

MV Financial Special Update

November 24, 2020

To Our Valued Clients:

We wish you and yours a happy, healthy Thanksgiving and start to the holiday season.

As of this writing, we are happy to report that, thanks to recent developments, there are some positive signs breaking through the uncertainty that has clouded the financial markets for much of this year. Announcements of potential Covid-19 vaccine breakthroughs provide considerable cause for hope that the pandemic can eventually be brought under control. The outcome of the US presidential election, despite continued legal challenges, now seems beyond doubt.

Nonetheless, we cannot say that the near- and intermediate-term outlook is completely clear. As we send you this message, most regions are experiencing a renewed wave of Covid-19 infections, healthcare systems are strained, and lockdowns are being re-imposed in some communities. Negotiations for another economic stimulus package remain deadlocked. And, we do not know what policies a new administration will pursue (nor what they will be able to get through Congress) with respect to taxation, regulation, job creation, trade, and many other areas that will impact the financial markets.

In short, we remain cautiously optimistic—but with an emphasis on caution. For investors who have been more defensively positioned in equities and other risk assets than usual, taking an aggressive stance is still premature.

MV Financial's approach to managing our clients' portfolios over the past year has reflected this cautious, incremental perspective. Even before the Covid-19 outbreak, we were maintaining a fairly low target allocation to equities in most portfolios of around 55% (in conservative growth strategies – the allocation differs depending on the risk strategy of each portfolio). By April, we winnowed that position down to about 50% (again in conservative growth portfolios) by exiting risk-on sectors (such as small and mid-cap, international emerging market shares) while shifting to cash and short-term bonds. More recently, we saw opportunities to ratchet up our equity position, but we're still at around 56% equities.

For much of this year we have witnessed an equity market where the most sustained rallies were driven by a very small number of mega-sized technology-related companies. We remain concerned by the extremely high valuations of many of these companies. For example, we made some tactical moves into healthcare stocks back in April, but it is probably too late to start building positions in those companies now. Now, however, we may be starting to see an incremental rotation away from some of the long-standing (and expensive) high flyers towards

areas of the market that have underperformed. For example, there may be opportunities to selectively invest in international (though perhaps not emerging markets yet), mid-cap growth and small/mid-cap value along with some of the chronically beaten down names in areas like financial institutions and high street retail. But, again, we can afford to take our time and remain measured in our approach.

With respect to fixed income, the current interest rate environment presents a daunting challenge to investors seeking any kind of yield while at the same time remaining within the confines of low-risk segments of the market. For the foreseeable future the Fed has made it clear its intention to keep short-term rates at or very close to the zero lower bound. We may witness a “steepening” of the yield curve – i.e. an increase in yields for intermediate and long-dated bonds – but that will largely be driven by economic factors (including those related to the Covid pandemic) that are as yet highly uncertain.

Given that the prevailing uncertainty and market volatility are likely to be with us into 2021, we continue to advise clients to focus on their own investment and financial goals. The essential needs of individuals and families--whether for retirement planning, estate planning, or budgeting for major purchases—are not dependent on the direction of the markets and must continue to be addressed. This is the time to be thinking about longer range plans and the financial resources required to realize those plans.

As we enter the holiday season and the “home stretch” of 2020, we wish you and your family well. Please feel free to reach out to us at any time to discuss your investment and financial questions. Happy Thanksgiving to all of you.

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