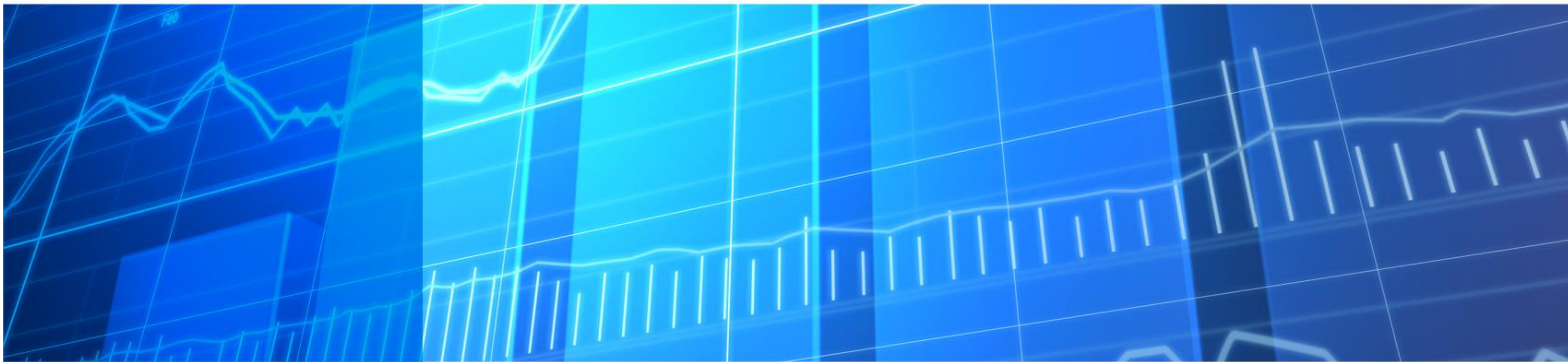
ABSHER
Wealth Management
Registered Investment Advisor

Asset Management
Investment Planning
Investor Education



QUARTERLY REPORT

June 18, 2020

A Moment to Reflect and Reassess

Mike Absher, CIMA®

*Founder/
Chief Investment Officer/
Investment Advisor
Representative*

It is a gross understatement to say that 2020 has been a bizarre and historically unprecedented year. Many of us have moments in time that stand out, such as where you were when President Kennedy was shot, or when the Challenger exploded, or that Tuesday morning when planes flew into the World Trade Center. This year does not have one of those singular moments. Despite that, this year has likely affected us in a greater way than any other event in our lifetimes. The entire world felt the change. As the virus spread, it forced governments to restrict commerce and social interactions. There is not a time since the end of World War II that so many of our daily activities were impaired or outright halted. The U.S. stock market responded in March with the sharpest and fastest decline in modern history. The benchmark indices fell by 35% or more over a period of just five weeks ending March 23rd and had mostly recovered by June 8th. That relief was short-lived as the stock market turned lower again on June 9th. The Dow Jones Industrial Average was down a full 9% between the June 8th high and June 12th low. The S & P 500 fell by almost 6% on June 11th alone. Given this extreme volatility, I wanted to bring some historical perspective to this unusual environment and discuss current conditions.

Seeking Historical Comparisons to 2020

It is human nature for investors to look to the past for insights about the future. I have found it helpful to incorporate historical comparisons over my career. Unfortunately, history alone cannot tell us what will happen next, but it can still help us make better decisions about the future. Every situation is different, but we can learn from how investors responded during similar moments in the past.

"The longer you look back, the farther you can look forward."

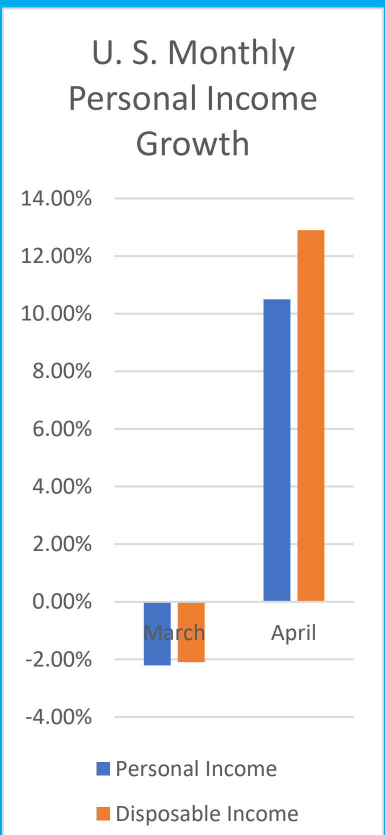
~Winston Churchill

I believe a historical frame of reference can ease an investor's fear and anxiety. In my experience, the greatest detractor from investor returns is their own behavior, as it can be very tempting to take more risk during bubbles and even more tempting to get out of the market during downturns. This temptation to time markets is very difficult for many people to ignore. There is strong psychology built into both the 'fear of missing out' and in a self-preservation mentality. The best way to combat these emotional responses is to focus on the facts and by employing a disciplined strategy.

1450 Raleigh Road,
Suite 105
Chapel Hill NC 27517

absherwealth.com

The data shows the combined effect of the various programs has more than offset the lost income so far.



Source: Bureau of Economic Analysis

The Pandemic

The COVID-19 pandemic has dominated world headlines for most of this year. Before we move onto the economic and stock market ramifications, I thought it would be helpful to put the current coronavirus pandemic into historical perspective. The first table is illustrating the statistics of the current pandemic in relation to the two prior pandemics of similar magnitude and the significantly worse 1918 Spanish Flu. My purpose for highlighting this data is to illustrate that the current pandemic is statistically on track with the 1957 and 1968 pandemics both domestically and globally. As you can see, the devastation of the 1918 Spanish Flu was of an entirely different magnitude for both the U.S. and the world.

	US Deaths	US Population	Global Deaths	Global Population
2020 COVID-19	~117,000*	~332 million	~445,000 *	~7.6 billion
1968 H3N2 virus	~100,000	~200 million	~1 million	~3.5 billion
1957-58 H2N2 virus	~116,000	~175 million	~1.1 million	~2.9 billion
1918 Spanish Flu	~675,000	~103 million	~50 million	~1.8 billion

**current deaths for 2020 are as of June 17th data from Johns Hopkins*
Sources: Johns Hopkins, CDC, World Bank, United Nations, US Census Bureau

I would also like to present a comparison of the United States in relation to the five most populated countries in Europe during the coronavirus. This data comes from the Johns Hopkins University Coronavirus Resource Center and is as of June 17th. The data in this table I found helpful was the correlation between the two regions that have similar population sizes and demographics.

COVID-19	Deaths	Population
United States	117,030	~332 million
Europe's Five Largest- Germany, France, Spain, Italy, and the United Kingdom	141,989	~324 million

Sources: Johns Hopkins, World Bank, US Census Bureau

Before we move on to the economy and the stock market, I want to suggest something based on the two tables above. While all of us will remember this year as a tragic and difficult period, the comparisons to 1918 do not appear to be justified.

Employment and Personal Income

There has been a lot of conflicting and confusing data related to unemployment over the past three months. The undeniable truth is that unemployment has never spiked so quickly in our history as it did this year. However, the normal conclusions that an economist might draw from unemployment data is less clear. The impact of the CARES Act is multifaceted, but there are two specific items that are important to the unemployment discussion. First, direct stimulus payments should have been received by a large percentage of those who lost their jobs. Second, the supplemental unemployment benefits should have helped those who lost their jobs. The combined impact of these two measures will be debated for years to come, but it should have offset a substantial amount of the financial stress for those Americans who lost their jobs during the pandemic. As an example, the Bureau of Economic Analysis reported a 10.5% increase in personal income in April despite the record unemployment. This data supports my view that consumer spending should improve when social restrictions ease.

The Stock Market

It has been a truly historic period for stock markets around the world. At the same time, it has also been a non-event in some ways. The S & P 500 index was trading just above 3,000 nine months ago and is doing so again now. In between, the index experienced a gradual rise of 10% over five months, a collapse of 35% over roughly 5 weeks, and finally an incredible 40% rebound over the past three months to return to where it started. This year's decline was the fastest fall of more than 30% for the S & P 500 index in modern history.

When you look at the entire sequence, it looks a lot like 1987. The crash of '87 is generally what we remember about that year, but the index finished the year basically even. The index fell 33% over 38 trading sessions that year, versus this year's 35% decline over 22 trading sessions. There are other interesting parallels between the volatility of 1987 and this year. There were just five trading sessions where the S & P 500 index lost 5% or more during the entire decade of the 1980's. Three of those days occurred in October of 1987 around the crash and another happened three months later in the midst of the rebound. There have been only six trading sessions in the past ten years where the S & P 500 fell by 5% of more. Four of them occurred in March when the market was making its lows and the fifth happened on June 11th, also three months after the market bottom.

The recovery since the March lows has also been volatile and many investors have questioned if this could be forming another bubble. There are clearly pockets in the market where speculators are gambling on bankrupt companies or on very expensive technology stocks. However, those are isolated areas and not companies that fit our investment discipline. There are several factors that I currently see as being positive catalysts for the stock market and specifically our holdings into the future:

- Cash and money market balances are extremely high and rising. Federal Reserve data shows that excess reserves within member banks rose from $1.5 trillion in February to $3.2 trillion on June 3rd. That $1.7 trillion difference is sitting in cash at these banks from deposits made in March, April, and May. Additionally, money market balances have risen by more than a trillion this year and were more than $4.7 trillion on June 10th according to the Investment Company Institute. That is nearly $3 trillion of additional cash and money market balances that were not there on Valentine's Day.
- Interest rates are very low across the globe. My view is that these low rates are both a function of investor anxiety and central bank intervention. The 10-year U.S. Treasury yield has been under 1% since late March as an example. I believe these low yields will ultimately help our portfolios in one of two ways. If rates stay low, bond and money market investors may look to dividend paying stocks to create more income. Additionally, these low interest rates should be a positive for the economy via home sales and mortgage refinancing.
- The pandemic has forced governments to effectively mandate recessionary conditions across most of the world. Unlike the 1930's, governments immediately took action to blunt the economic damage this time. While there are people and businesses that are permanently damaged by this recession, most industries and American consumers seem likely to emerge from this downturn intact when vaccines allow us to return to our normal lives.
- The vaccine work has been moving at a pace that could not have been imagined in a previous time. As of this week, it appears that at least three different vaccines will be in human trials by September. The answer to the shape of the economic recovery is most influenced by the timing of these vaccines being available to consumers in the wealthy countries.
- The mortality rates for COVID-19 have remained lower than many feared. Based on that trend, there will be around 8 billion people in the world next year. A billion of those people will be middle-class consumers able to support our companies.

Fastest 30% declines for S & P 500 index since World War II

Beginning of Decline	Number of Trading Days
Feb. 19, 2020	22
Aug. 25, 1987	38
Jan. 4, 2002	136
Oct. 9, 2007	250
Nov. 29, 1968	361
Mar. 24, 2000	369
Jan. 11, 1973	373

Source: CNBC, Bank of America Global Research, FactSet Data

Our Portfolio Strategies

The past few months have been an incredibly stressful time for every investor. Based on the calls my team received between March and today, we know it has not been an easy time to just ignore the market. We have some clients who would prefer to not be invested during uncertain times like this and other clients who would prefer that we traded more aggressively during these swings. I know from studying the history of the market as well as from 25 years of industry experience that being a rational and disciplined investor during uncertainty like this pandemic is critically important to our long-term performance. As we saw within our portfolios this quarter, stock market rallies can come at the most unexpected of times. Our best performing stock through this week for the 2nd quarter had been one of our worst performing stocks in the first quarter. We had several clients call specifically to ask about selling that stock in March and it has now more than doubled off its lows. Rather than sell the shares while they were down, we were actively adding to the stock. We are always looking for opportunities to improve our portfolios, but do so while maintaining our fundamental convictions:

- **We want to be long-term shareholders in high quality businesses that are well positioned to grow with the global economy, but also have some element of their business model that provides us with a perceived margin of safety. This could be having a dominant market share, a dominant brand with immeasurable goodwill, a natural duopoly, a stronger balance sheet, or a technological advantage.**
- **We view inflation as the greatest risk for our clients. Longevity, low interest rates, and rising levels of debt across our society are all factors that enhance this risk. We would rather be invested in equities that have a chance to outpace inflation than to own lower volatility investments that are less likely to help our clients maintain their standard of living.**
- **We believe that owning the companies directly helps our clients in two ways. First, it eliminates a layer of expense within the portfolio. Second, we believe investors are less likely to be scared out of the market during a downturn if they know the companies they own.**

The **Absher Wealth Management Group** is a team of experienced professionals who have a shared belief that professional development is critically important to their client's success. The members of the team hold many advanced industry designations and continue to work on additional professional designations. We believe prudently managed wealth serves as a means to get you where you want to go, and we're committed to delivering our best advice to help you get there.

Michael F. Absher, Jr., CIMA®
Founder/Chief Investment Officer
Investment Advisor Representative
mike@absherwealth.com
919 283-2246

Jennifer L. Oravsky, CFP®
Senior Wealth Planner/Senior Partner
Investment Advisor Representative
jennifer@absherwealth.com
919 283-2248

Kevin L. Mishoe, CFP®
Chief Compliance Officer/Director of Operations
Investment Advisor Representative
kevin@absherwealth.com
919 283-2247

Zak Wahdan
Client Service Liaison
zak@absherwealth.com
919 283-3612