Dear Friends and Clients,

In the spring of 1980, my wife and I were invited to join the Dean Witter Chairman's Club. I didn't know it existed the year before, but I was flattered and anxious to meet a cadre of my peers on a trip to Rome. As it turned out, I was the youngest in the group and maintained that distinction for a number of years. Management disguised the trip as an educational event and pursued that end by hosting daily seminars and lectures. Investing in foreign securities was new to me so I listened with great interest as experts from European banks and brokerages edified us on current trends from the "continent." During one of the Q&A sessions, one of the Dean Witter guys asked a speaker to name his favorite investment du jour (cute French expression). The answer was delivered without pause….I like the Deutschmark and the Swiss Franc. Not the kind of answer most of us were looking for.

Stocks, Bonds, Currencies and Commodities from an International Perspective…

Most of the members of the Chairman's Club were stock jockeys. I was a bond guy; my world was interest rates, and the equity types considered me a little odd. There was a sprinkling of commodity types but none of us had any real foreign exchange (FX) expertise. As time passed and more of these meetings were attended, I gained some familiarity with the FX markets, maybe Dean Witter's goal all along. It became clear that the short-term changes in FX prices were of just as much interest to international investors as earnings expectations were to an American stockbroker. While discussing these opportunities, it became clear to me that interest rate differentials were only a portion of the FX action. These markets were about economic trends, trade deficits, taxation, natural resources, and, of course, politics….all very "top down" data points. Participants needed to move without the ball and be open to forsaking high positive rate environments in favor of currency appreciation that occurred due to changes in the underlying economies. This was international finance lesson #1.

Interest rates peaked in 1981, somewhere in the 15% to 16% range, depending upon the investments you were using as a benchmark. Maturities, duration, and call features all made a big difference. By 1985, rates had dropped to single digits (8% to 9%). A weak U.S. economy had started to recover and by the 1990s was nothing short of vibrant. By the end of that decade, value stocks had given way to growth stocks and the dot com phase was underway. Combined appreciation and income generated by long-duration bonds hit mid-double digits. The markets were at least bifurcated, probably trifurcated. You could make money investing in domestic equities, developed global stocks, emerging market stocks and/or debt. Lesson #2, keep your head on a swivel.

Equity markets love low interest rates. Today, rates are historically low but by peer comparison U.S. rates are high--fractionally high but still high. Foreign investors, always open to the idea of holding their liquidity in the strongest currency available, will accept negative short-term fixed income returns when the prospects of FX differentials are high enough. By the same token, they are willing to invest in fully valued long-term stocks and bonds in order to lock in a currency exposure that they deem attractive. Currency differentials are like water trying to seek its own level…the big money is always on the water. In the meantime, there will be tradable events. At the current time, there are five countries where low inflation rates and an accommodative monetary policy supports negative to zero-percent interest rates: Switzerland (-0.75%), Denmark (-0.60%), Japan (-0.1%), Sweden (0%) and Spain (0%). The EU has a 0% rate, United Kingdom 0.1%, and the United States is at 0.25%.

You might also be aware that the world is currently experiencing a global pandemic and all these countries are leaning hard into that wind. Central banks around the world want to stabilize employment while stimulating their economies. If history is any guide, they will stimulate beyond necessity creating an inflationary environment which will have to be reigned in by slower growth and higher interest rates. No one seems to care about that right now as it is pedal to the metal. As you can see from our simple example, at 0.25%, the US offers international investors the world's largest most liquid currency at a very attractive (believe it or not) high rate of return.

Stocks, Bonds, Currencies and Commodities from a Domestic Perspective…

The mission here gets a bit myopic over time. We see "our" securities, denominated in "our" currency, trading at "our" historic metrics, organized in "our" portfolios. The rest of the world doesn't always see things that way. They see value where we don't appreciate and risks that we don't consider valid. As a result, "our" markets get more overbought than we would like until the healing tonic of correction causes them to become oversold. So, there are three common denominators here (dig it!). The rallies tend to be short and hard to trade. They tend to be separated by brief, impossible to predict corrections. The U.S. does not have the highest global rate structure, but our equities enjoy a tailwind from a strong economy, in a low rate environment. As Meatloaf taught us, "Two Out of Three Ain't Bad." The markets continue to move from lower left to upper right, and we "Like" equities.

Low interest rates coupled with low inflation creates a very favorable environment for stocks, so look for these conditions to persist. If events prove us wrong and the markets offer up a tradable correction, expect us to loss trade our portfolios, go to "Really Like," and encourage all of you to send more money. According to the Stock Trader's Almanac (a lot like the Farmer's Almanac), we are about to enter one of the most favorable seasons for the market. September is historically a down month. The five best months of the year are upon us: November, December, January, March and April. The historical average return on equities is figured several different ways, and the numbers are all over the place: anywhere from 9% to 13.5% for the S&P 500, depending on the time period. Since 10% is an easy number to grasp and at the lower end of this range, it's a good measuring stick. It is also a very high cost of funds if your designed equity exposure is not fully invested. Anyone with $100,000 in a money market account, earning essentially nothing, has a high cost of funds…do the math.

The World According to Pitt and Dan…

Third rock from the sun and the U.S. in particular has had an interesting 2020: coronavirus pandemic, West Coast fires, President impeached, stock market crashes in March, widespread civil unrest, alphabetical hurricanes, Greek hurricanes, passing of notorious RBG, football canceled, passing of Kobe Bryant, stock market rallies in April, President acquitted, Covid-19 deaths eclipse 200,000, President tests positive for Covid-19, and who knows what will happen during the last three months of the year. If you want out of the market because of a Biden victory, a Trump victory, the affects of global warming or social unrest…you're late. We "Like" equities and wish we had gone to "Really Like" a couple of years ago…oh, well.

During the fall and winter of 2019, we had the opportunity to expand our offices and jumped at the chance. You don't get the chance to buy the farm next door very often. Construction began in April 2020 and is inches away from completion as I write. We are delighted with the results and want nothing more than to host a party celebrating our new digs. As you know, the pandemic environment prevents that from happening. When the Department of Health and Human Services tells us it is okay to have a gathering of 100 or so, we will do just that. In the meantime, we are seeing more and more clients face-to-face without breaking the rules. Let us know if you will be in the neighborhood and we will be happy to safely show you around.

Year-end should be interesting. Chances for changes in the tax code will be high regardless of who is in the White House. The Unified Credit could be ripe for change, and market opportunities could expand with increased trade opportunities. It has been our experience that legislators are not against making changes like these retroactively. That means decisions made in 2021 could easily become effective as of 12/31/20. Let us know if you would like counsel on how these changes might affect your affairs.

This just in….

For the second year in a row, P&A has been included on the CNBC list of top 100 Financial Advisory Firms (https://www.cnbc.com/2020/10/06/fa-100-cnbc-ranks-the-top-rated-financial-advisory-firms-of-2020.html). Don't look now, but we're gaining on 'em. 71st in 2019 and 67th in 2020. We are flattered by this recognition, especially when CNBC and their data provider start with tens of thousands of RIA firms before whittling down to 100. For more about P&A making this list, check out the P&A Blog.

On behalf of the entire P&A team,

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