					

Excess deaths = The number of people who die from any cause in each time period minus the historical baseline from recent years

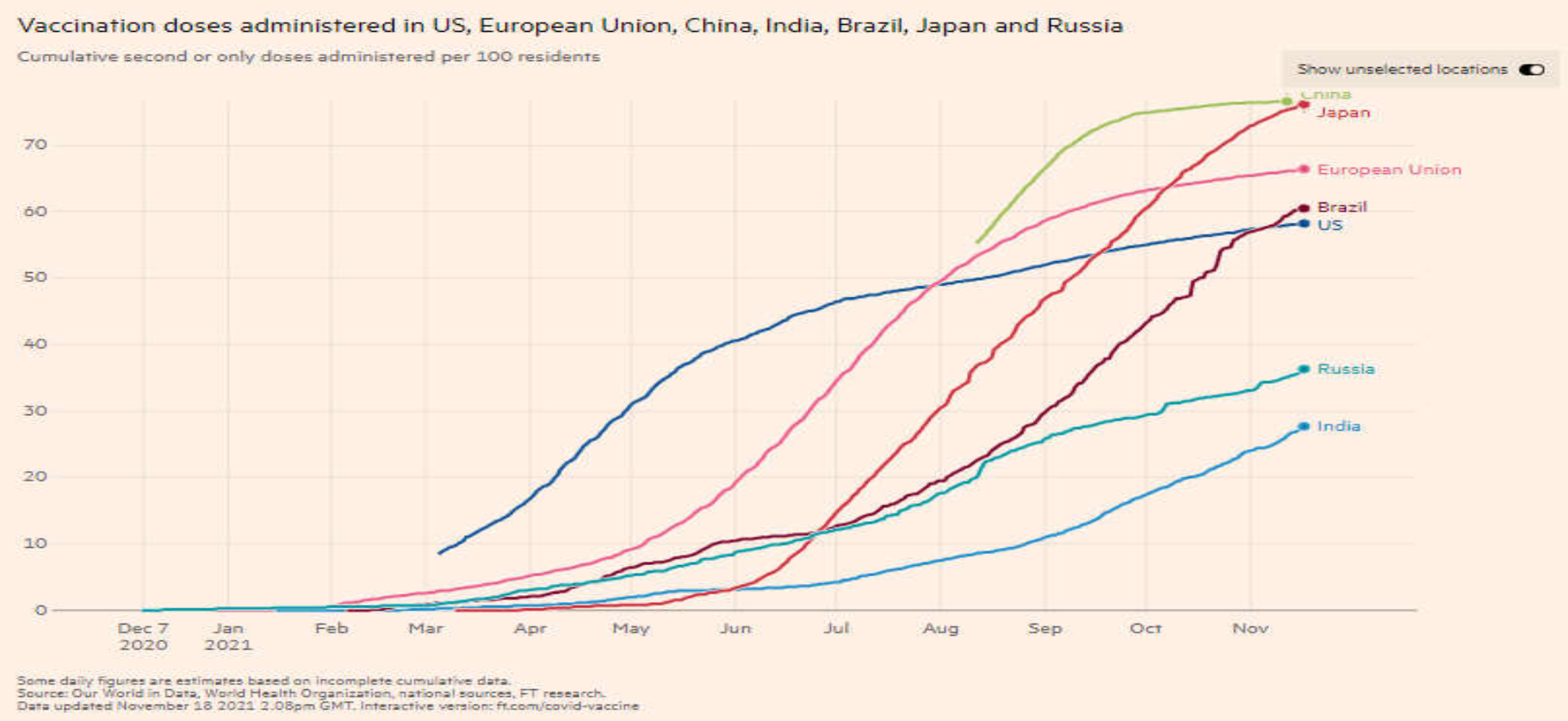
Source: *The Economist*, Wikipedia

COVID-19 is already one of the deadliest events in world history in a very short time

Deadlist Conflicts	Mean Death Estimate	Location	Ended	Duration in Years
World War II	77,136,243	World	1945	6
Taiping Rebellion	28,284,271	China	1864	14
Manchu Invasion of China	25,000,000	China	1683	65
World War I	15,000,000	World	1918	4.24
An Lushan Rebellion	13,000,000	China	763	8
Dunguan Revolt	10,000,000	China	1877	15
Chinese Civil War	9,671,401	China	1949	22
Russia Civil War	6,708,204	Russia	1921	5
Thirty Year's War	6,000,000	Europe	1648	30
Mughal-Martha Wars	5,600,000	India	1707	27
Deadliest Disease and Famine	**Mean Death Estimate**	**Location**	**Ended**	**Duration in Years**
Great Chinese Famine	25,258,663	China	1962	4
All famines in India under British influence	24,750,000	India	1947	190
Famine and disease caused by WW II	23,065,130	World	1945	6
Famine and disease caused by Japanese imperialism	11,023,579	Asia & Pacific	1945	8
Northern Chinese famine	10,816,650	China	1879	3
Great Bengal famine	10,000,000	India	1773	4
Russian famine	7,071,072	Russia	1922	1
Famine and disease caused by Second Sino-Japanese War	7,071,068	China	1945	8
Soviet famine	6,327,717	Russia	1933	1
Famine and disease caused by WW I	5,745,181	World	1918	4
COVID-19	**17,341,820**	**World**	**??**	**2 to date**

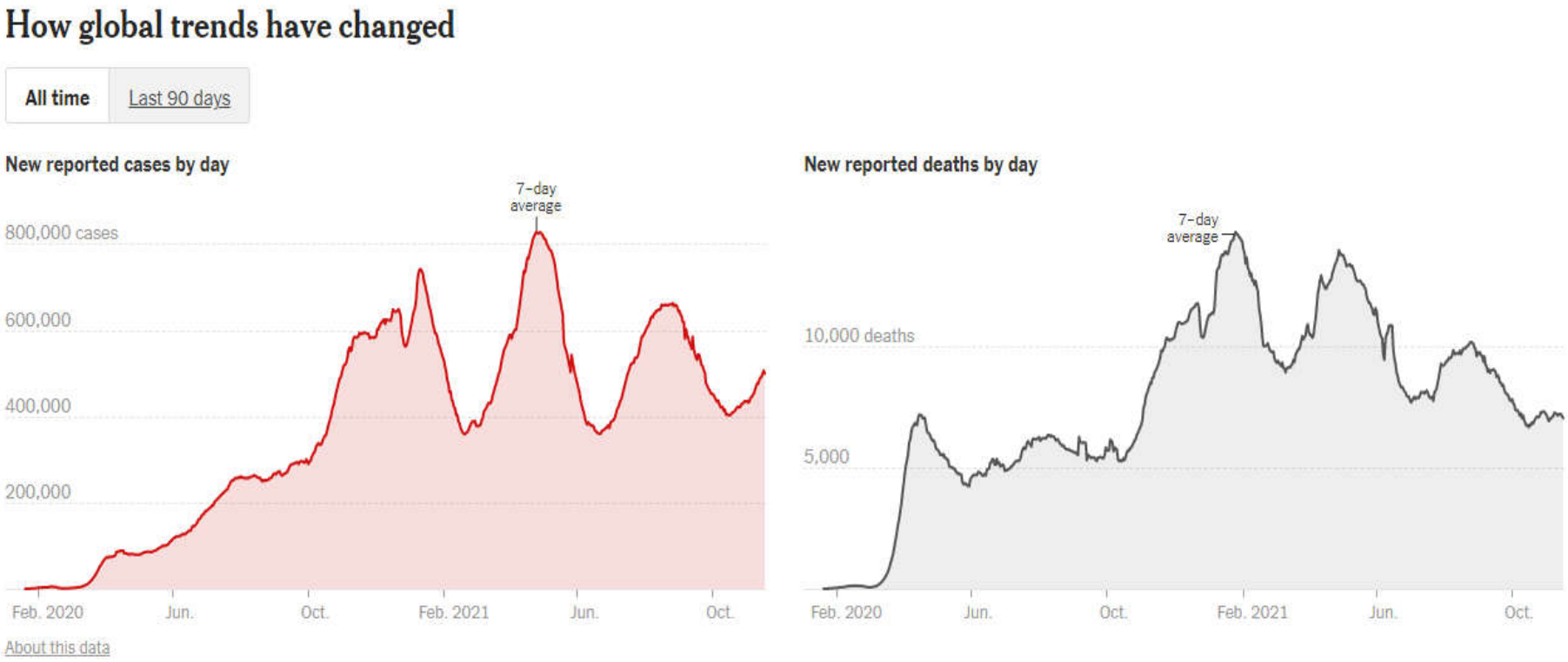
Source: Wikipedia

The world stepped up vaccinations to combat the virus



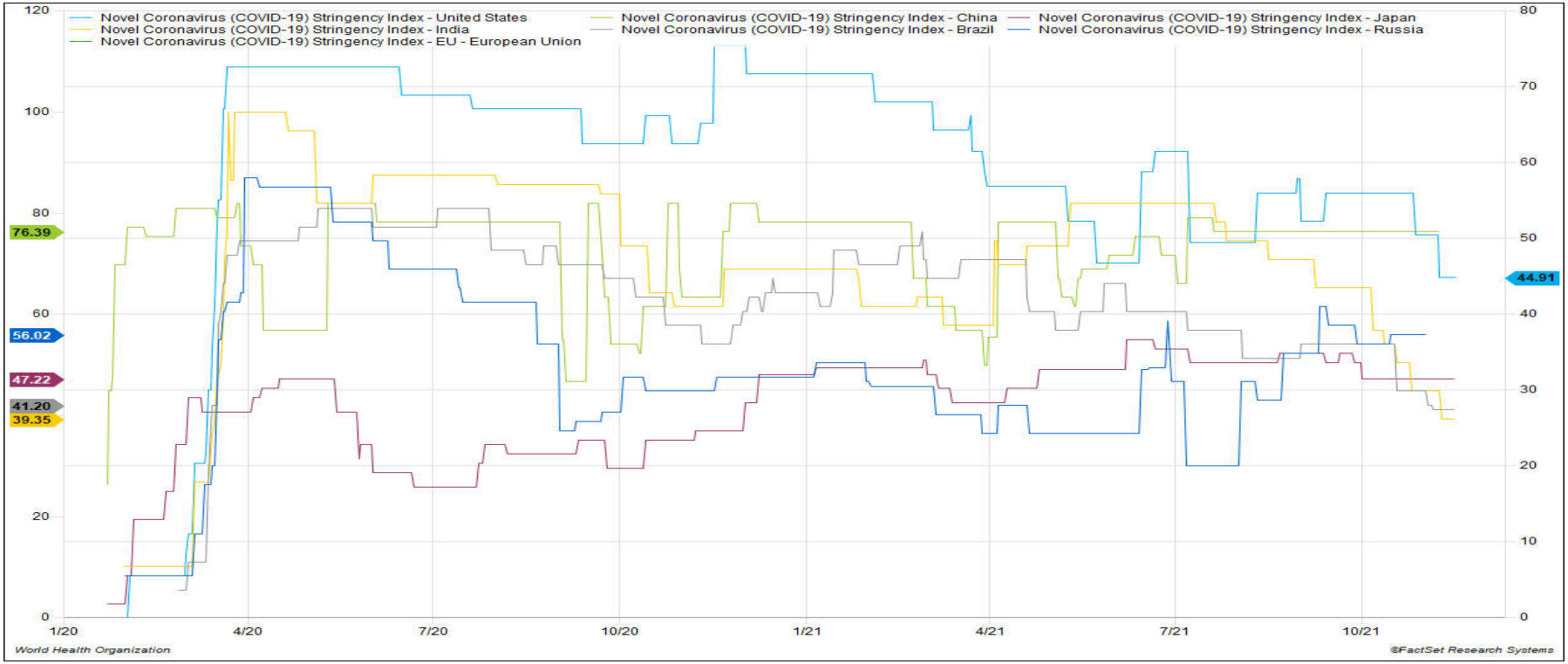
Source: *Financial Times*

The world continues to go through COVID-19 waves



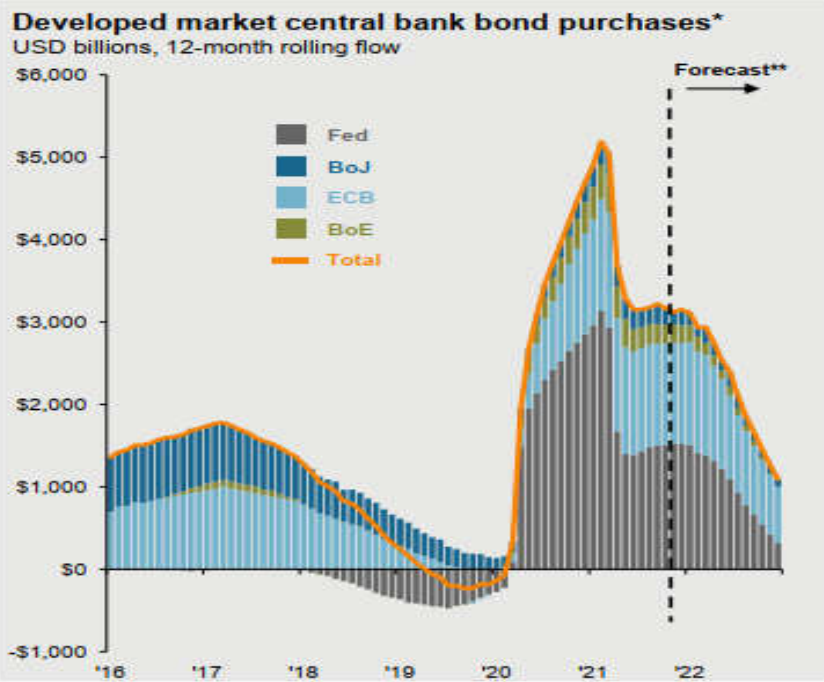
Source: *New York Times*

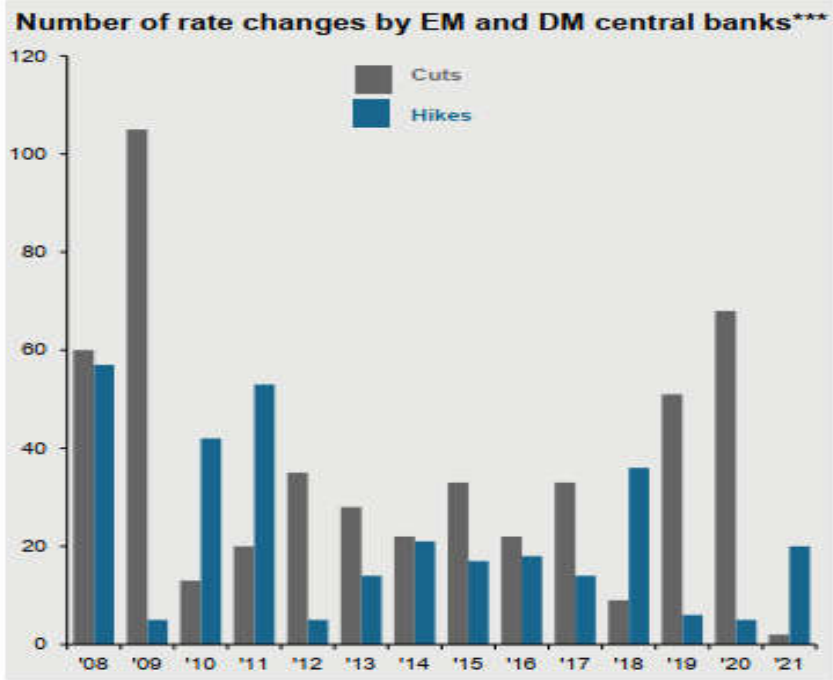
Governments implemented economic lockdowns in early 2020. Some areas have eased since then (e.g., US, India, Brazil) while others have not (e.g., China, Japan, European Union).



Source: FactSet

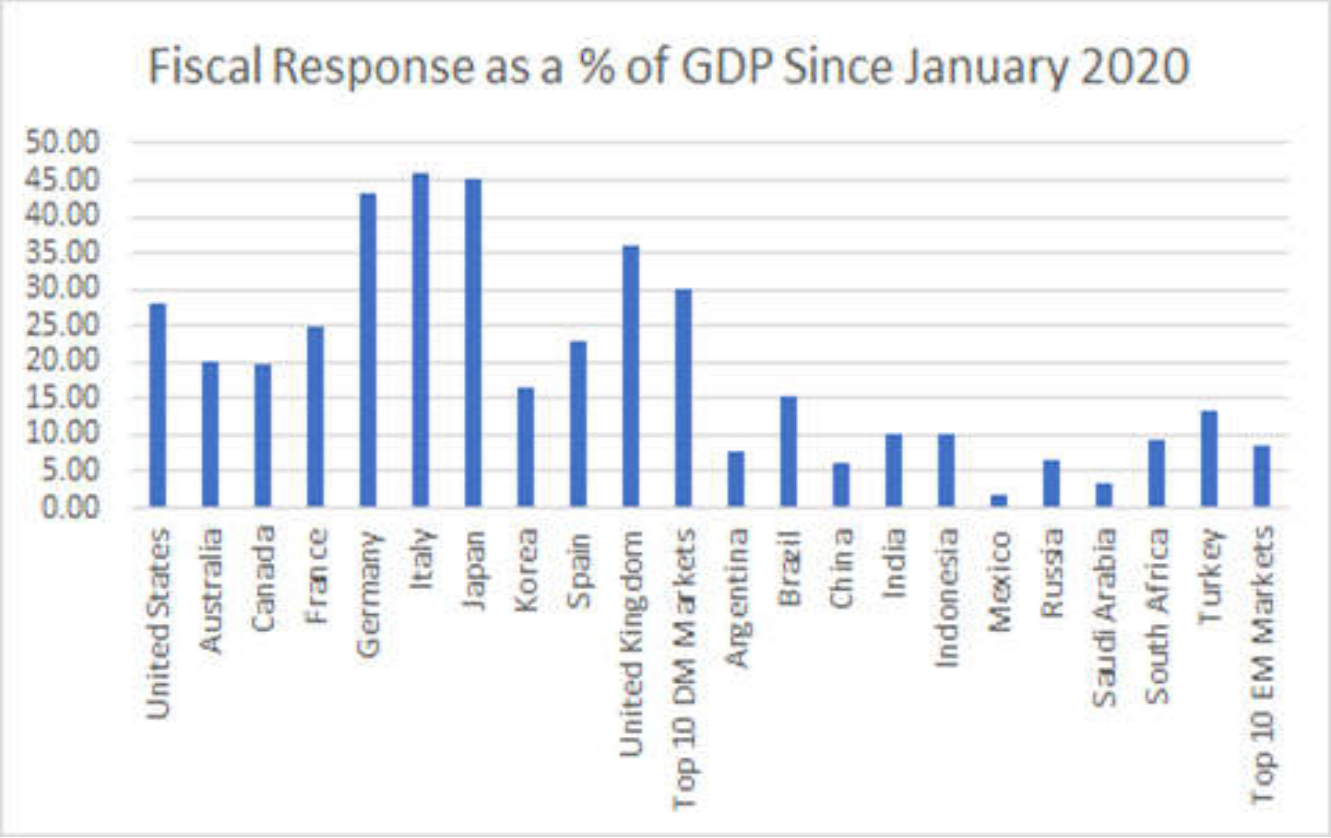
Central banks have implemented significant monetary stimulus





Source: J.P. Morgan Asset Management; (Left) Bank of England (BoE), Bank of Japan (BoJ), European Central Bank (ECB), FactSet, Federal Reserve System (Fed), J.P. Morgan Global Economic Research; (Right) Bloomberg. *Bond purchase forecast assumes $38bn GBP in net purchases from BoE through Dec. 2022; BoJ QE of $10trn JPY ann. for 2021; $830bn EUR in net purchases from the ECB through Dec. 2022; and the Fed to purchase $660bn of Treasuries and agency MBS through Dec. 2022. **Central banks include Australia, Brazil, Canada, Chile, China, Colombia, Denmark, euro area, Hong Kong SAR, Indonesia, India, Japan, Korea, Malaysia, Mexico, Norway, Peru, Philippines, Poland, Russia, Saudi Arabia, S. Africa, Sweden, Switzerland, Thailand, Turkey, UK and the U.S. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and are not a reliable indicator of future performance. Given the inherent uncertainties and risks associated with forecast, projections or other forward statements, actual events, results or performance may differ materially from those reflected or contemplated. *Guide to the Markets – U.S.* Data are as of September 30, 2021.

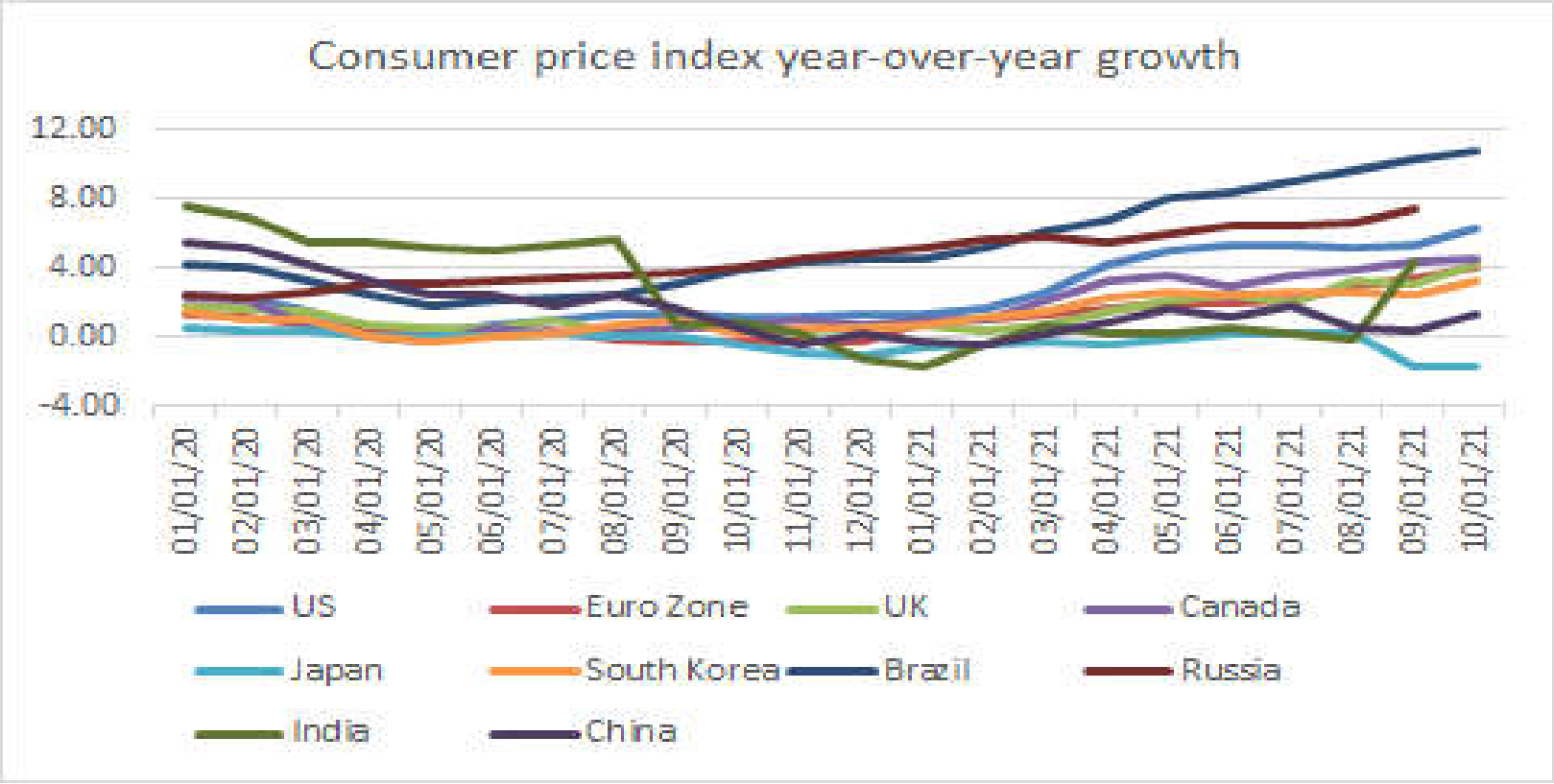
Governments have implemented significant fiscal stimulus



Source: International Monetary Fund

2nd Challenge:
Inflation and interest rates are or will rise soon

Inflation is on the rise following economies re-opening and government stimulus

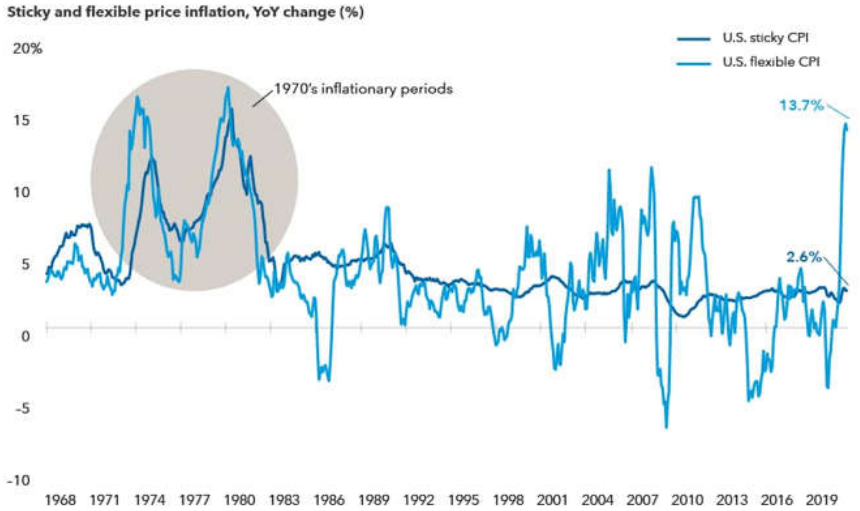


Source: FactSet

The debate continues between transitory and persistent inflation.

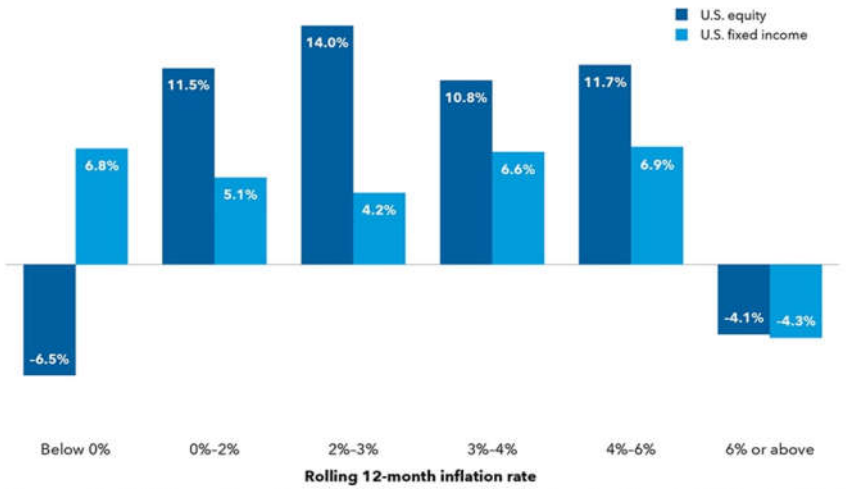
If inflation proves transitory and retreats, investment returns may hold up well.
If inflation elevates and persists above 6%, investment returns may take a hit.

A tale of two inflations: Sticky versus flexible



Sources: Federal Reserve Bank of Atlanta; Refinitive Datastream. Sticky and flexible prices reflect the Atlanta Federal Reserve sticky and flexible consumer price indexes (CPI). If price changes for a particular CPI component occur less than every 4.3 months, that component is a "sticky-price" good. Goods that change prices more frequently are "flexible-price" goods. As of August 2021.

Average annual returns at different inflation rates (1970-2020)

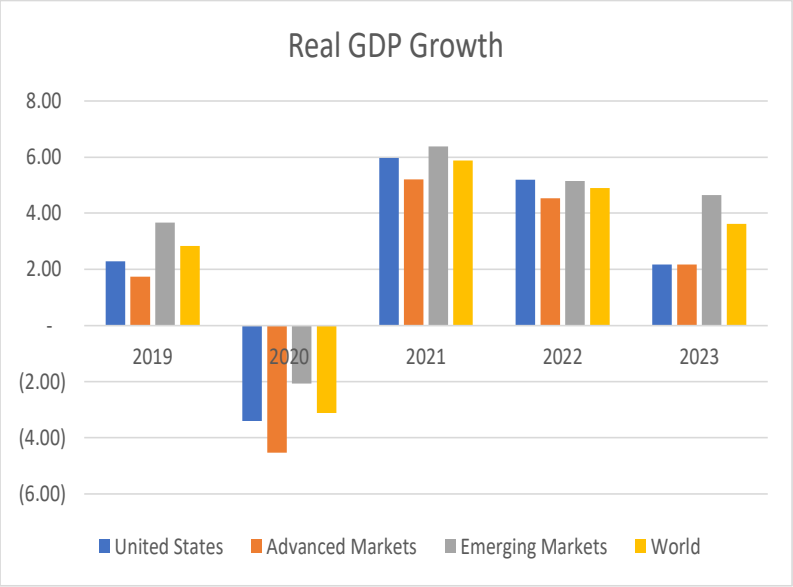


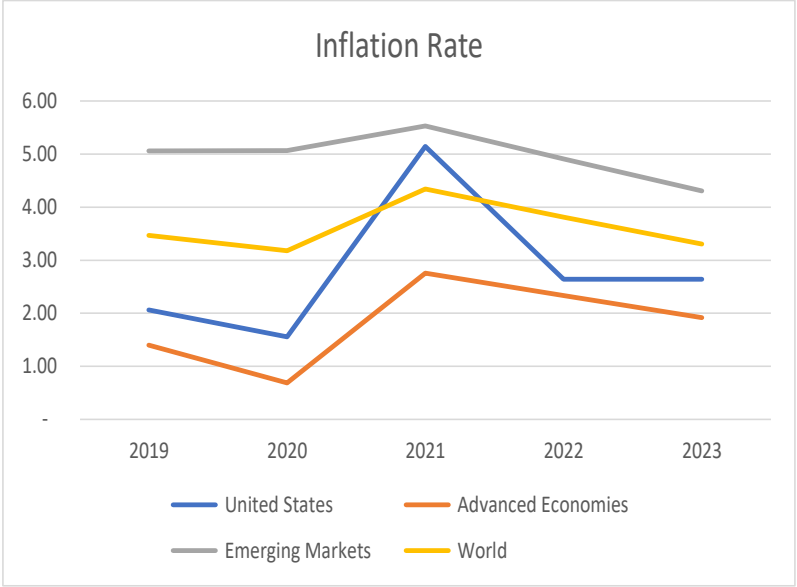
Sources: Capital Group, Bloomberg Index Services Ltd., Morningstar, Standard & Poor's. All returns are inflation-adjusted real returns. U.S. equity returns represented by the Standard & Poor's 500 Composite Index. U.S. fixed income represented by Ibbotson Associates SBBI U.S. Intermediate-Term Government Bond Index from 1/1/1970–12/12/1975, and Bloomberg U.S. Aggregate Bond Index from 1/1/1976–12/31/2020. Inflation rates are defined by the rolling 12-month returns of the Ibbotson Associates SBBI U.S. Inflation Index.

Source: Capital Group

Past performance is not a guarantee or predictor of future performance.

Real GDP growth and inflation have accelerated in 2021.
OECD forecasts 4-5% real GDP growth and 3.5% inflation in 2022.





Source: OECD October 2021 Forecast

Rising inflation is generally a headwind for stocks, but if GDP growth is strong, stocks can rally. 2022 US real GDP forecasts suggest stocks may generate solid returns next year.

Inflation Is Not Great For the Stock Market

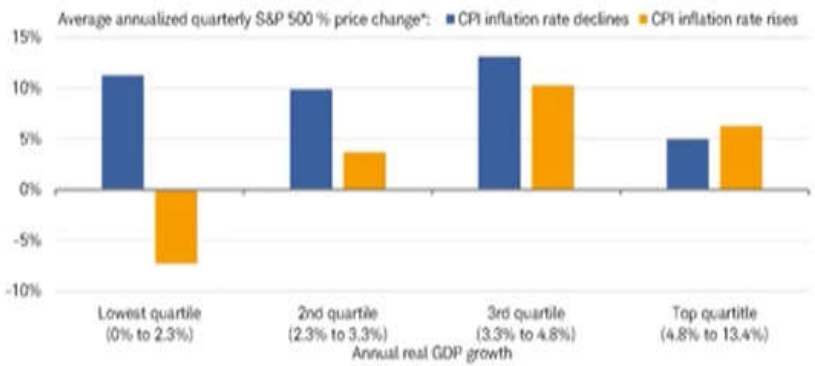
Annual returns for the S&P 500: 1928-2020

Rising Inflation	Falling Inflation	Inflation >3%	Inflation <3%
6.7%	16.5%	6.3%	15.7%

TABLE: BEN CARLSON • SOURCE: NYU

FORTUNE

....but GDP backdrop does as well



Source: Ritzholtz Wealth Management and Charles Schwab

Past performance is not a guarantee or predictor of future performance.

Concerns about rising rates and the negative impact on stocks appear overblown.

Inflation's impact on profit growth is more important.

The Stock Market Does Fine When Rates Rise

S&P 500 performance when the 10 year treasury yield rises 1% or more since 1950

Start Date	End Date	Starting Yield	Ending Yield	S&P 500
JAN '50	JUN '53	2.3%	3.1%	80.9%
JUL '54	OCT '57	2.3%	4.0%	60.7%
APR '58	JAN '60	2.9%	4.7%	40.4%
MAY '61	SEP '66	3.7%	5.2%	70.8%
MAR '67	MAY '70	4.5%	7.9%	-1.9%
NOV '71	SEP '75	5.8%	8.4%	2.8%
DEC '76	MAR '80	6.9%	12.8%	18.4%
JUN '80	SEP '81	9.8%	15.3%	11.4%
MAY '83	JUN '84	10.4%	13.6%	-1.5%
JAN '87	OCT '87	7.1%	9.5%	6.7%
OCT '93	NOV '94	5.3%	8.0%	2.2%
OCT '98	JAN '00	4.5%	6.7%	39.5%
JUN '03	MAY '06	3.3%	5.1%	39.1%
JUL '12	OCT '18	1.5%	3.2%	127.2%

TABLE: BEN CARLSON • SOURCE: DFA

FORTUNE

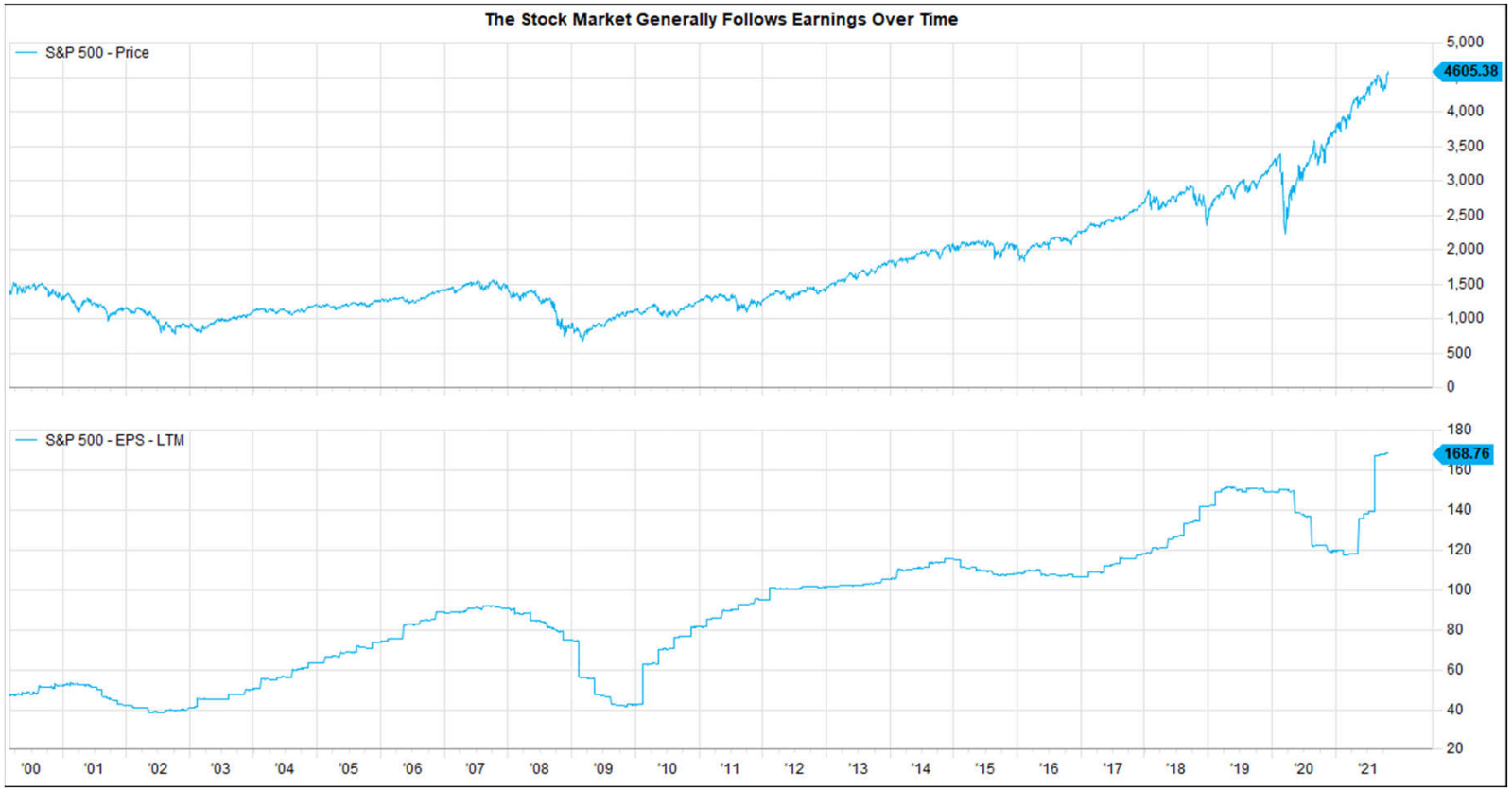
Source: Ritzholtz Wealth Management

Past performance is not a guarantee or predictor of future performance.

Average annual S&P return over these periods = 10.5%

3rd Challenge:
US margins may be vulnerable, and a contraction would likely serve as a stock headwind

The S&P generally tracks earnings over time



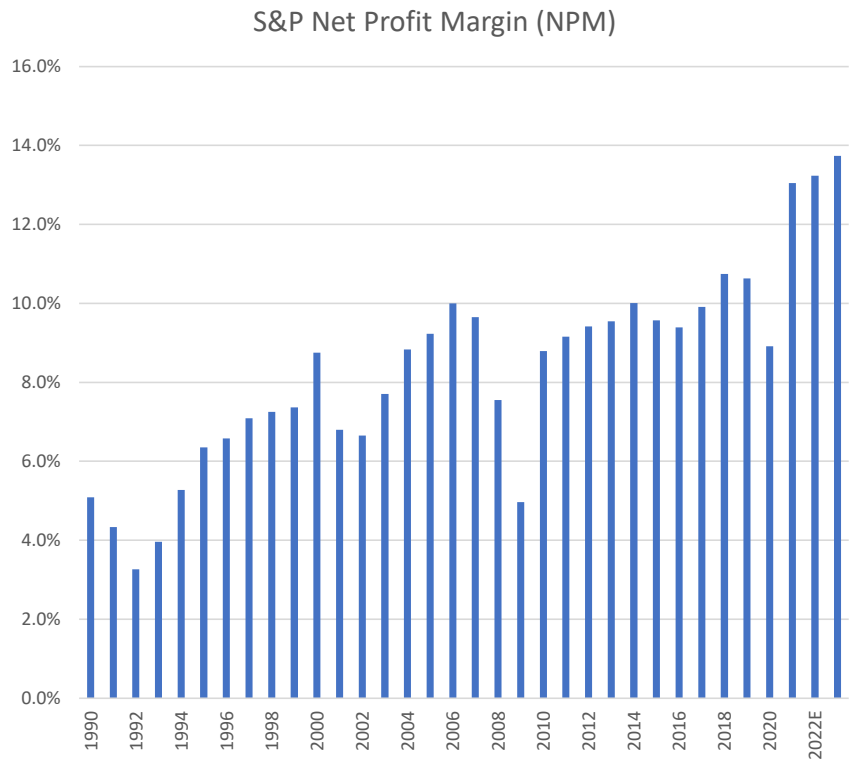
Source: FactSet

Past performance is no guarantee of future performance.

Margin contraction is a risk

Consensus forecasts call for S&P earnings growing 69%, 8% and 9% in 2021, 2022 and 2023. This forecast assumes historically strong margins.

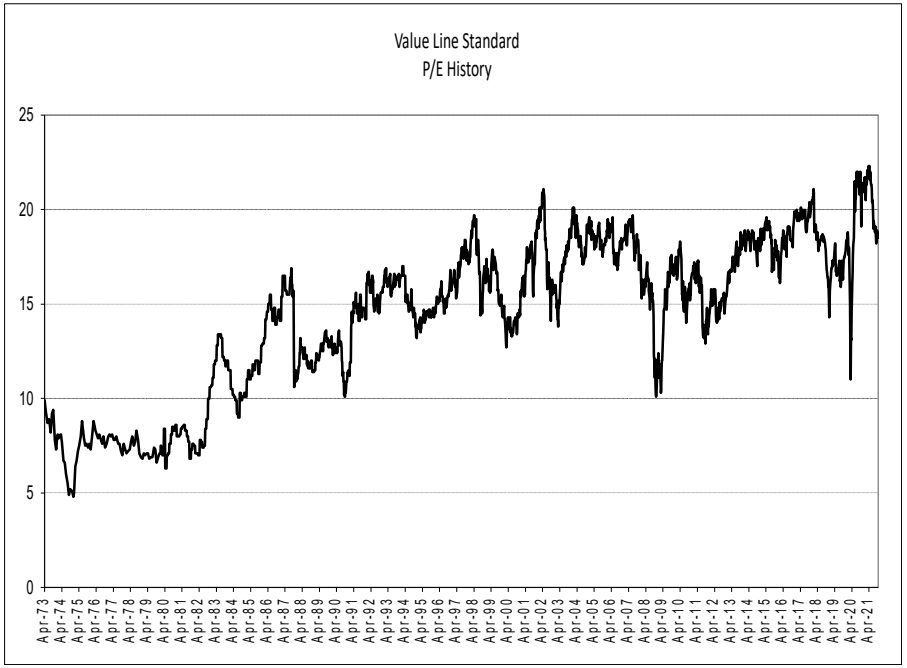
If companies have trouble passing on cost inflation, margins may be vulnerable. If margins contract profits will be pressured. This trend would likely serve as a stock headwind.

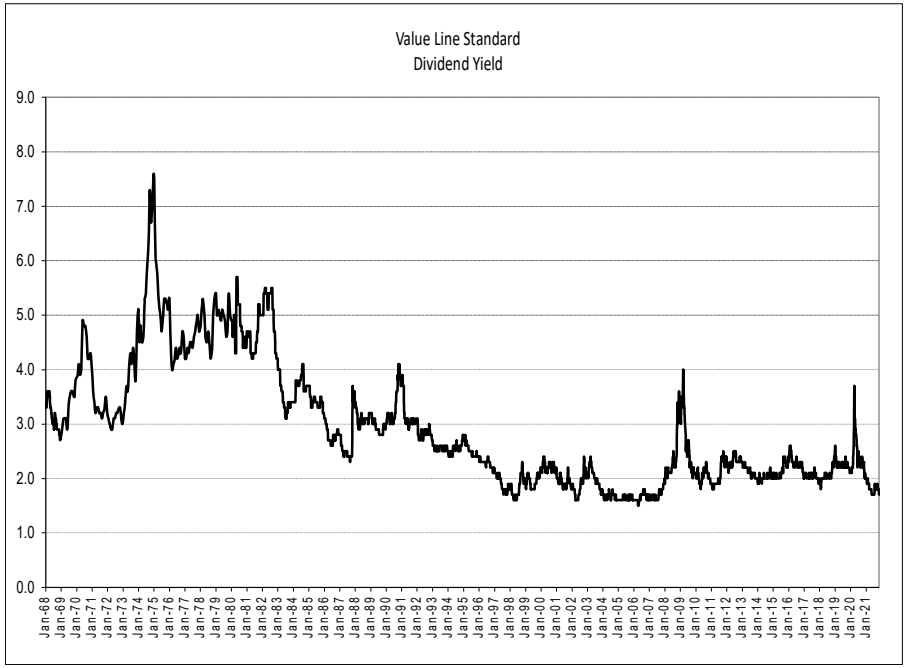


Source: S&P and FactSet

4th Challenge:
Stock valuations are elevated

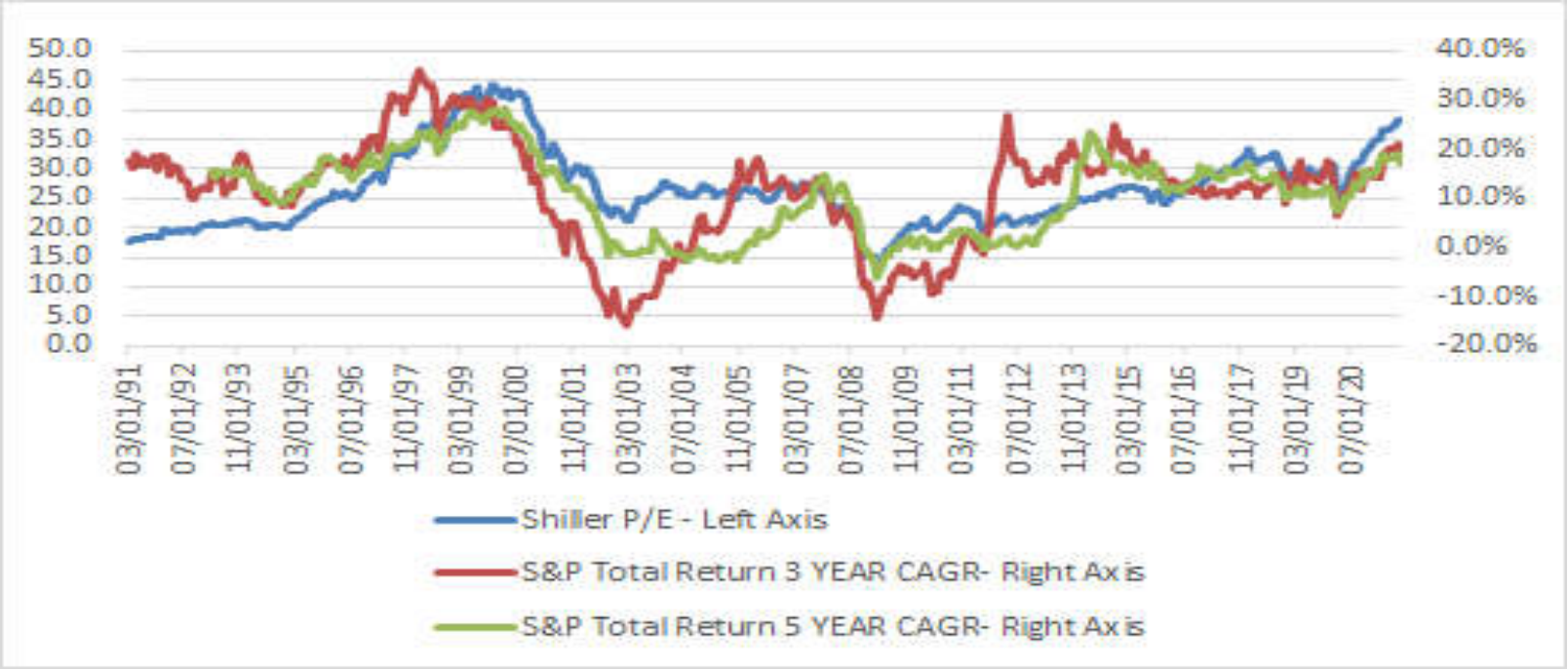
US stock valuations are high versus history





Source: *Value Line Investment Survey*

The S&P Shiller P/E is high suggesting more muted returns over the next 3-5 years



Source: FactSet

Past performance is not a guarantee or predictor of future performance.

Value Line studies suggest positive low to mid single digit stock returns over the next 3-5 years

The Value Line Standard Edition statistics as of 11/12/21 are:

- Median P/E 18.5x
- Dividend yield 1.8%
- 3-to-5-year average annual appreciation potential +7% to +11%

From 1968 through today when the statistics were at today's levels, subsequent three and year average annual investment returns were:

- Median P/E: 3 Year +8.4%, 5 Year +0.6%
- Dividend yield: 3 Year +3.0%, 5 Year (2.1%)
- 3-to-5-year average annual appreciation potential: 3 Year +7.9%, 5 Year +6.1%
- AVERAGE OF THREE APPROACHES
  3 Year +6.4%, 5 Year +1.5%

Source: *Value Line Investment Survey and* FactSet

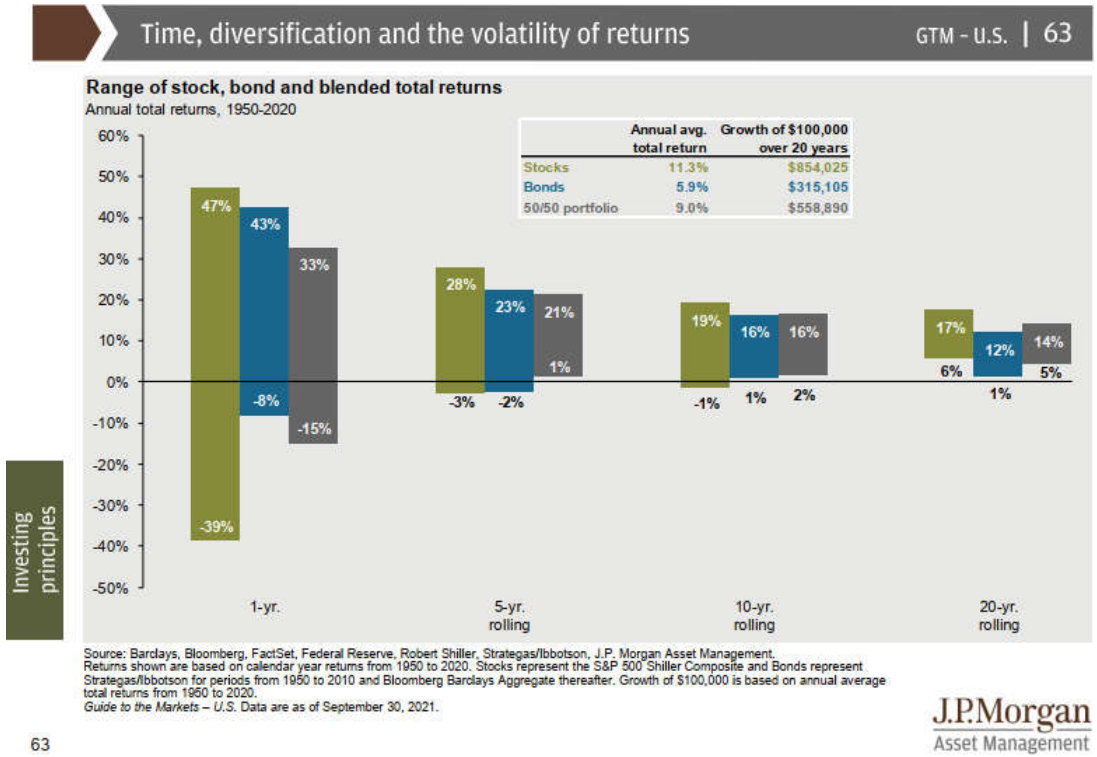
Past performance is not a guarantee or predictor of future performance.

Different ways to invest in the US stock market

- Passive indexing
- Enhanced indexing
- Sectors
- Individual stocks

1st Opportunity: Passive Indexing

Stocks are the most volatile in the short run while volatility across stocks and bonds is similar over the long run



Investing principles

Asset allocation perspective:

You should have these traits to be invested in common stocks

- Average to high risk tolerance
- Average to high risk capacity
- An intermediate to long time horizon

If don't have these traits please re-evaluate your stock allocation.

If you have these traits, history suggests you should enjoy solid returns over the long run.

Past performance is not a guarantee or predictor of future performance. Financial plans are hypothetical in nature and intended to help you in making decisions on your financial future based on information that you have provided and reviewed. Assumptions need to be reviewed regularly. Stocks are not guaranteed and have been more volatile than other asset classes. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Diversification does not eliminate the risk of experiencing investment losses.

It is time in the market not market timing that makes a difference over the long run

US stock return studies since the mid 1950s suggest the same thing. Remaining fully invested generated significantly higher returns over the long run.

1954-1994 Return Study

- S&P earned a 11.4% annual return
- If you were out of the market during the best performing days
  - 2% of the time you earned a 8.3% annual return
  - 4% of the time you earned a 6.1% annual return
  - 8% of the time you earned a 2.7% annual return

1998-2017 Return Study

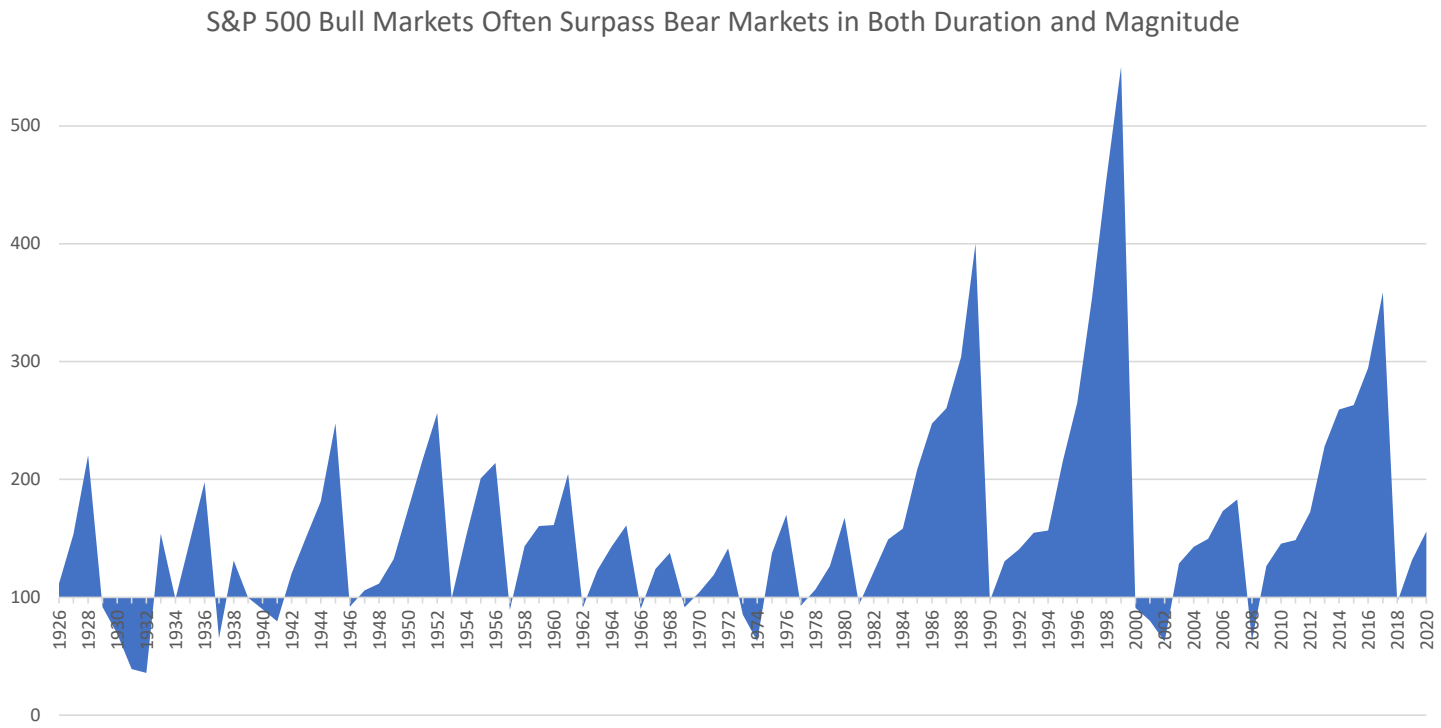
- S&P earned a 7.2% annual return
- If you were out of the market during the
  - Top 10 days 3.5% annual return
  - Top 30 days -.9% annual return
  - Top 50 days -4.4% annual return
  - Top 100 days -11.2% annual return

Past performance is not a guarantee or predictor of future performance. Charts are for illustrative purposes only and do not represent an actual investment or performance of any specific investment. The S&P 500 is an unmanaged index of 500 stocks that is generally representative of the performance of larger US companies. An investor can not invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Dividends are subject to reinvestment.

- "The Big Money is not in the buying and the selling. But in the waiting."
  – Charlie Munger
- "Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."
  – Warren Buffett
- "The courage to press on regardless- regardless of whether we face calm or rough seas, and especially when the markets howl around us – is the quintessential attribute of a successful investor." – Jack Bogle

Source: Peter Lynch *One Up On Wall Street*, Legg Mason, www.brainyquote.com, www.quotefancy.com

It is time in the market not market timing that makes a difference over the long run



ETF to consider: Vanguard Total Stock Market <VTI>

Source: Morningstar

Past performance is not a guarantee or predictor of future performance.

2nd Opportunity: Enhanced Indexing

Value, small cap, quality, momentum and low volatility stocks have generally outperformed the broader market over time

Well-known systematic factors based on academic research

				Average Annual Excess Return			
Factor	Captures excess returns from	Rationale	Source & Time Period	Since Inception	50 Years	20 Years	10 Years
Value	Stocks that have low prices relative to their fundamental value	Value stocks are under appreciated by investors. Investors want to say they are invested in the current era's growth stories and over estimate the durability of growth. Value stocks have greater leverage and lower margins and return on asset. Investors need to be compensated for taking greater risk.	Ken Fama price/book value 1926 to Present, price/earnings and price/cash flow 1951 to Present	2.6%, 4.9%, 3.6%	2.0%, 3.0%, 2.3%	-0.7%, 2.4%, .8%	-8.5%, -4.7%, -7.4%
Size/Small Cap	Smaller firms by market capitalization relative to their larger counterparts	Smaller firms are under followed relative to larger firms. Smaller firms have more leverage and lower margins and returns on asset. Investors need to be compensated for taking greater risk.	Ken Fama small cap vs large cap 1926 to Present	1.7%	0.5%	2.5%	-4.6%
Quality	Stocks that earn high investment returns, enjoy low capital intensity, low earnings accruals	Higher quality firms possess competitive advantages/moats that enable these firms to outperform.	Ken Fama ROE, investment level, working capital accruals 1963 to Present	3.8%, 3.1%, 3.3%	4.1%, 3.6%, 2.8%	6.6%, 3.3%, 1.6%	5.3%, -1.3%, 4.6%
Momentum	Stocks that enjoy positive relative returns	Investors under estimate the persistence of superior performance	Ken Fama large and small company 2-12 month stock returns 1927 to Present	6.6%	6.6%	1.2%	3.3%
Low Volatility	Stocks that have lower volatility, beta and/or idiosyncratic risk	Investors overpay for more volatile stocks in the pursuit of higher investment returns	Ken Fama stock return variance 1963 to Present	4.2%	4.8%	6.4%	4.9%

Source: Ken Fama US data library through May 2020 and top 30% vs bottom 30% of universe where cited

Past performance is not a guarantee or predictor of future performance.

A factor valuation approach:
Value, momentum, and small caps are inexpensive versus history and offer attractive long-term return potential

Sources: CRSP/Compustat and Worldscope/Datastream	Value Composite (Large)	Momentum (Large)	Low Beta (Large)	Gross Profitability (Large)	Investment (Large)	Size (Large)
Description	The Value Composite factor is long in stocks with low Price-to-Fundamental ratios and short in stocks with high Price-to-Fundamental ratios. Fundamentals used to create the four measures are book value, 5-year average sales, 5-year average earnings, and 5-year average dividends. The factor is created within large cap stocks.	The Momentum factor is long in stocks with high past returns over the prior year, skipping the most recent month, and short in stocks with low returns over the prior year, skipping the most recent month. The factor is created within large cap stocks.	The Low Beta factor is long in stocks with low market beta (Frazzini & Pedersen (2014)), and short in stocks with high market beta. The factor is created within large cap stocks.	The Gross Profitability factor is long in stocks with high gross profitability ((revenue - cost of goods sold)/assets), and short in stocks with low gross profitability. The factor is created within large cap stocks.	The Investment factor is long in stocks with low investments (prior year asset growth), and short in stocks with high investments. The factor is created within large cap stocks.	The Size factor is long in small cap stocks and short in large cap stocks.

	Value Composite (Large)	Momentum (Large)	Low Beta (Large)	Gross Profitability (Large)	Investment (Large)	Size (Large)
VALUATIONS (LONG VS. SHORT)						
Current (Aggregate)	0.16	1.08	0.88	2.43	0.58	0.68
Median (Aggregate)	0.27	1.59	0.73	1.92	0.57	0.94
Current (P/B)	0.14	0.72	1.25	4.36	0.75	0.49
Median (P/B)	0.31	1.60	0.86	2.44	0.66	0.73

Source: Research Affiliates

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Advanced factor approach: Combining valuation and the economic cycle

- Valuation looks attractive today
  - Momentum
  - Small Cap
  - Value
- Factors usually outperform during different times in the cycle
  - Recovery
    - Small Cap
    - Value
  - Growth
    - Momentum
    - Quality
  - Slowdown
    - Low Volatility
    - Momentum
    - Quality
    - Value
  - Recession
    - Quality
- Conclusion where valuation and economic cycle meet
  - Recovery – If you expect economic growth to accelerate from here
    - Small Cap
    - Value
  - Growth – If you expect economic growth to stay steady from here
    - Momentum
  - Slowdown – If you expect the economy to slow modestly
    - Momentum
    - Value
  - Recession – If you believe an economic slowdown noticeably
    - No factor meets both criteria
- ETFs to consider
  - SPDR S&P 600 Small Cap <SLY>
  - iShares MSCI USA Momentum Factor <MTUM>
  - Vanguard Value <VTV>

Source: Resource Affiliates

Past performance is no guarantee of future results.

3rd Opportunity: Sectors

Sector Momentum

Leaders: Industrials, Information Technology, Consumer Discretionary
Laggards: Real Estate, Utilities, Consumer Staples, Energy

	2021E EPS Growth	Rank	2022E EPS Growth	Rank	VL Momentum	Average Momentum Rank
Economic Sector						
S&P 500 Consumer Discretionary	43%	5	27.7%	3	4	**4**
S&P 500 Consumer Staples	8%	9	6.3%	7	9	**8**
S&P 500 Energy	-205%	11	34.4%	2	10	**8**
S&P 500 Financials	65%	4	-17.9%	11	5	**7**
S&P 500 Health Care	38%	7	14.7%	4	3	**5**
S&P 500 Industrials	134%	1	35.8%	1	6	**3**
S&P 500 Information Technology	39%	6	13.9%	5	1	**4**
S&P 500 Materials	95%	2	6.0%	8	7	**6**
S&P 500 Communication Services	70%	3	5.4%	9	2	**5**
S&P 500 Utilities	1%	10	8.7%	6	8	**8**
S&P 500 Real Estate	33%	8	-14.5%	10	11	**10**
S&P 500	65%		8.5%			

Source: S&P, *Value Line Investment Survey*

Sector Near-Term Valuation

Leaders: Industrials, Information Technology, Consumer Discretionary
Laggards: Real Estate, Utilities, Consumer Staples, Energy

Sector 3-5 Year Annual Appreciation Potential

Leaders: Energy, Materials, Financials
Laggards: Real Estate, Consumer Discretionary, Technology

				Premium/Discount				Candor NT			Dividend Yield	3-5 Year CAGR		3-5 Year CAGR
	2021E P/E	2022E P/E	20 Year P/E Avg	2021E P/E	Avg P/E Rank	2022E P/E	Avg P/E Rank	Rank	Dividend Yield	20 Year Avg	Rank	Fair Value	Sell	Rank
Economic Sector														
S&P 500 Consumer Discretionary	40.70	31.88	18.80	116%	10	70%	10	10	0.56%	1.24%	11	-1%	4%	10
S&P 500 Consumer Staples	21.85	20.57	17.00	29%	6	21%	6	6	2.55%	2.48%	2	7%	11%	5
S&P 500 Energy	14.81	11.02	13.80	7%	2	-20%	2	4	3.72%	2.39%	1	17%	22%	1
S&P 500 Financials	12.22	14.89	14.70	-17%	1	1%	2	2	1.52%	2.21%	8	9%	14%	3
S&P 500 Health Care	19.42	16.93	15.40	26%	5	10%	5	3	1.44%	1.65%	3	7%	11%	4
S&P 500 Industrials	28.25	20.81	16.20	74%	9	28%	8	5	1.32%	1.95%	9	6%	10%	6
S&P 500 Information Technology	31.26	27.45	18.70	67%	8	47%	9	8	0.74%	1.36%	10	2%	6%	9
S&P 500 Materials	17.99	16.96	14.70	22%	4	15%	4	1	1.64%	2.19%	6	12%	17%	2
S&P 500 Communication Services	22.45	21.28	19.50	15%	3	9%	4	7	0.88%	1.03%	4	5%	10%	7
S&P 500 Utilities	21.66	19.93	14.80	46%	7	35%	8	9	3.08%	3.72%	5	2%	7%	8
S&P 500 Real Estate	43.12	50.42	16.10	168%	11	213%	11	11	2.20%	3.02%	7	-10%	-6%	11
S&P 500	23.19	21.37	15.50	50%		38%			1.23%	1.89%		2%	6%	

S&P 500 Sector 3-5 year projections reflect Candor bottom-up analysis, Overall S&P 500 3-5 year projections reflect Candor bottom up and top-down analysis

Source: S&P, FactSet, Candor Asset Advisors

Past performance is no guarantee of future performance.

Overall Perspective

Leaders: Energy, Materials, Healthcare

Laggards: Real Estate, Consumer Discretionary, Utilities

	Momentum	Near Term Valuation	3-5 Year Potential		Combined Score		Overall
	Average Rank	Average Rank	Rank		Average Rank		Rank
Economic Sector							
S&P 500 Consumer Discretionary	4	10	10		8.1		10
S&P 500 Consumer Staples	8	5	5		6.1		7
S&P 500 Energy	8	2	1		3.6		1
S&P 500 Financials	7	3	3		4.3		4
S&P 500 Health Care	5	4	4		4.2		3
S&P 500 Industrials	3	8	6		5.5		5
S&P 500 Information Technology	4	9	9		7.2		8
S&P 500 Materials	6	4	2		3.8		2
S&P 500 Communication Services	5	4	7		5.3		6
S&P 500 Utilities	8	7	8		7.7		9
S&P 500 Real Estate	10	10	11		10.2		11

ETFs to consider: Energy Select Sector SPDR Fund <XLE>, Materials Select Sector SPDR Fund <XLB>, Health Care Select Sector SPDR Fund <XLV>

4th Opportunity: Individual stocks

Compelling stock ideas

- Cigna <CI>
  - Cigna is well positioned as a top 10 health insurer that benefits from local operating scale and network effects.
  - Express Scripts is a top 3 pharmacy benefit manager that has tremendous operating scale and benefits from high switching costs.
  - Combining Cigna and Express Scripts with new strategic partnerships should round out the service offering and enable cross selling.
  - Employing new lower sites of care, digital tools and end-to-end clinical programs should improve patient access, lower healthcare costs and drive market share gains.
  - The valuation is compelling with a 10x P/E and 1.8% dividend yield. Cigna offers 16%+ 3–5-year annual return potential.
- Lazard <LAZ>
  - Asset management and financial advisory businesses operate in a complementary way, offer diversification and earn attractive rates of return.
  - The asset management franchise is well positioned with a focus on global, regional and emerging market institutional investment management. These areas are generally stickier and less fee sensitive. Revenues should benefit from asset appreciation over time.
  - The financial advisory business benefits from a global platform, an extensive advisory services offering, and network effects. These advantages have translated into market share gains over the last 15 years.
  - Growth opportunities remain via inorganic team acquisitions and organic talent hiring, technology investments and geographic expansion.
  - Lazard offers 18%+ 3–5-year annual return potential. The stock now trades at trades at 10x earnings and has a 3.9% dividend yield.
- LyondellBasell <LYB>
  - Lyondell enjoys global production scale and diversification. Lyondell has earned #1-3 share positions through being a cost competitive supplier.
  - Recent capacity expansion and JV initiatives should aid EBITDA by a significant amount in the coming years.
  - Management has done an excellent job improving the balance sheet and driving down costs.
  - Lyondell offers 17%+ 3–5-year annual return potential. The current valuation is attractive at a 4.6% dividend yield and 7.6x trailing P/E.

For more information

- Check out our website at:

www.candorassetadvisors.com

- Sign up to receive our insights by emailing us @:
  - info@candorassetadvisors.com

- To schedule a conversation, use the following link:
  - https://calendly.com/bhawes-1/brief_conversation

William E. Hawes, CFA, CFP®
President & Chief Investment Officer

With over 22 years of industry experience, Bill brings a wealth of knowledge in investment management. Prior to earning his MBA, Bill worked in mortgage banking and insurance, and the insights gained provided him with a broader perspective of the financial issues facing clients.

Bill has been a Chartered Financial Analyst since 2000 and is a member of the CFA Society of Austin. Bill also enjoys golf, travel, studying history, watching his favorite sports teams and spending time with family.

Before founding Candor Asset Advisors, LLC, Bill co-created and managed Century Management's Large Cap Absolute Value and Large Cap Value strategies. Bill also analyzed companies in a variety of industries for the firm's all cap value strategy.

Prior to moving back to Texas, Bill served as an equity analyst for Engemann Asset Management in Southern California. He co-managed a mid-cap growth fund and served as an multi-sector analyst for the mid cap and large cap growth team.

After graduate school, Bill served as co-portfolio manager and equity analyst at Franklin Templeton. While there he served as portfolio manager on All Cap, Large Cap Core and Consumer Sector portfolios. Notable institutional clients included CalPers, Mitsui Trust, Norges Bank and Penn Mutual. He also spent considerable time analyzing auto, transportation and consumer stocks.

Bill earned his Master in Business Administration from the University of Southern California. While there he also served on USC's MBA student investment fund.

Between his graduate and undergraduate studies, Bill worked at North American Mortgage Company in California as a management trainee and later as a financial analyst and marketing coordinator. The experience gave him a better understanding of the mortgage and real estate markets which he leverages to this day.

Bill earned his Bachelor of Business Administration from the University of Texas at Austin. While a student, he also served as a special agent for Northwestern Mutual. The experience gave him an understanding of life and disability insurance and the work ethic, tools and temperament needed to grow a financial services practice.

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- Investment advisory and financial planning services offered through Candor Asset Advisors, LLC, a registered investment advisor.
- Past performance is not a guarantee or predictor of future performance.
- Financial plans are hypothetical in nature and intended to help you in making decisions on your financial future based on information that you have provided and reviewed. Assumptions need to be reviewed regularly.
- Stocks are not guaranteed and have been more volatile than other asset classes. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest.
- Diversification does not eliminate the risk of experiencing investment losses.
- Candor Asset Advisors does not endorse or support the contents or opinions of third-party providers.
- Candor Asset Advisors is not responsible for the content, privacy and security of a third-party website.

Appendix

- Recessions
- Corrections and Bear Markets
- COVID-19 Background
- Stocks versus bonds

Recessions, corrections, bear markets and rallies

Providing historical context

What is a recession?

A recession according to the National Bureau of Economic Research (NBER), which is the official arbiter in characterizing business cycles, defines an economic recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." In practice this means a recession can represent a slowdown in economic growth over a few quarters rather an actual decline in economic statistics.

US Business Cycle History Since 1854

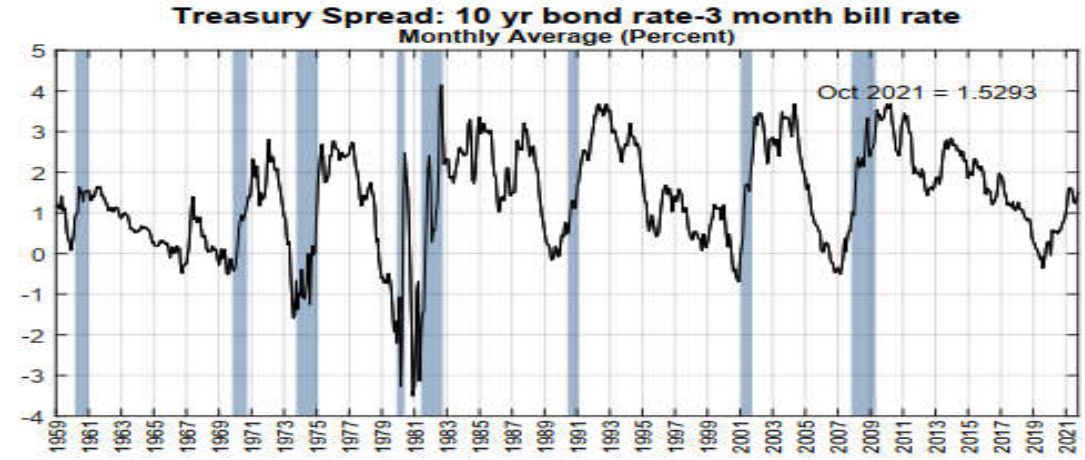
Data highlights

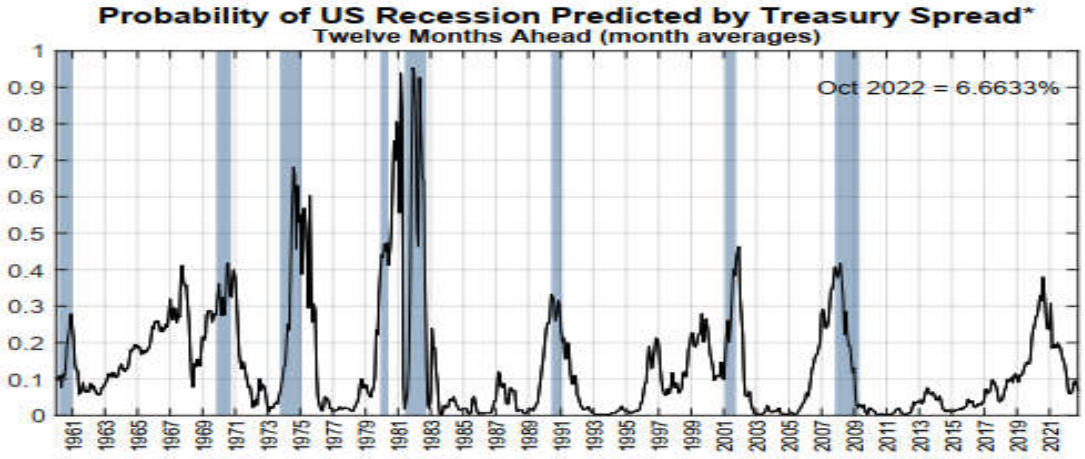
- The average economic expansion lasts 2.2 to 6.3 years
- The average economic contraction lasts 10-22 months

Peak month (Peak Quarter)	Trough month (Trough Quarter)	Contraction	Expansion	Cycle	
		Duration, peak to trough	*Duration, trough to peak*	*Duration, trough to trough*	*Duration, peak to peak*
	December 1854 (1854Q4)				
June 1857 (1857Q2)	December 1858 (1858Q4)	18	30	48	
October 1860 (1860Q3)	June 1861 (1861Q3)	8	22	30	40
April 1865 (1865Q1)	December 1867 (1868Q1)	32	46	78	54
June 1869 (1869Q2)	December 1870 (1870Q4)	18	18	36	50
October 1873 (1873Q3)	March 1879 (1879Q1)	65	34	99	52
March 1882 (1882Q1)	May 1885 (1885Q2)	38	36	74	101
March 1887 (1887Q2)	April 1888 (1888Q1)	13	22	35	60
July 1890 (1890Q3)	May 1891 (1891Q2)	10	27	37	40
January 1893 (1893Q1)	June 1894 (1894Q2)	17	20	37	30
December 1895 (1895Q4)	June 1897 (1897Q2)	18	18	36	35
June 1899 (1899Q3)	December 1900 (1900Q4)	18	24	42	42
September 1902 (1902Q4)	August 1904 (1904Q3)	23	21	44	39
May 1907 (1907Q2)	June 1908 (1908Q2)	13	33	46	56
January 1910 (1910Q1)	January 1912 (1911Q4)	24	19	43	32
January 1913 (1913Q1)	December 1914 (1914Q4)	23	12	35	36
August 1918 (1918Q3)	March 1919 (1919Q1)	7	44	51	67
January 1920 (1920Q1)	July 1921 (1921Q3)	18	10	28	17
May 1923 (1923Q2)	July 1924 (1924Q3)	14	22	36	40
October 1926 (1926Q3)	November 1927 (1927Q4)	13	27	40	41
August 1929 (1929Q3)	March 1933 (1933Q1)	43	21	64	34
May 1937 (1937Q2)	June 1938 (1938Q2)	13	50	63	93
February 1945 (1945Q1)	October 1945 (1945Q4)	8	80	88	93
November 1948 (1948Q4)	October 1949 (1949Q4)	11	37	48	45
July 1953 (1953Q2)	May 1954 (1954Q2)	10	45	55	56
August 1957 (1957Q3)	April 1958 (1958Q2)	8	39	47	49
April 1960 (1960Q2)	February 1961 (1961Q1)	10	24	34	32
December 1969 (1969Q4)	November 1970 (1970Q4)	11	106	117	116
November 1973 (1973Q4)	March 1975 (1975Q1)	16	36	52	47
January 1980 (1980Q1)	July 1980 (1980Q3)	6	58	64	74
July 1981 (1981Q3)	November 1982 (1982Q4)	16	12	28	18
July 1990 (1990Q3)	March 1991 (1991Q1)	8	92	100	108
March 2001 (2001Q1)	November 2001 (2001Q4)	8	120	128	128
December 2007 (2007Q4)	June 2009 (2009Q2)	18	73	91	81
February 2020 (2019Q4)	April 2020 (2020Q2)	2	128	130	146
1854-2020		17.0	41.4	58.4	59.2
1854-1919		21.6	26.6	48.2	48.9
1919-1945		18.2	35.0	53.2	53.0
1945-2020		10.3	64.2	74.5	75.0

The red highlights indicate when the peak or trough month has been outside the peak or trough quarter.

Source: National Bureau of Economic Research





*Parameters estimated using data from January 1959 to December 2009, recession probabilities predicted using data through Oct 2021.
The parameter estimates are α=-0.5333, β=-0.6330.

Updated 17-Nov-2021

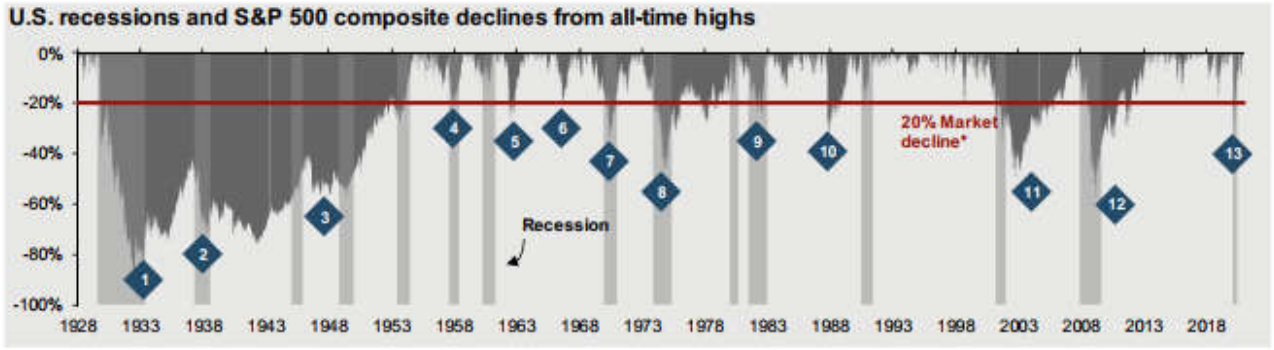
The New York Federal Reserve Bank has a model that has predicted most recessions since 1959. The model currently pegs the odds of a recession as 6.7% over the next twelve months.

Corrections and bear markets

- Stock market corrections are defined as a 10-20% drop in stock prices.
- Corrections usually occur every one to three years.
- Bear markets are defined as a drop of 20% or more in stock prices.
- Bear markets have occurred every 2.7 to 12.6 years since 1929. On average bear markets occur every 7.5 years.
- Since 1929, the average bear market decline registered 42% with the maximum bear market decline registering 86% from 1929-1932.
- The average bear market lasts 22 months.
- The 2020 bear market lasted only a month and registered a 34% decline.

Past performance is not a guarantee or predictor of future performance.

Bear market history



Characteristics of bull and bear markets

	Market correction	Bear Market: Market peak	Bear Market: Bear return*	Bear Market: Duration (months)*	Macro environment: Recession	Macro environment: Commodity Spike	Macro environment: Aggressive Fed	Macro environment: Extreme Valuation	Bull markets: Bull begin date	Bull markets: Bull return	Bull markets: Duration (months)
1	Crash of 1929 - Excessive leverage, irrational exuberance	Sep 1929	-86%	32	◆			◆	Jul 1926	152%	37
2	1937 Fed Tightening - Premature policy tightening	Mar 1937	-60%	61	◆		◆		Mar 1935	129%	23
3	Post WWII Crash - Post-war demobilization, recession fears	May 1946	-30%	36	◆			◆	Apr 1942	158%	49
4	Eisenhower Recession - Worldwide recession	Aug 1956	-22%	14	◆		◆	◆	Jun 1949	267%	85
5	Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec 1961	-28%	6				◆	Oct 1960	39%	13
6	1966 Financial Crisis - Credit crunch	Feb 1966	-22%	7			◆	◆	Oct 1962	76%	39
7	Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	17	◆	◆	◆		Oct 1966	48%	25
8	Stagflation - OPEC oil embargo	Jan 1973	-48%	20	◆	◆			May 1970	74%	31
9	Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	20	◆	◆	◆		Mar 1978	62%	32
10	1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				◆	Aug 1982	229%	60
11	Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	30	◆			◆	Oct 1990	417%	113
12	Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	◆	◆	◆		Oct 2002	101%	60
13	Global Slowdown - COVID-19, oil price war	Feb 2020	-34%	1	◆				Mar 2009	401%	141
	Averages	-	-42%	22					-	166%	54

Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
*A bear market is defined as a 20% or more decline from the previous market high. The related market return is the peak to trough return over the cycle. Periods of "Recession" are defined using NBER business cycle dates. "Commodity spikes" are defined as movement in oil prices of over 100% over an 18-month period. Periods of "Extreme Valuations" are those where S&P 500 last 12-months P/E levels were approximately two standard deviations above long-run averages, or time periods where equity market valuations appeared expensive given the broader macroeconomic environment. "Aggressive Fed Tightening" is defined as Federal Reserve monetary tightening that was unexpected and/or significant in magnitude. Bear and bull returns are price returns.
Guide to the Markets – U.S. Data are as of December 31, 2020.

J.P.Morgan
Asset Management

Sources of bear markets:

% of the time
- 77% recessions
- 54% extreme valuations
- 46% aggressive fed actions
- 31% commodity spikes

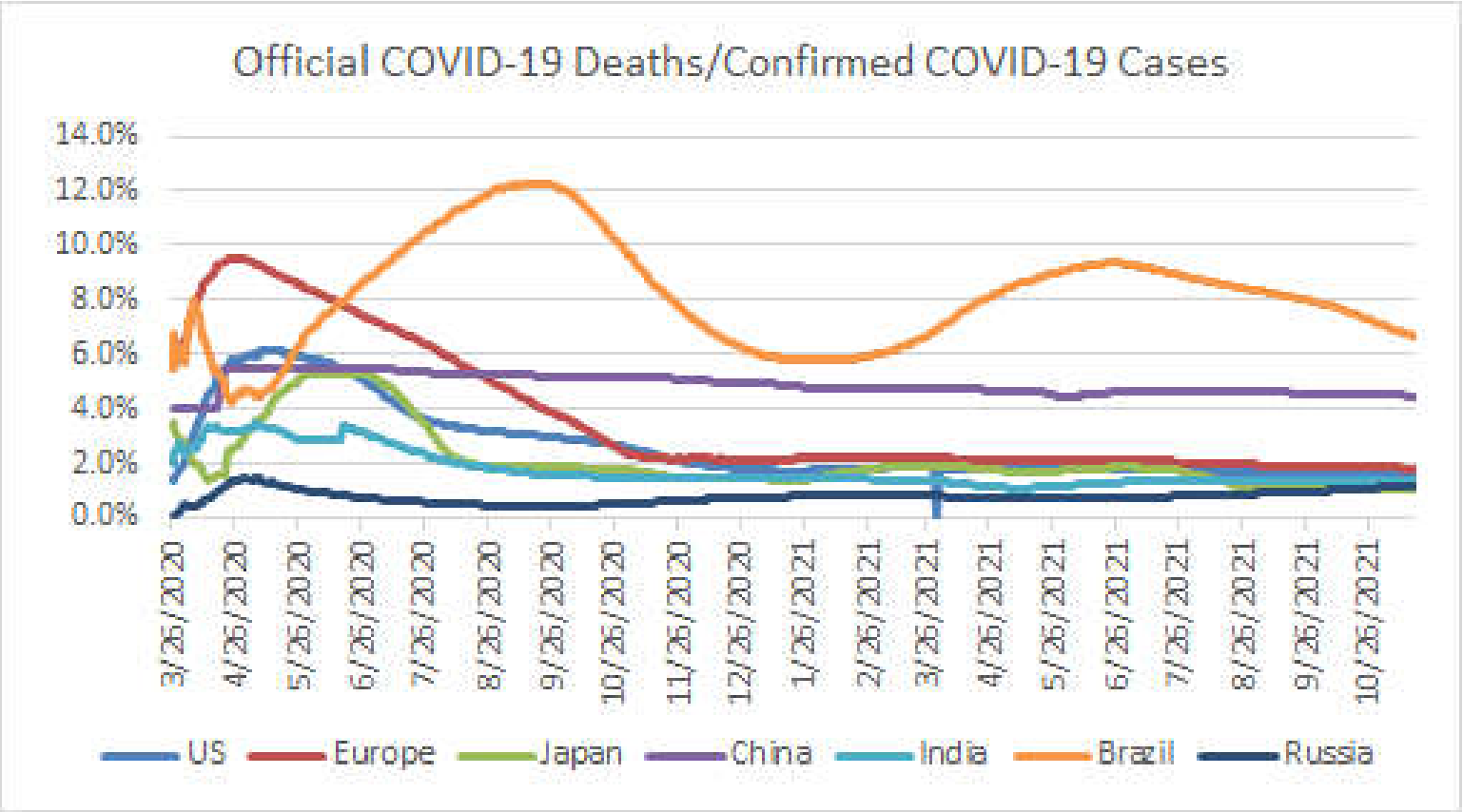
The % of time a recession occurs due to
- 23% one factor
- 46% two factors
- 31% three factors

The US has fallen behind other developed markets in vaccinations

		Vaccinated		
By Select Area	Estimated Population	Single Dose	Double Dose	Unvaccinated
United States	332,942,733	66.0%	57.3%	34.0%
European Union	447,080,347	69.0%	65.4%	31.0%
Japan	126,474,461	78.1%	72.5%	21.9%
Canada	37,742,154	80.1%	74.5%	19.9%
South Korea	51,269,185	79.7%	75.0%	20.3%
UK	67,886,011	74.6%	68.2%	25.4%
Australia	25,499,884	74.4%	64.9%	25.6%
Total & Weighted Average	755,952,042	72.5%	67.9%	27.5%
Rest of Developed Markets	90,598,416			
China	1,439,323,776	83.2%	76.4%	16.8%
India	1,389,994,385	53.3%	24.1%	46.7%
Indonesia	273,523,615	44.1%	27.2%	55.9%
Pakistan	220,892,340	32.3%	19.0%	67.7%
Brazil	212,559,417	75.2%	57.0%	24.8%
Nigeria	206,139,589	2.8%	1.5%	97.2%
Bangladesh	164,689,383	25.6%	18.0%	74.4%
Russia	145,940,873	38.5%	33.1%	61.5%
Mexico	128,932,753	57.9%	47.0%	42.1%
Phillipines	109,581,078	30.1%	25.0%	69.9%
Total & Weighted Average	4,291,577,209	55.8%	40.9%	44.2%

Source:
Worldometer &
Financial Times

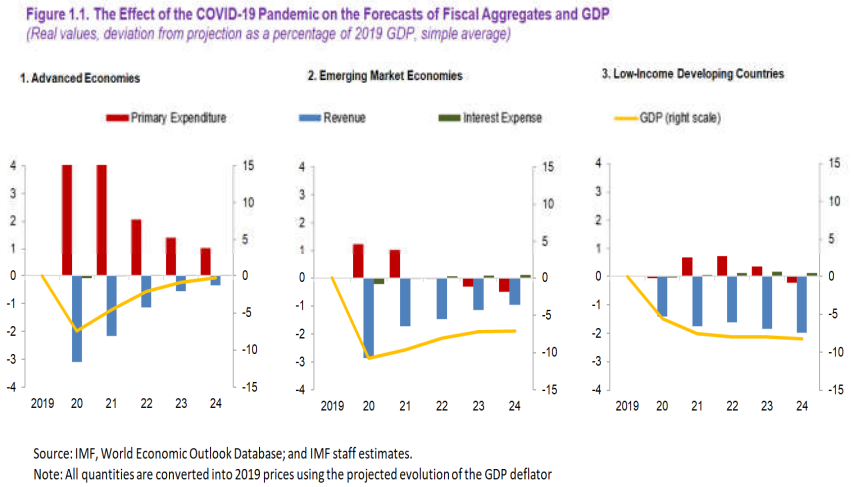
Vaccines are helping reduce the number of COVID-19 related deaths



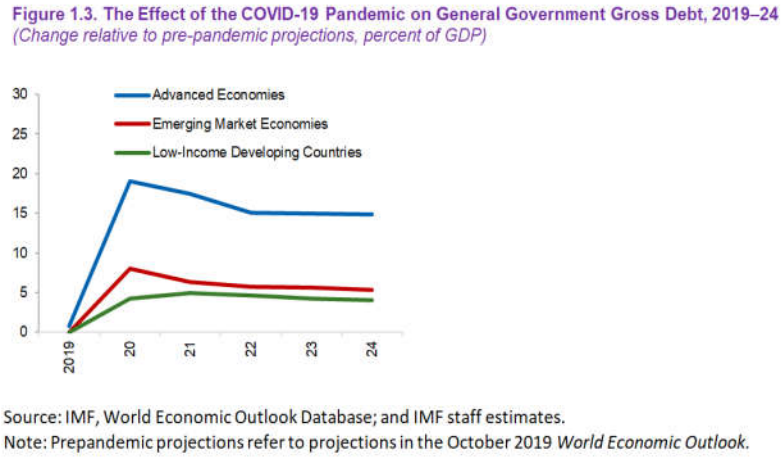
Source: FactSet

COVID-19 has caused lasting economic damage

Government revenues are being hurt by 1-4% while expenditures are up by 1-4%

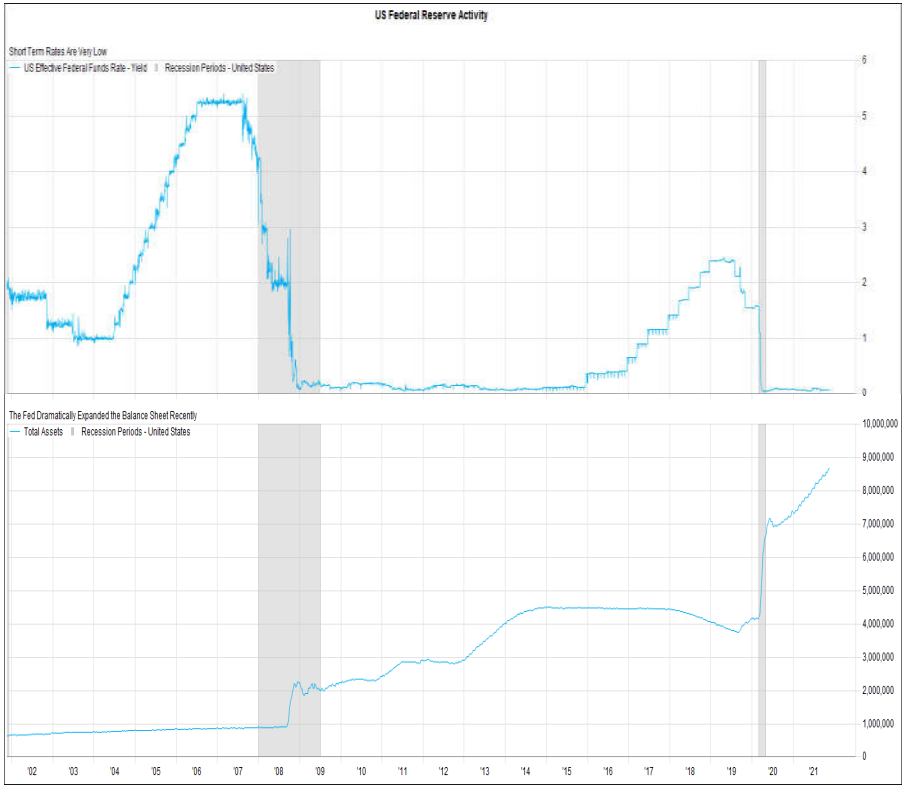


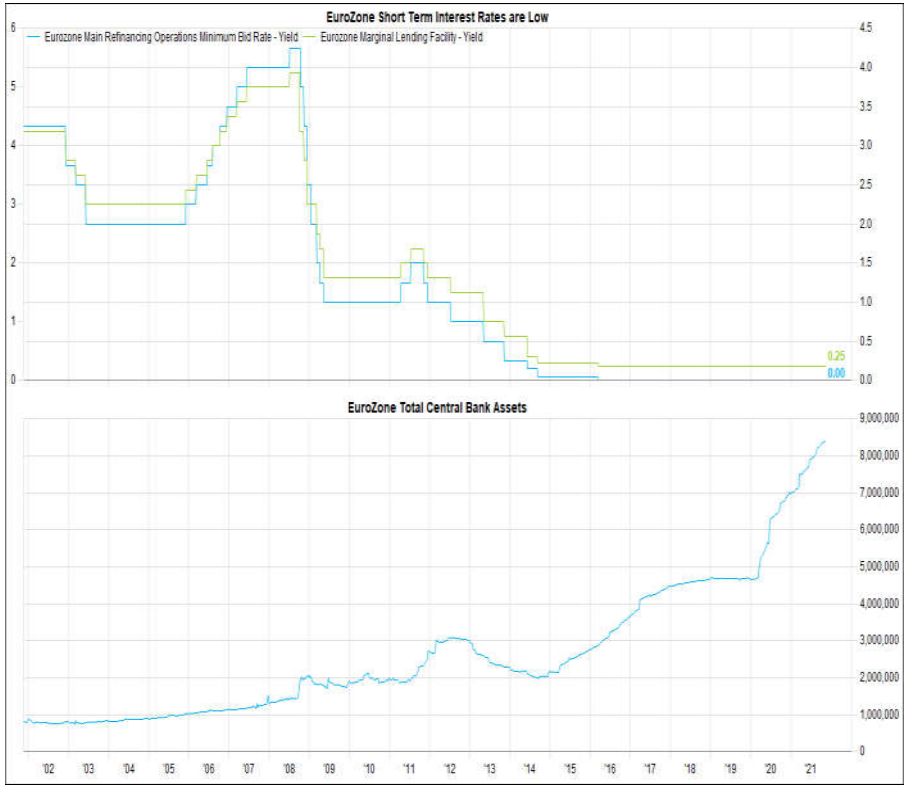
This trend has led to governments taking on more debt



Source: International Monetary Fund

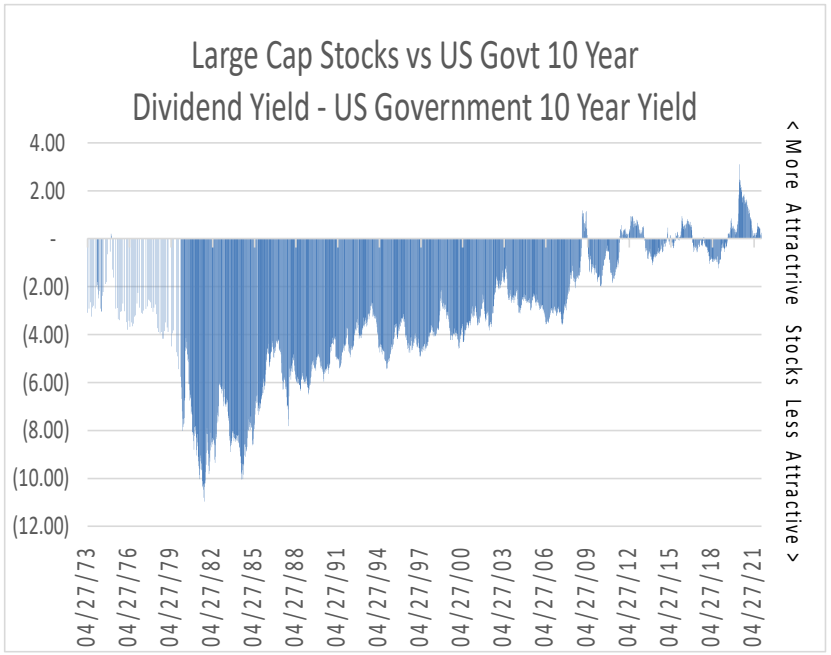
The US Federal Reserve and European Central Bank have kept low rates and expanded their balance sheet to stimulate economic growth

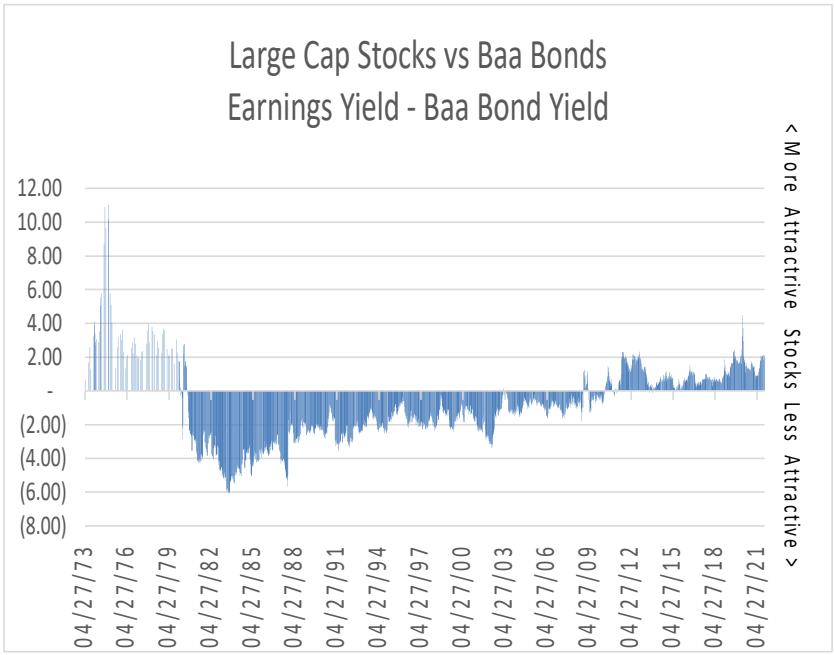




Source: FactSet

Stocks continue to look attractive vs US treasuries and investment grade corporate debt





Source: *Value Line Investment Survey* and FactSet