



Mid-Q2 Review

James Suh 213-219-9820

July 30, 2020

Financial planning allows us to step back and assess our God-given goals and priorities, ultimately managing our finances in a manner that relieves financial pressure and provides clarity and confidence.

-Neil Paur, Ronald Blue Trust

There are five simultaneous competing priorities for the use of money. God's Word speaks to each:

LIVE: Practice provision, contentment, and enjoyment because money is a tool. (1 Timothy 4:4, 5:8, 6:6-10; Hebrews 11:24-26)

GIVE: Open my hand to release God's resources. He wants my heart connected to His Kingdom story. (Matthew 6:19-24; 2 Corinthians 9:6-8; Luke 16:13)

OWE (DEBT): Eliminate debt because debt always presumes upon the future. (Proverbs 22:7; James 4:13-16)

OWE (TAXES): Pay taxes with gratitude. They reflect God's provision. (Matthew 22:17-21)

GROW: Demonstrate financial maturity by giving up today's desires for tomorrow's benefit. (Proverbs 6:6-8; Luke 12:16-21)

Returns and valuations by style June 30, 2020

	QTD			YTD		
	Value	Blend	Growth	Value	Blend	Growth
Large	14.3%	20.5%	27.8%	-16.3%	-3.1%	9.8%
Mid	19.9%	24.6%	30.3%	-18.1%	-9.1%	4.2%
Small	18.9%	25.4%	30.6%	-23.5%	-13.0%	-3.1%

Current P/E vs. 20-year avg. P/E

	Value	Blend	Growth
Large	18.1 / 13.6	21.7 / 15.4	29.8 / 18.8
Mid	19.8 / 14.2	23.9 / 16.1	39.2 / 20.4
Small	27.7 / 16.5	55.0 / 20.7	- / 30.1

	Since market peak (October 2007)			Since market low (March 2009)		
	Value	Blend	Growth	Value	Blend	Growth
Large	77.2%	159.6%	269.6%	341.9%	480.0%	653.8%
Mid	99.2%	141.4%	205.8%	408.5%	482.5%	606.9%
Small	58.8%	103.6%	152.5%	292.8%	391.0%	495.8%

Current P/E as % of 20-year avg. P/E

	Value	Blend	Growth
Large	132.9%	140.9%	158.5%
Mid	139.3%	148.5%	192.2%
Small	168.1%	265.3%	-

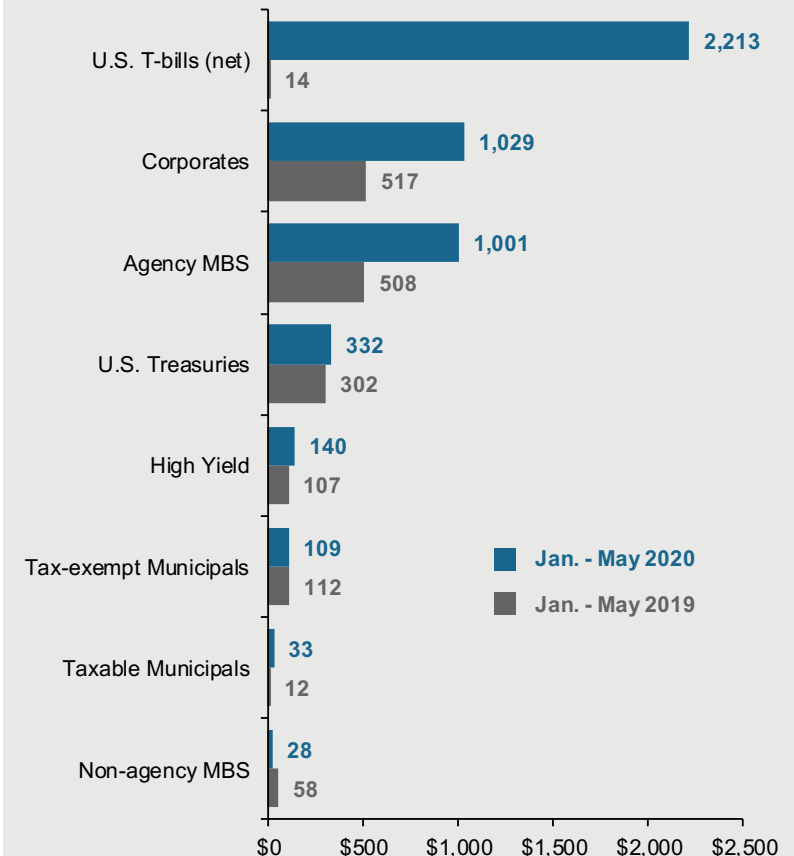
Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.
 All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period 10/9/07 – 6/30/20, illustrating market returns since the S&P 500 Index high on 10/9/07. Since Market Low represents period 3/9/09 – 6/30/20, illustrating market returns since the S&P 500 Index low on 3/9/09. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices with the exception of the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price to earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Russell 2000 Growth P/E not available due to negative earnings.
 Guide to the Markets – U.S. Data are as of June 30, 2020.

Fixed income market dynamics

U.S. Treasuries	Yield		Return			
	6/30/2020	3/31/2020	2020 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	0.16%	0.23%	2.96%	2 years	0.68	-0.40
5-Year	0.29%	0.37%	7.31%	5	0.92	-0.36
TIPS	-0.68%	-0.17%	6.01%	10	0.59	0.16
10-Year	0.66%	0.70%	12.70%	10	1.00	-0.34
30-Year	1.41%	1.35%	24.91%	30	0.93	-0.34
Sector						
Corporates	2.15%	3.43%	5.02%	12.1	0.42	0.38
U.S. Aggregate	1.25%	1.59%	6.14%	8.1	0.85	0.01
Convertibles	6.83%	6.77%	7.29%	-	-0.30	0.90
High Yield	6.87%	9.44%	-3.80%	6.3	-0.25	0.74
Municipals	1.50%	2.01%	2.08%	13.0	0.39	0.08
MBS	1.36%	1.34%	3.50%	3.7	0.82	-0.14
ABS	3.10%	4.29%	0.51%	2.2	0.01	0.28
Floating Rate	0.94%	3.61%	0.35%	1.8	-0.23	0.46

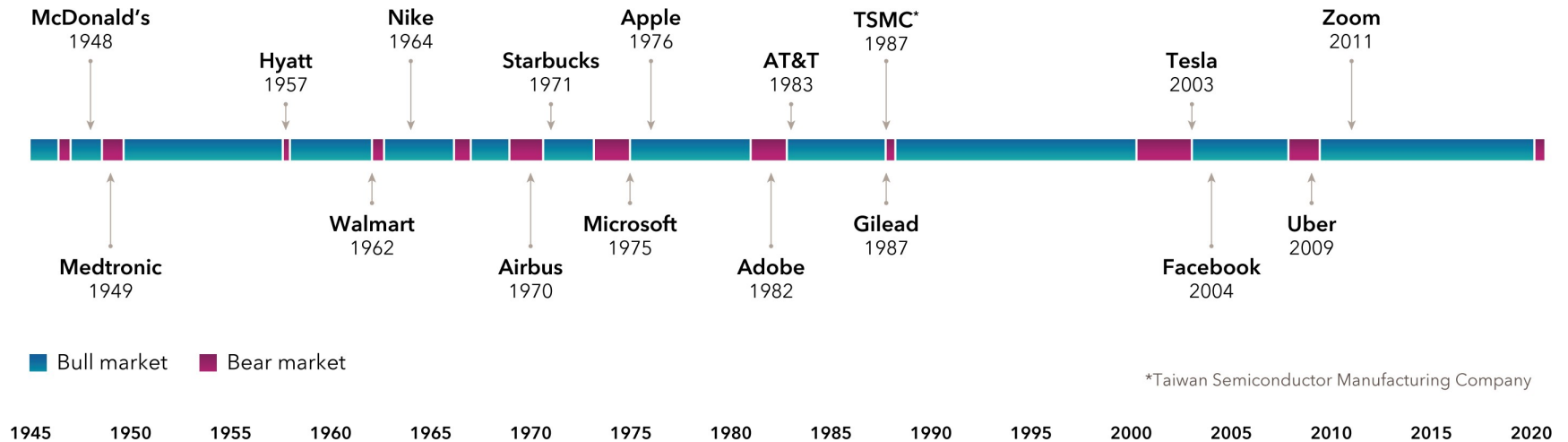
Issuance by sector

USD billions, gross issuance through May 2020 vs. May 2019



Source: Barclays, Bloomberg, FactSet, SIFMA, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by – U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond; High Yield: Corporate High Yield; TIPS: Treasury Inflation-Protected Securities (TIPS); U.S. Floating rate index; Convertibles: U.S. Convertibles Composite. Convertibles yield is as of March 2020 due to data availability. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield to worst. Convertibles yield is based on U.S. portion of Bloomberg Barclays Global Convertibles. Correlations are based on 15-years of monthly returns for all sectors. Issuance is based on monthly data provided by SIFMA. Past performance is not indicative of future results.
 Guide to the Markets – U.S. Data are as of June 30, 2020.

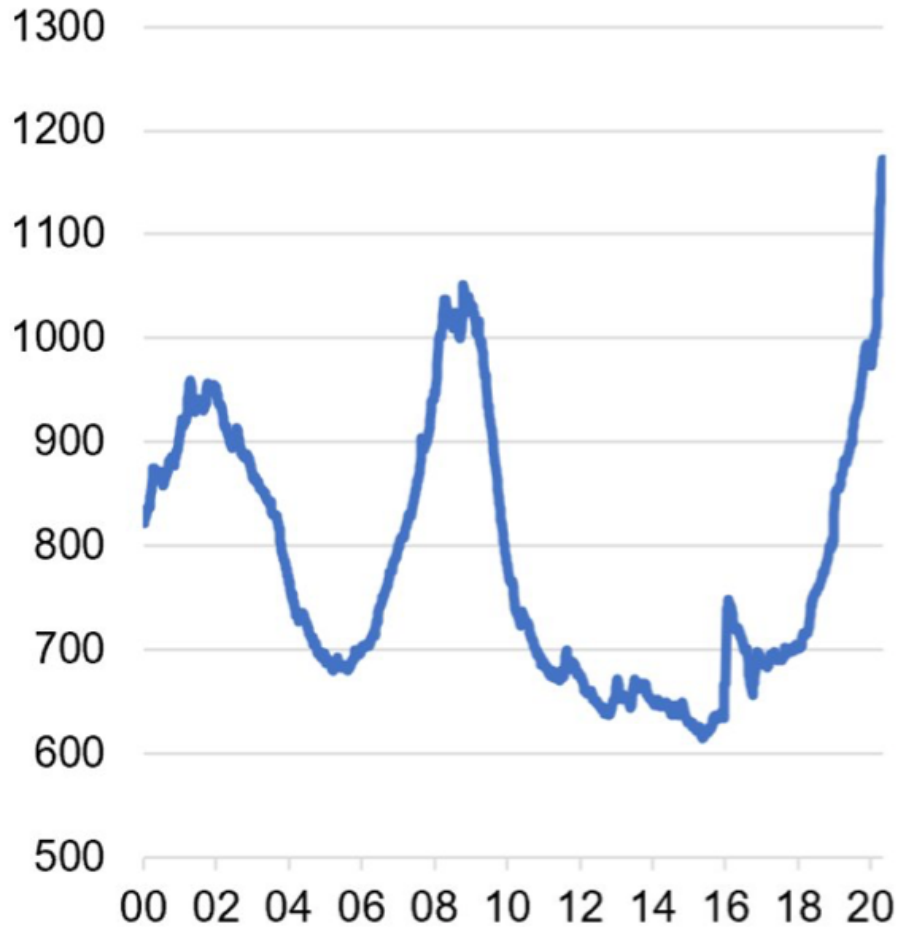
Tough times have birthed some of the world's leading companies



Sources: Capital Group, Standard & Poor's. As of 5/31/20. The 2020 bear market is considered current as of 5/31/20. In all other periods, bear markets are peak-to-trough declines of at least 20%. Bull markets are all other periods.

The rush to cash is bullish later (dry powder)...

Money Market Funds: Retail
(US\$ Billions)



Money Market Funds: Inst.
(US\$ Billions)

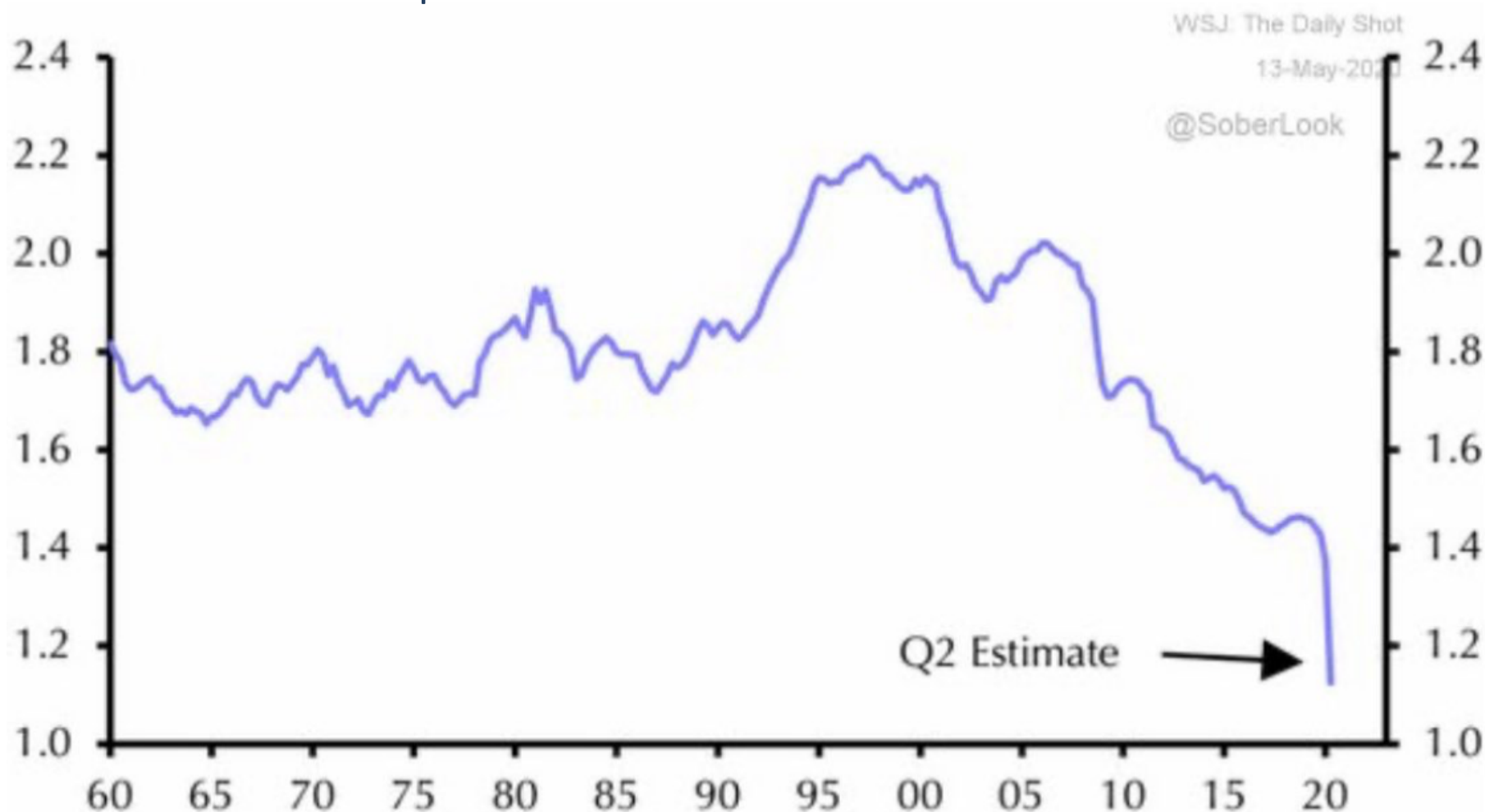


Source: Topdown Charts, Refinitiv Datastream, Federal Reserve

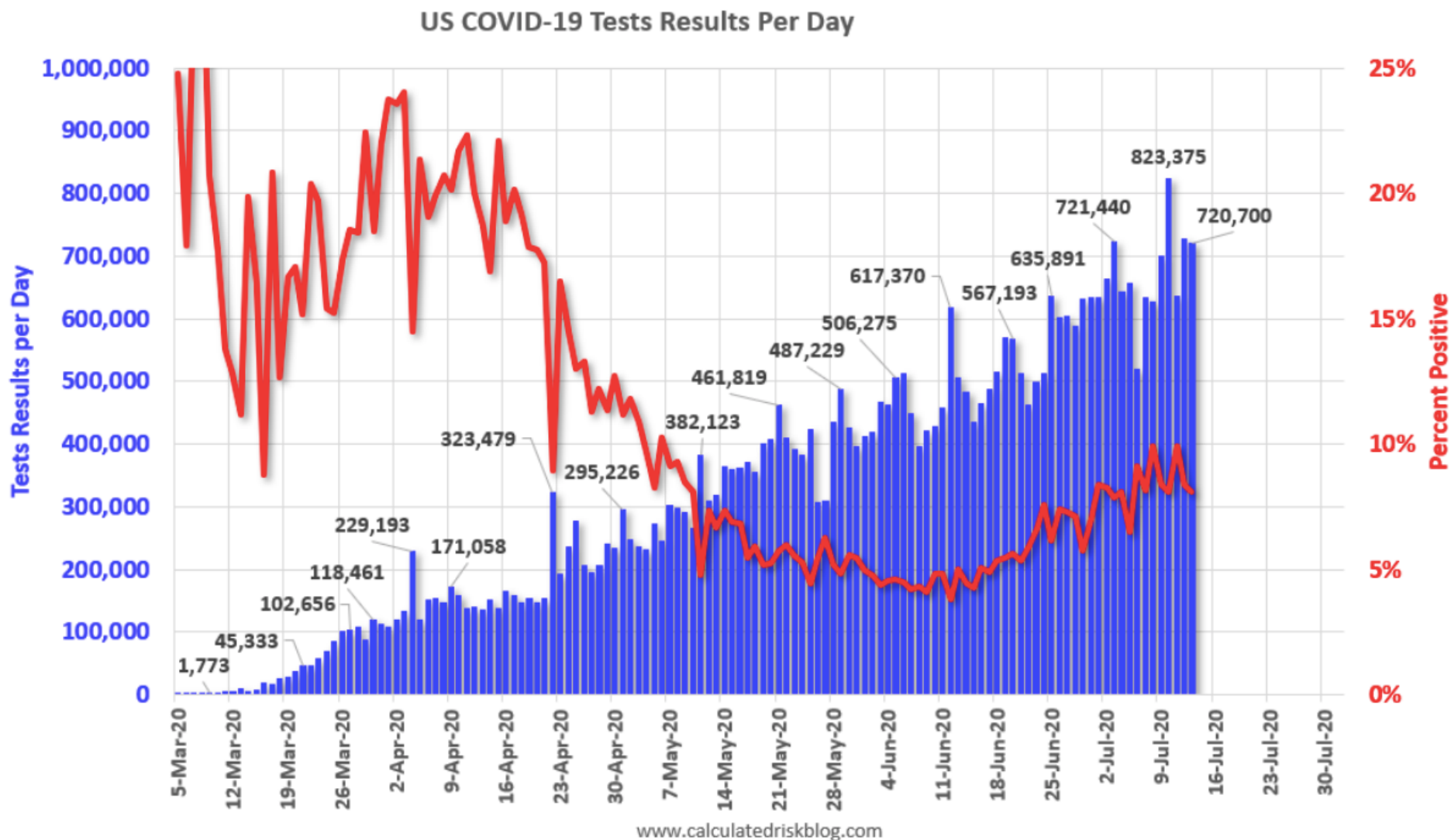
topdowncharts.com

Inflation is not on the horizon...

Inflation has two components: a) the printing of money **and b) the velocity or 'aggressiveness' of money** (M2, chart below). The trend of 'balance sheet repair' has continued since the Great Financial Crisis.

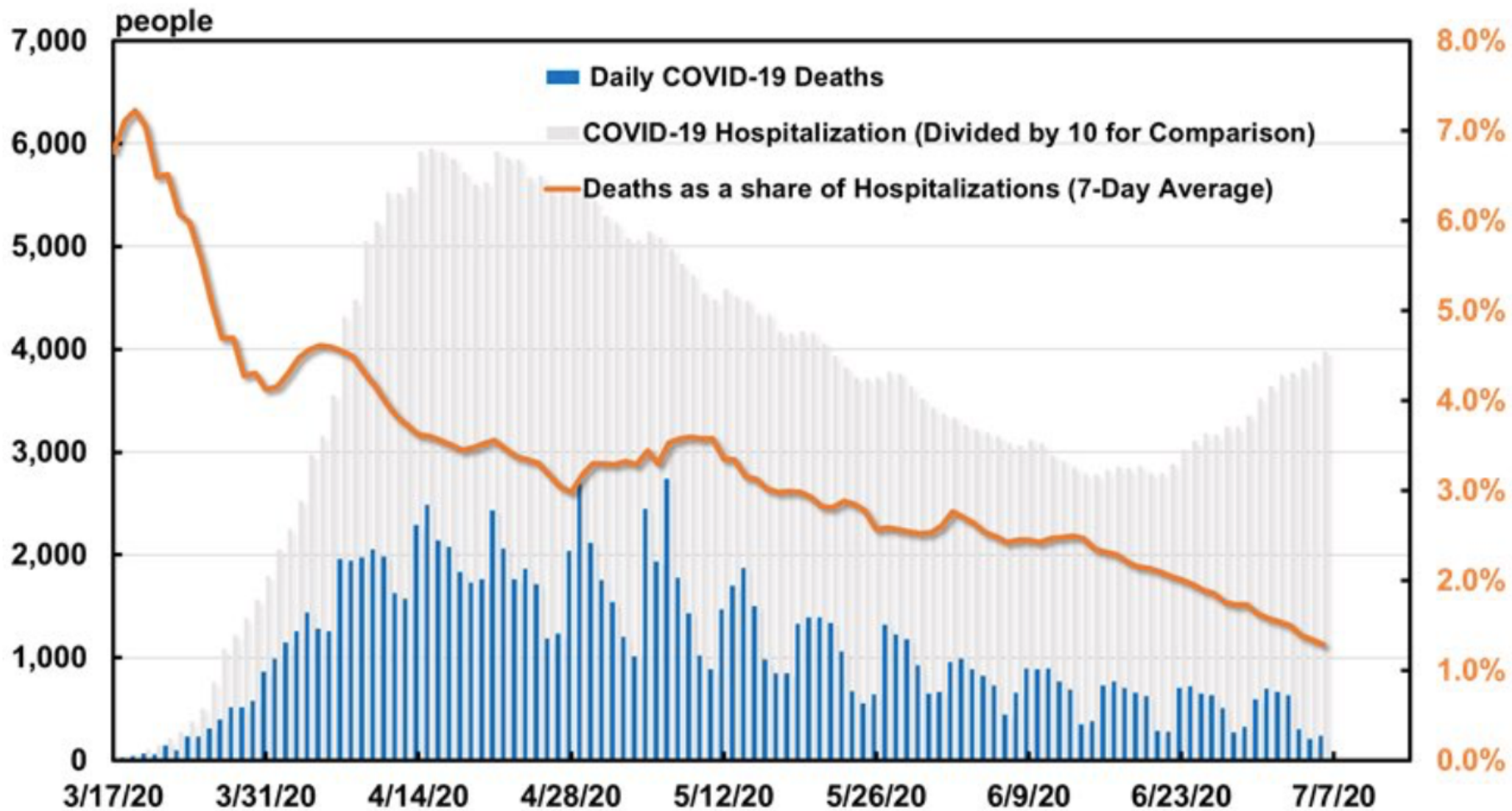


Case counts explode and a higher % are testing positive



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Hospitalizations climbing again, death rate holding steady



Surprising strength / pent-up demand...

- Mortgages
- Autos
- RV / recreation
- Clothing
- Cruise lines
- Flights

In 2019, an average of **2.4 million** people flew on a plane in the US.

On April 15, just **87,000 flew** (this was the low). Down 96% from 2019.

On July 12, **754,000 flew**. Down 68% from the prior year.

People are buying homes and vehicles aggressively...

DEMAND FOR HOMES AND NEW VEHICLES HAS FULLY RECOVERED

— Google searches for top five U.S. autos, market share-weighted (Left)

— MBA applications for new mortgages to finance home purchase (Right)



Source: Atlanta Fed

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Prices for used cars are higher than pre-COVID...



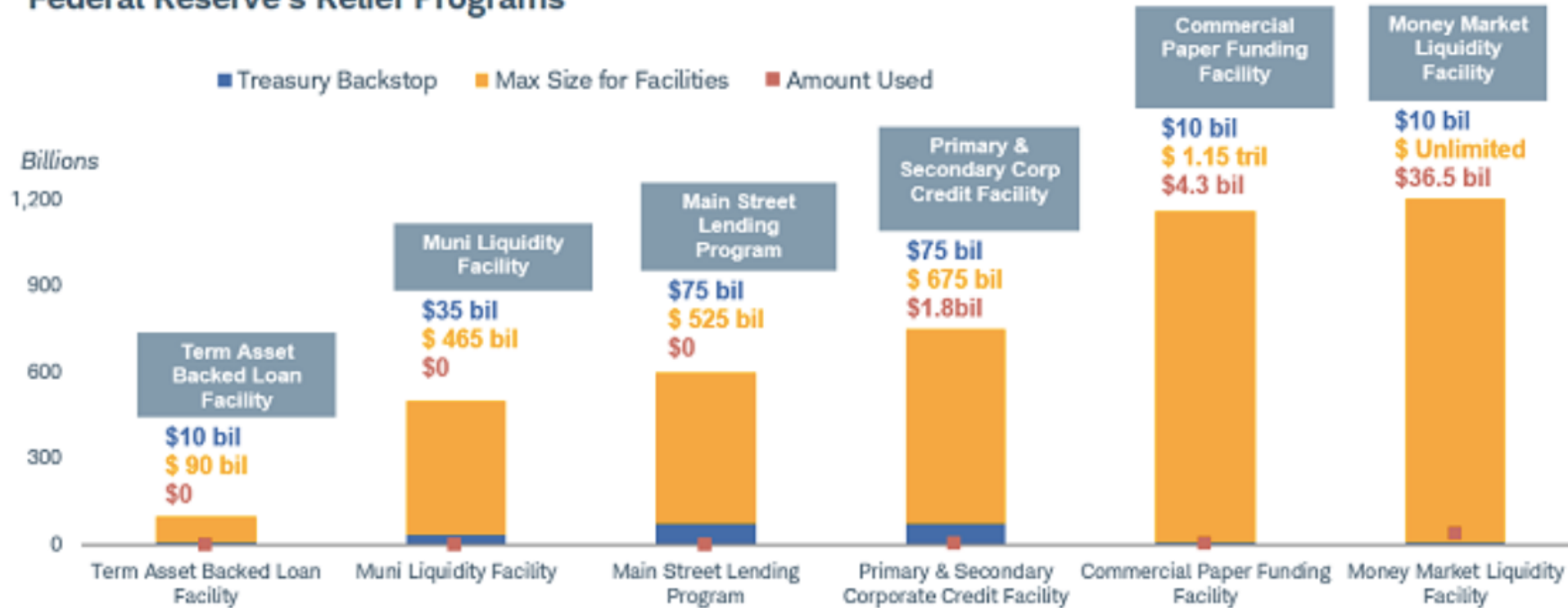
Source: Mannheim

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The FED has (many) more bullets...

Federal Reserve's Relief Programs

■ Treasury Backstop ■ Max Size for Facilities ■ Amount Used



Sources: Federal Reserve. H.4.1 Release showing the Treasury backstop, the maximum size, and amount shown on the Federal Reserve's balance sheet for the muni liquidity facility, the main street lending facility, the term asset backed loan facility, the primary and secondary credit facilities, the muni market liquidity facility, and the commercial paper funding facility. As of May 20, 2020.

Housing inventory still plummeting (good for prices?)...

U.S. Housing Inventory Continues to Drop Across Largest Metros



REDFIN - YoY % Change in Inventory (Median, 25th & 75th Percentiles)



Data Source: REDFIN <https://www.redfin.com/blog/data-center/> © 2020 Arbor Research & Trading, LLC. All Rights Reserved

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Markets typically bottom before the recession ends...

The market has bottomed an average of 5 months before the recession ends.

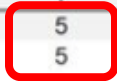
NBER Defined Recessions and Market Bottoms

Recession Start	Recession End	Length of Recession (Months)	Market Bottom	Market Bottom Before/After Recession Ends (Months)
February-45	October-45	8	3/26/1945	7
November-48	October-49	11	6/13/1949	4
July-53	May-54	10	9/14/1953	8
August-57	April-58	8	10/22/1957	6
April-60	February-61	10	10/25/1960	4
December-69	November-70	11	5/26/1970	6
November-73	March-75	16	10/3/1974	5
January-80	July-80	6	3/27/1980	4
July-81	November-82	16	8/12/1982	3
July-90	March-91	8	10/11/1990	5
March-01	November-01	8	10/9/2002	-11*
December-07	June-09	18	3/9/2009	3
March-20	?	1*	?	2
Average		11		5
Median		10		5

Source: LPL Research, NBER, Strategas 3/30/20

We are assuming the current recession started last month, although this isn't official yet

* The S&P 500 Index bottomed in October 2002, 11 months after the recession ended



Market strength typically begets – more strength...

Best Quarter For The S&P 500 Index Since 1998

Big Quarterly Gains Historically See Continued Strength

Quarter	Quarterly Gain >15%	Next Quarter	S&P 500 Index Return	
			Next Two Quarters	Next Four Quarters
Q3 1970	15.8%	9.3%	19.1%	16.8%
Q1 1975	21.6%	14.2%	0.6%	23.3%
Q4 1982	16.8%	8.8%	19.5%	17.3%
Q4 1985	16.0%	13.1%	18.7%	14.6%
Q1 1987	20.5%	4.2%	10.3%	-11.2%
Q2 1997	16.9%	7.0%	9.6%	28.1%
Q4 1998	20.9%	4.6%	11.7%	19.5%
Q2 2009	15.2%	15.0%	21.3%	12.1%
Q2 2020	20.0%	?	?	?
	Average	9.5%	13.9%	15.1%
	Median	9.0%	15.2%	17.0%
	% Positive	100.0%	100.0%	87.5%

Source: LPL Research, FactSet 06/30/2020 (1950 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Will markets tank if Dems sweep in November?

Should A Democratic Sweep Scare Markets? Probably Not

S&P 500 Index Returns When Democrats Control The White House and Congress

Year	President	S&P 500 Index Return
1951	Harry Truman	23.7%
1952	Harry Truman	18.2%
1961	John F. Kennedy	26.6%
1962	John F. Kennedy	-8.8%
1963	John F. Kennedy/Lyndon B. Johnson	22.6%
1964	Lyndon B. Johnson	16.4%
1965	Lyndon B. Johnson	12.4%
1966	Lyndon B. Johnson	-10.0%
1967	Lyndon B. Johnson	23.8%
1968	Lyndon B. Johnson	10.8%
1977	Jimmy Carter	-7.0%
1978	Jimmy Carter	6.5%
1979	Jimmy Carter	18.5%
1980	Jimmy Carter	31.7%
1993	Bill Clinton	10.0%
1994	Bill Clinton	1.3%
2009	Barrack Obama	25.9%
2010	Barrack Obama	14.8%
	Average	13.2%
	Median	15.6%
	% Positive	83.3%

Source: LPL Research, FactSet 07/14/2020 (1950 - Current)

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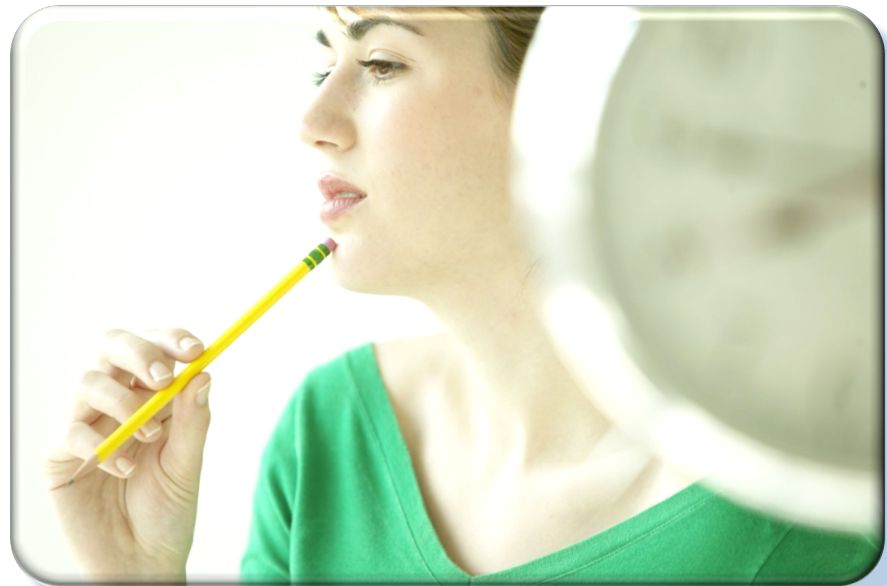
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Setting Your Goals



How SMART Are Your Goals?

- **S**pecific
- **M**easurable
- **A**ttainable
- **R**elevant
- **T**imely



Write down and prioritize your goals.

Budgeting

Income

1. Paycheck
2. Rental income
3. Government benefits
4. Interest
5. Investment income

– Expenses

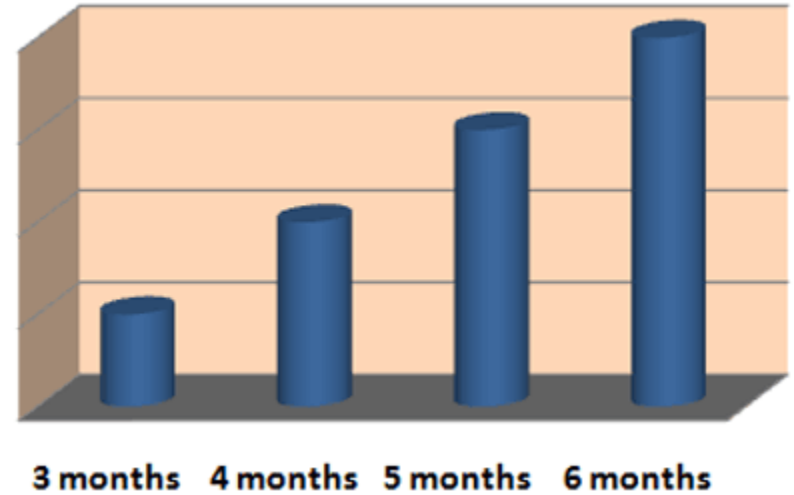
1. Fixed expenses
2. Discretionary expenses

= Surplus

Deficit



An Emergency Fund



Where you keep your emergency fund is important.



Risk Management with Insurance

Common types of insurance that help protect you and your assets from different risks:

- Health Insurance
- **Auto Insurance**
- Life Insurance
- Property Insurance
- Liability Insurance
- Disability Insurance
- Long-Term Care Insurance



Using Credit



“Remember that credit is money”

Benjamin Franklin

- The three C’s of credit
 - ✓ Capacity
 - ✓ Character
 - ✓ Collateral

- How creditors determine your creditworthiness
 - ✓ Credit application
 - ✓ Credit report
 - ✓ Credit score

Debt



- Using credit creates debt
- Types of debt
 - ✓ Secured
 - ✓ Unsecured
- Important considerations
 - ✓ Amount
 - ✓ Term
 - ✓ Rate

Thank you

Thank you

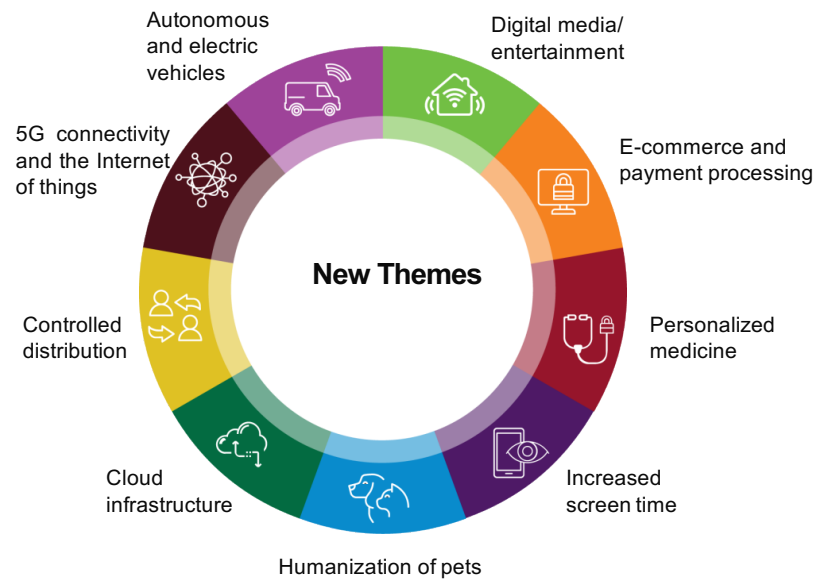
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- Additional Slides if needed

Investing for the new decade

- Seeking durable growth stocks that can outperform in a variety of economic environments
- Blending investment themes with deep fundamental research





THEME | STOCK

5G connectivity and the Internet of things

The rapid growth in connected devices and systems will drive carriers to invest rapidly in 5G networks.

American Tower (AMT)

This company rents space on towers and rooftop antennas to wireless carriers and broadcasters.



THEME | STOCK

Controlled distribution

An increasing number of retail brand owners are favoring direct distribution – selling on the websites or stores.

Lululemon Athletica (LULU)

Direct distribution. “Omni Guest Experience”



THEME | STOCK

Personalized medicine

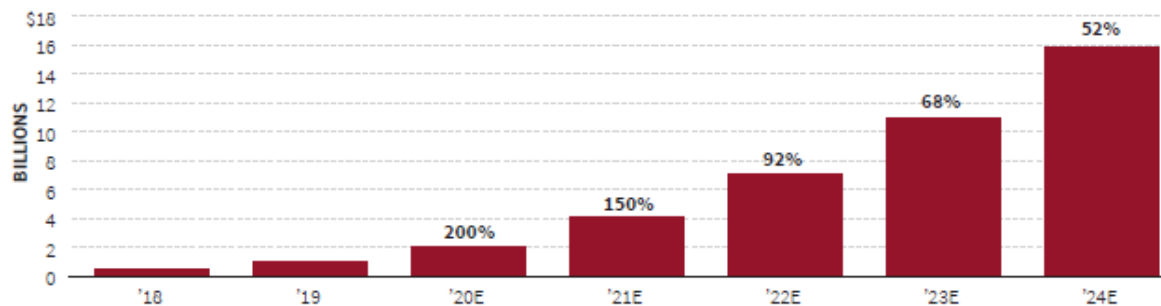
Very early stages of personalized medicine based upon the targeted DNA, RNA and genetic composition.

Lonza (LONN SW)

Manufactures small and large molecule therapies. LONN SW has contact with the CDMO – Contract development manufacturing organizations.

The commercial gene therapy market is growing rapidly

Compound annual growth rate





THEME | STOCK

Payment Process

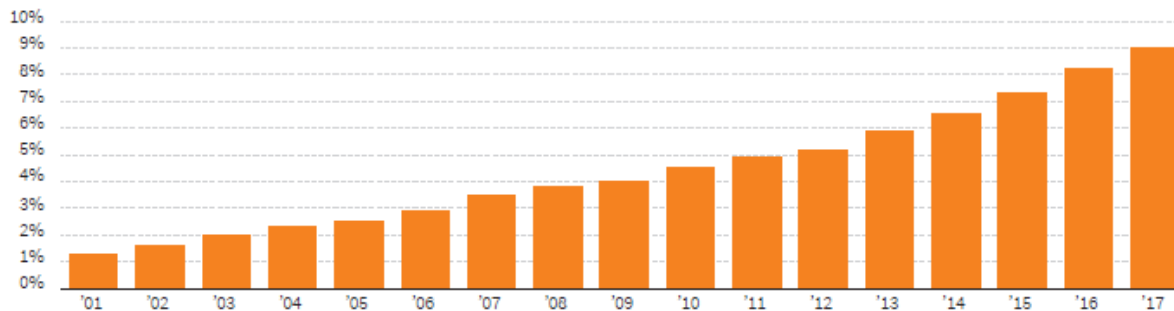
Peer to peer electronic money transfer have rapidly become much more common and accepted.

PayPal (PYPL)

PayPal has experience mid-teens year over year growth in active accounts.

E-commerce has grown much faster than traditional retail

E-commerce as a percentage of total U.S. retail spending



Eric Yuan



Eric Yuan,
CEO ZOOM



Born: 1970 (age 50 years)

Nationality: American

Net worth: US \$11.2 billion

Born in China's Shandong Province, Eric Yuan would often make a 10-hour journey to visit his girlfriend (now wife) as a college student. Wondering about alternate ways of communication, it was during one of those train rides that he conceived the initial idea that became the backbone of Zoom.

Determined to work in Silicon Valley, he chased his dreams to the US, but it took Yuan eight failed attempts before being granted his visa. There, he worked for WebEx, one of the first videocall products on the market. After WebEx was acquired by Cisco, Yuan continued to work on developing the video tool, but he later made the decision to leave the company and pursue his own aspirations. Yuan's determination to build a product that would be both fun and accessible to its users soon payed off, leading to the creation of Zoom, which is now worth over \$48 billion (£37.9 billion).