STATERA
ASSET MANAGEMENT

Commentary: July 2020

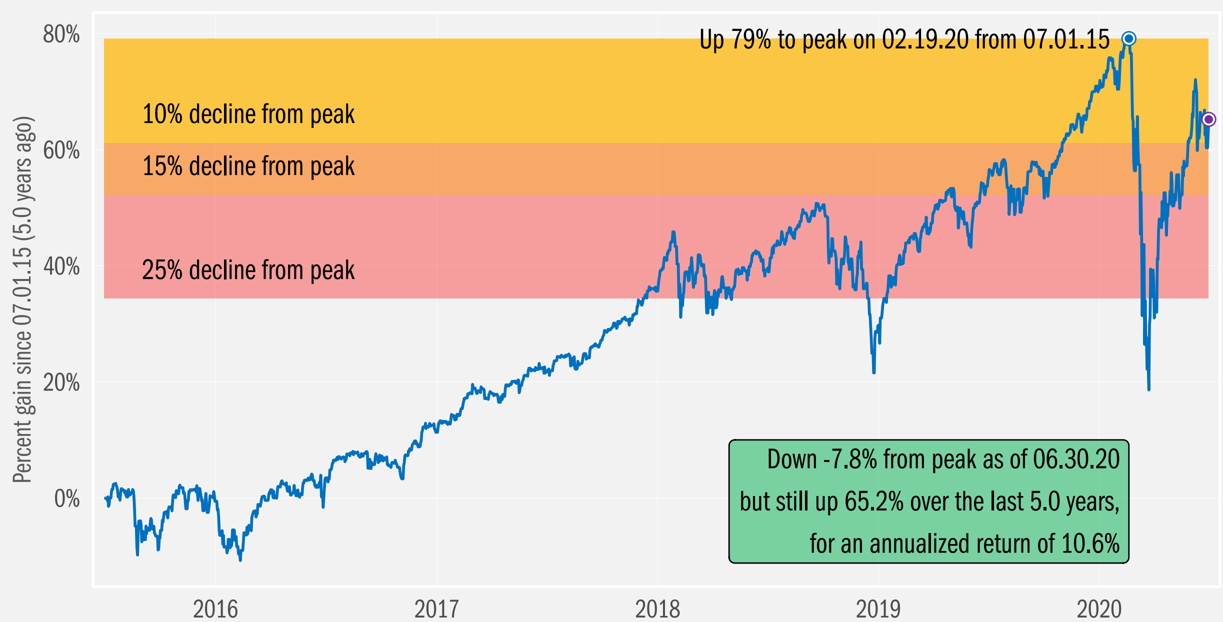
LAMENTING THE BOUNCE?

The U.S. equity market rests just under 8% from its February 19 peak. Cue worries that we've come too far, too fast. Near-term stock valuations may look extended as revenue and earnings sink. There's no end yet in sight for the pandemic, and U.S. elections are just around the corner. But, as the bulk of the premise for owning stocks is based on long-term future value creation. Specific winners and losers aside, we imagine the future no less obscure than it ever has been. While we suggest all investors regularly revisit risk tolerance in order to gauge comfort with market risk, perhaps most should seek to maintain that longer-term perspective we have found tends to lead to better investment outcomes.

On Approach to Peak...

Despite the ongoing health, societal and macroeconomic challenges that the COVID-19 outbreak has spawned, the equity market's substantial rebound from March lows suggests investors might have broadly discounted a quick recovery. If the recovery indeed proves reasonably full and sharp, then the rebound may be seen as justified. Could be so even if the recovery proves a bit less than entire and a bit more drawn out than expected. And that's because investors naturally—and justifiably—tend to train their sights on the longer-term future, the range of potential outcomes for which remains unchanged from pre-outbreak days.

Figure 1: S&P 500 Index Total Return



From 07.01.15 to 06.30.20. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

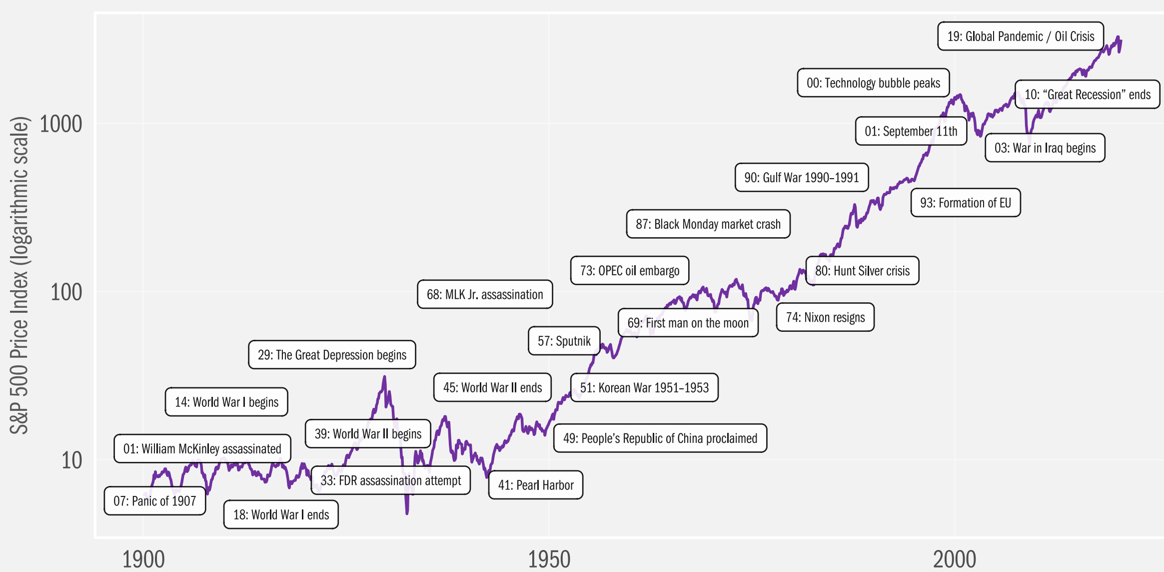
...Not to Normality

Such statements must come across as Pollyannaish and/or just dumb, we imagine. How can it be that the outbreak doesn't matter? The efforts of policies that seek to pursue a balance between public safety and fiscal security have seen some observable successes. But, growth in COVID-19 cases, the percentage of tests showing positive results and the number of hospitalizations all are surging along with attempts at reopening the world to social interaction and macroeconomic activity. And let's not forget that the U.S. presidential election is right around the corner. If polls of the recent past are any guide, the march toward November 3rd should prove a font of prompts for market volatility.

But, while there are myriad reasons for folks to worry about both trends, the longer-term outlook for investing shouldn't be one of them. We certainly can understand concerns regarding individual health, safety and employment. And we must continue to be cognizant of our collective social well-being. But, even a glance at Figure 2 shows we've experienced numerous global dislocations in the past, most likely having generated similar existential angst, and that that the market has recovered from each over time.

This history shows, too, that impetuous risk-off reactions to near-term events tend to prove detrimental to progress toward longer-term financial goals for those with investment time horizons sufficiently distant to allow them to persevere the interim market volatility. One need simply to accept that market instability is among the reasons we should expect any return at all on our investments. Many will try to time the ups and downs. But, selling out of the market is easy. It's the getting back in that's the tough part. Especially when the news remains ugly, much as it did throughout March and May and even still.

Figure 2: Market-Moving Events and Long-Term Performance



From 01.31.1900 to 07.01.2020. Events point to year, not specific date. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from various sources. S&P 500 Price Index data from Professor Robert J. Shiller of Yale University and Bloomberg

But, What's Forever Changed?

For those able to demonstrate an ability to time the markets in such ways, we're hiring! Actually…we're not looking for a market timer. And that's because we think it's foolish to promise such things even if there is a teeny chance that it's possible. Instead of thinking about how to time the coronavirus news cycle, we think a better question to ponder is what may forever have changed as a result of the outbreak. And we suggest pondering the question itself, not the answers you might surmise. Not to be too philosophical, we think the answer is both everything and nothing. The world ten or twenty years hence is likely to be remarkably different than the once in which we now live. Just as the turn of the millennium occurred in a world quite different than now. The future is thus likely to remain in a constant state of unknowable-in-advance flux, just as it always has. We believe that still will leave the best method of investing being one that pursues an allocation appropriate to a given comfort with market risk, with intentions focused on the longer-term potential outcomes of the approach.

Important Information

Statera Asset Management is a dba of Signature Resources Capital Management, LLC (SRCM), which is a Registered Investment Advisor. Registration of an investment adviser does not imply any specific level of skill or training. The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell any security or to participate in any trading strategy. Any decision to utilize the services described herein should be made after reviewing such definitive investment management agreement and SRCM's Form ADV Part 2A and 2Bs and conducting such due diligence as the client deems necessary and consulting the client's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of SRCM services. Any portfolio with SRCM involves significant risk, including a complete loss of capital. The applicable definitive investment management agreement and Form ADV Part 2 contains a more thorough discussion of risk and conflict, which should be carefully reviewed prior to making any investment decision. Please contact your investment adviser representative to obtain a copy of Form ADV Part 2. All data presented herein is unaudited, subject to revision by SRCM, and is provided solely as a guide to current expectations.

The opinions expressed herein are those of SRCM as of the date of writing and are subject to change. The material is based on SRCM proprietary research and analysis of global markets and investing. The information and/or analysis contained in this material have been compiled or arrived at from sources believed to be reliable, however SRCM does not make any representation as to their accuracy or completeness and does not accept liability for any loss arising from the use hereof. Some internally generated information may be considered theoretical in nature and is subject to inherent limitations associated thereby. Any market exposures referenced may or may not be represented in portfolios of clients of SRCM or its affiliates, and do not represent all securities purchased, sold or recommended for client accounts. The reader should not assume that any investments in market exposures identified or described were or will be profitable. The information in this material may contain projections or other forward-looking statements regarding future events, targets or expectations and are current as of the date indicated. There is no assurance that such events or targets will be achieved. Thus, potential outcomes may be significantly different. This material is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a solicitation or an offer, or a recommendation, to buy a security. Investors should consult with an advisor to determine the appropriate investment vehicle.

The S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Investing in any investment vehicle carries risk, including the possible loss of principal, and there can be no assurance that any investment strategy will provide positive performance over a period of time. The asset classes and/or investment strategies described in this publication may not be suitable for all investors. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon, tax liability and risk tolerance.

Publication: 07.02.20 2020-SRCM-64