Condor Capital Reviews 2nd Quarter 2020

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Equity markets bounced back from a difficult start to the year to post the best quarter on record since 1998. In addition to the market rebound, key data such as retail sales and the unemployment rate showed improvement in the quarter as well.

Growth stocks continued to outperform relative to value, and small-caps as represented by the Russell 2000 outperformed both mid– and large-caps. Consumer discretionary, energy, and technology were standouts on a sector basis.

The 10-year Treasury yield finished the quarter at just 0.66% amid persistently accommodative monetary policies, and corporate bonds generally outperformed municipal debt.

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- Condor Capital Reviews 2Q 2020
- Retirement Is a Beginning
- Will You Avoid These Estate Planning Mistakes?
- Establishing Good Credit in College

Following a less-than-rosy start to the year, the second quarter of 2020 was marked by a strong rebound across financial markets. While the ongoing coronavirus pandemic, or COVID-19, was still present, certain parts of the country experienced a steady decline in positive case counts and began the early stages of their re-opening phases. This, along with society adjusting to the new normal under quarantine more generally, has led to the start of a reversal in the unemployment rate and a rise in U.S. retail sales. Domestic equities responded positively to this news, with the S&P 500 Index gaining 20.54% during the quarter – the best quarterly return on record since 1998.

Internationally, the rebound seen in domestic equities also played out in both developed and emerging market economies. While international developed economies tended to be structurally more adept at dealing with the spread of COVID-19 than their emerging peers, developing equity markets proved comparatively durable. In fact, the MSCI Emerging Market Index saw its best quarter in over a decade, returning 18.14% and outpacing the developed market composite's 15.15% gain.

The fixed income space continued to be guided by the Federal Reserve's accommodative policy measures and investor's desire for safe havens in a tumultuous equity market. With the Fed's discount rate now sitting at zero percent, Treasury yields remained at historically low levels, with the U.S. 10 Year Treasury Note ending the quarter yielding a measly 0.66%. Additionally, while the Fed signaled an unwillingness to push rates into negative territory, further monetary policies aimed at lessening the economic impact of COVID-19 were instituted to include the purchase of corporate bonds. As a result, both investment-grade and high-yield corporate bonds rallied through quarter end, outpacing municipal issues, which have lagged in part due to uncertainties over municipal revenue sources.

Outlook: Given that the stock market bottomed just one week prior to the first quarter's end on March 23rd, the second quarter is almost a perfect snapshot of the market recovery since that point. While this means that statistics like "the best quarter since 1998" are coming off of a notably low base, it is also an opportune reminder that short-term market volatility is inherently unpredictable and transitory. Making wholesale changes to a portfolio during these especially volatile times almost never pays off, as it causes you to both lock in losses and miss out on at least a portion of the recovery.

Still, with the world still largely on lockdown and the economy far from back to where it was six months ago, it is fair to ask what has driven such a robust comeback. As we noted last quarter, markets are forward looking, so the facts on the ground at this moment are not nearly as important as market participants' expectations for what the future holds. And the facts on the ground *have* improved in many ways. States are doing a better job of pinpointing high-risk areas and activities, hospitals and healthcare systems are no longer as overrun as they once were, and despite the lack of a knowable timeline, the private sector and various health organizations are coordinating well in their efforts to formulate a vaccine. Firms like Johnson & Johnson, Novavax, and Pfizer all have potential vaccines in Phase One clinical trials, while Moderna and AstraZeneca have prototypes entering Phase Two.

While the inherent trade-off between virus containment efforts and reduced economic growth will continue, there are early indications that certain sectors of the economy are on the rebound as well. To be sure, air traffic and seated diner data have yet to show significant improvements, and many small businesses and displaced employees are still out of work, but many trends are back to moving in the right direction. Mortgage applications, driving direction usage, and room occupancy rates in drive-to leisure markets have all strengthened notably over the past six to eight weeks. The unemployment rate, while still high, has fallen by over 3.5% since its high in April. And though GDP will decline significantly in 2020, estimates for 2021 have risen by over 15% since February as forecasters predict that delayed activity will come surging back following the inevitable reopening.

Finally, one factor that cannot be underestimated in this recovery is the unprecedented economic stimulus being provided by the Federal Reserve and federal government. The Fed's balance sheet, which had grown past $4 trillion this decade, is now forecast to approach $8 trillion by year-end. In addition to the money being pumped into the economy, the central bank is also lowering reserve requirements, establishing emergency lending facilities, and promoting liquidity in currency and credit markets more generally. Meanwhile, on the fiscal side, Congress has passed the CARES Act and numerous other pieces of legislation intended to provide economic relief with bipartisan support. Whereas monetary policies have stepped in to support financial markets, programs like the Paycheck Protection Program have simultaneously been put in place to come to the aid of small business. We expect support for these stimulative fiscal policies to continue.

With the pandemic ongoing, reopening efforts exhibiting mixed results, and an uncertain and divisive presidential election coming down the line, it would be premature to assume that we have seen the last of short-term volatility. Yet if the events of the second quarter teach us anything, it is that sentiments can improve and markets can rebound almost as quickly as they fall. As always, we will continue to monitor markets closely and work our hardest to ensure your portfolios are positioned appropriately for your long-term goals and objectives.

See disclaimer on final page

See if you are prepared to begin your retirement by answering four key questions.

Retirement Is a Beginning

How do you know you are psychologically ready to retire? As a start, ask yourself four questions.

One, is your work meaningful? If it is emotionally and psychologically fulfilling, if it gives you a strong sense of purpose and identity, there may be a voice inside your head telling you not to retire yet. You may want to listen to it.

It can be tempting to see retirement as a "finish line": no more long workdays, long commutes, or stressful deadlines. But it is really a starting line: the start of a new phase of life. Ideally, you cross the "finish line" knowing what comes next, what will be important to you in the future.

Two, do you value work or leisure more at this point in your life? If the answer is leisure, score one for retirement. If the answer is work, maybe you need a new job or a new way of working rather than an exit from your company or your profession.

An old saying says that retirement feels like "six Saturdays and a Sunday." Fantastic, right? It is, as long you don't miss Monday through Friday. Some people really enjoy their careers; you may be one of them.

Three, where do your friends come from? If very little of your social life involves the people you work with, then score another point for retirement. If your friends are mainly your coworkers, those friendships may be tested if you retire (and you may want to try to broaden your social circle for the future).

At a glance, it might seem that an enjoyable retirement requires just two things: sufficient income and sufficient return on your investments. These factors certainly promote a nice retirement, but there are also other important factors: your physical health, your mental health, your relationships with family and friends, your travels and adventures, and your outlets to express your creativity. Building a life away from work is a plus.

Four, what do you think your retirement will be like? If you think it will be spectacularly different from your current life, ask yourself if your expectations are realistic. If after further consideration they seem unrealistic, you may want to keep working for a while until you are in a better financial position to try and realize them or until your expectations shift.

Ideally, you retire when you are financially, emotionally, and psychologically ready. The era of the "organization man" retiring with a gold watch and a party at 65 is gone; the cultural forces that encouraged people to stop working at a certain age aren't as strong as they once were.

Why you are retiring is as important as when you choose to retire. When you are motivated to retire, you see retirement as a beginning rather than an end.

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Will You Avoid These Estate Planning Mistakes?

Too many wealthy households commit these common blunders.

Many people plan their estates diligently, with input from legal, tax, and financial professionals. Others plan earnestly but make mistakes that can potentially affect both the transfer and destiny of family wealth. Here are some common and not-so-common errors to avoid.

Doing it all yourself. While you could write your own will or create a will, it can be risky to do so. Sometimes simplicity has a price. Look at the example of Aretha Franklin. The "Queen of Soul's" estate, valued at $80 million, may be divided under a handwritten or "holographic" will. Her wills were discovered among her personal effects. Provided that the will can be authenticated, it will be probated under Michigan law, but such unwitnessed documents are not necessarily legally binding.[1]

Failing to update your will or trust after a life event. Relatively few estate plans are reviewed over time. Any major life event should prompt you to review your will, trust, or other estate planning documents. So should a major life event that affects one of your beneficiaries.

Appointing a co-trustee. Trust administration is not for everyone. Some people lack the interest, the time, or the understanding it requires, and others balk at the responsibility and potential liability involved. A co-trustee also introduces the potential for conflict.

Being too vague with your heirs about your estate plan. While you may not want to explicitly reveal who will get what prior to your passing, your heirs should understand the purpose and intentions at the heart of your estate planning. If you want to distribute more of your wealth to one child than another, write a letter to be presented after your death that explains your reasoning. Make a list of which heirs will receive collectibles or heirlooms. If your family has some issues, this may go a long way toward reducing squabbles as well as the possibility of legal costs eating up some of this-or-that heir's inheritance.

Leaving a trust unfunded (or underfunded). Through a simple, one-sentence title change, a married couple can fund a revocable trust with their primary residence. As an example, a couple can retitle their home from "Heather and Michael Smith, Joint Tenants with Rights of Survivorship" to "Heather and Michael Smith, Trustees of the Smith Revocable Trust dated (month)(day), (year)." They are free to retitle myriad other assets in the trust's name.[1]

Ignoring a caregiver with ulterior motives. Very few people consider this possibility when creating a will or trust, but it does happen. A caregiver harboring a hidden agenda may exploit a loved one to the point where they revise estate planning documents for the caregiver's financial benefit.

The best estate plans are clear in their language, clear in their intentions, and updated as life events demand. They are overseen through the years with care and scrutiny, reflecting the magnitude of the transfer of significant wealth.

Citations

1 – detroitnews.com/story/news/local/oakland-county/2019/05/20/lawyer-says-3-handwritten-wills-found-aretha-franklin-home/3747674002/ [5/20/19]

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Establishing Good Credit in College

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Good credit may open doors. It is vital to securing a loan, a business loan, or buying a home. When you establish and maintain good credit in college, you create a financial profile for yourself that can influence lenders, landlords, and potential employers.

Unfortunately, some college students do not have good credit. In fact, Credit Karma says that the average 18-to-24-year-old has a credit score of 630. A FICO score of 730 or higher is considered good.[1]

What are the steps toward a good credit score? To start, you need to utilize credit. About 15% of your credit score is built on the length of your credit history, so the sooner you purchase goods and services with a credit card and pay off that debt, the sooner you create a record of credit use.[1]

Aim to reduce the balance to $0 every month. Does this sound like a challenge? It may not be if you just use a credit card to purchase everyday things. When you start splurging with a credit card, paying off the balance in full can become a problem.[1]

Pay your credit card bill on time. Roughly 35% of your credit history develops from your pattern of payments: how on time they are, how late they are. One approach to consider is scheduling automated payments from your bank account, schedule reminders, or just try to pay the bill as soon as it arrives.[1]

Refrain from applying for 2-3 credit cards at once. About 10% of your credit score reflects your history of credit inquiries, so if you suddenly apply for another 2-3 cards, you could hurt your score.[1]

Another potentially bad move is jumping from card issuer to card issuer – that is, getting a card, then closing that credit card account and opening a new one after a few months because you find another credit card with better perks. In doing this, you end up giving yourself a shorter credit history per credit card account.[1]

What if you have problems getting a traditional card? If you have no income, you might run into this – or, there might be other reasons that make it hard for you to qualify for one. If this is the case, consider going to the bank or credit union where you have a savings account and applying for a secured credit card. With these types of cards, you transfer some money into an account linked to the use of the card, and that amount represents your credit card limit. You can also ask to become an authorized user on a credit card held by one or both of your parents.[1]

You can potentially help your credit score in other ways. Consistent bill paying is a plus for your credit history. If you do become an authorized user on a parent's credit card and they use credit responsibly, just being linked to that account history could help your credit rating. If you are living off campus, you might end up co-signing a lease so make certain you understand you and your roommates' financial obligations. Financially negligent ones could hurt your credit rating if, for example, you are sharing utilities costs. With financially trustworthy roommates, you may avoid that kind of credit score damage. Lastly, if you move while in college, be vigilant about having your bills forwarded to you, to avoid missing payments.[1]

Citations

1 - thesimpledollar.com/how-to-build-good-credit-in-college/ [10/22/19]

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