



Warren Financial
Investing for a Greater Purpose®



Q3 2020 Market Strategy

We believe individuals can make a difference. We open doors for our clients, connecting them to a new world of investment opportunities. Freeing the client to achieve their individual Greater Purpose.



Warren Financial wants to help our front-line heroes:

All Emergency Department doctoral residents who come forward and talk with Warren Financial will receive FREE debt counseling regarding how best to handle their medical school loans while at the same time looking forward to beginning their regular life, possibly with marriage/family and/or purchasing a home, while also balancing investing for the future. All services at no cost through September 30, 2021.

Please TELL someone you know who is an Emergency Department doctor in residency anywhere in the USA. We want to help them. We want to give back something to thank them for their service.

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Coronavirus Recovery

Get the latest updates fast,

Say, "Hey Siri, download the Warren Financial app"

We want to take time to thank our Doctors and Nurses at this time as they are on the front lines, fighting this pandemic – THANK YOU. Thank you for your tireless work to keep our communities safe and your willingness to risk your own health to help save others. May God bless you and keep you safe during these times.

At Warren Financial, we are healthy and working for you. We pray also that you, our clients, are healthy.

The Fastest Decline and the Fastest Recovery

Why? 2 word answer: "new, scary". The decline came in quickly like a summer storm. But the crisis was different than anything we had seen before. So investors hit the sell button and ran for the hills.

Clearly, hitting sell was the wrong thing to do. The market teaches investors "lessons". And if we don't learn them the first time, it keeps on repeating the lesson over and over until we get it. The lesson is that when something scary comes along, keep your feet. Stand strong. Don't panic. Look for opportunity. Rotate investments if necessary, but don't give up. Selling into a decline is surely the last thing you want. And, seemingly as always, the answer comes in the form of a well worn, time tested, adage: "Buy low. Sell high." To panic in the face of uncertainty means you are willing to sell low, which ensures you are losing money. No matter how hard it is to do, the adage is: "buy low, sell high".

Many "experts" have advised that the recovery has been too fast. The market doesn't have a strong footing for such a recovery. Earnings are not recovering, they are declining in many cases.

Basically, how can the market recover to such heights when the economy is in such a mess?"

There are several answers to this question, but perhaps the best answer is the most subtle one. First, the more technical answer:

- 1) The value of a stock to you the investor is: the combined expected cash flows from owning the stock. In school, they would teach as follows:

$$\text{ExpectedValue(stock)} = \text{CF1} + \text{CF2} + \text{CF3} + \text{CF4} + \text{CF5} + \dots$$

Where CF means "Cash Flow"

In other words the expected value is the cash flows in year 1 + year 2 + year 3 +

The cash flows from a stock are typically dividends and capital gains

When Covid hit, the CF1 became highly questionable, but CF2 is less questionable, and CF3, CF4, CF5, etc are all pretty normal.

So, just because the current year valuation is questionable doesn't mean the entire value of the corporation is questionable – in fact, just the opposite. And since most of the expected cash flows are in future years, it seems reasonable for the stock to stabilize. Corporate survivability comes into question for an airline, cruise ship enterprise, or other corporation whose entire business becomes in jeopardy.



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Full PPE:



2) Revenues and earnings support the cash flows mentioned above in #1. For example, it is expected that since much of Amazon's competition (in the form of small local businesses) is shut down, that Amazon's revenue and earnings will be even greater than expected over the long haul.

So, the bottom line is that we are not investing in mom and pop stores on main street, nor small one-off companies. The companies on the stock market are the biggest, best performing businesses in the world. While certainly "main street" continues to suffer, the big companies are benefitting.

That's why the stock market has recovered.

Here is our take from the Q1 2020 (March 31, 2020) newsletter. Seems about right.

January and February were nice months with economic activity expanding nicely. If January is a +3% GDP rate, and Feb is a +3% GDP rate, but March is a -20% GDP rate, when you average it all together, then this is called a recession. It seems like a bit of a "technicality" because the whole quarter was not negative. Next quarter, April will again be terrible, May and June may see recovery. When we add it all together, will April be bad enough to throw the entire quarter average into "recession"? Probably.

So, it seems like we will have a 2-3 month recession. Very strange and unprecedented. Nothing like a typical 9-18 month "business cycle" recession.

Stimulus In Effect (via Congress or the Federal Reserve)

1) CARES Act

- a. The Paycheck Protection Plan and the PPP Flexibility Act help small businesses to retain employees
- b. The CARES Act also provides for some retirement plan loan relief, waivers of early retirement account distribution taxes and no RMDs for 2020.

2) The \$2Trillion Coronavirus Stimulus Package provided

- a. Direct checks to every American within income limits
- b. Increased unemployment payouts
- c. Temporary mortgage relief and renter relief
- d. Food program relaxed rules

3) The \$3Trillion HEROES Act is not yet passed by Congress

- a. A second direct check to most Americans
- b. More mortgage relief
- c. Infrastructure spending

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The Warren Safer-Equity Fund

**2020 WSEF performance
is off to a good start.**

We are very happy with the performance of the Warren Safer Equity Fund.

While the year-to-date SP500 (SPY with div, after fees) remains negative for 2020, the year-to-date WSEF is positive. Please refer to our website for regulatory disclosures.

Do you have a friend?

We absolutely LOVE referrals. Our client base has been so good to Warren Financial and continues to make many new referrals. Thank you!

Find more strategy updates in the App and on our website under WF Video blog.

Here are some critical insights:

- 1) The news seems to be suggesting that the USA has a worse case of Coronavirus than other countries. Countering that thought is the reality that the USA is also doing vastly more testing than any other country. Regardless of how you feel about our President, he claimed that in the month of May alone, the USA did more Coronavirus testing than the entire rest of the world combined.
- 2) The stock market results from the rest of the world simply don't stack up to the US. As of mid-June, when the SP was down -5%, the average index for the rest of the world was down -17%. Only Taiwan was better at -4% (and they had little or no Coronavirus because they shut down all travel to/from China very early in the crisis).
- 3) So, if your friends are in the typical massively distributed investment plan that includes stocks and bonds from all over the globe – they may be underperforming your portfolio that is concentrated in the US. Bottom line: continue with the USA investment centric plan for the time being.
- 4) April was the best month ever for employment. It is often true that the best follows the worst.
- 5) Our portfolios are doing very well and we feel we have them positioned to take advantage of all the trends we are seeing. Big tech is winning, such as Microsoft and Amazon. New tech is also winning, such as Shopify and Zoom. Our conviction buy list produced by our internal Investment Committee (about 65 stocks) is performing quite well indeed.
- 6) Strategy around a repeat Covid: When a new, scary thing comes along, often the market sells off. Once it becomes known, the market response declines. Unless the response to Covid changes in some way to hurt the big companies (that have benefitted so much), then we should be able to shake off any repeat of Covid. Hopefully, no action needed, but we are always on alert.
- 7) Strategy around the election: We've been managing assets for longer than I care to recall, through many economic cycles, and many presidential cycles. Telling the future is a fool's game. Most of the time, elections are not a stock market event. Sometimes, there is some short-term volatility, like with the 2016 election when initially after the election the market was down 700 points overnight, but then rebounded and ended up the day after the election. There doesn't currently appear to be any obvious moves necessary, but we will stay alert for any developing trends in the market – and we will let politics be politics.

Community Involvement.

FYI, Randy is on the board of The Christian Academy (the high school he graduated from in 198x, notice I left out the last digit). This school is located in Brookhaven PA, right next to Chester, PA. When Randy graduated it was about 20% African American and 80% white. Today it is about 60% African American and 40% white. This provides Warren Financial an opportunity to mentor and setup scholarships.

Randy is on the board of the Chester County Historical Society – I highly recommend visiting if you have not been down to West Chester for a visit. The historical society is opening up brand new exhibits as soon as Covid wanes. Join today!!

Randy is on the West Chester University President's Advisory board and the West Chester Univ Foundation board. Another opportunity to mentor and provide scholarships.

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