Jamie A. Upson
President & CEO, *Stonehearth Capital Management*

2nd Quarter 2020

The chart above shows last quarter's performance for five products. The first four, VEA, SPY, BND and VWO, represent four major asset categories and AOR represents a moderate risk diversified portfolio. This chart provides a visual aid to help identify how major markets and a diversified portfolio performed last quarter.

The five products reported above include:

- **VEA, FTSE Developed Markets Vanguard:** This product represents the developed international equity/stock market.
- **SPY, S&P 500 SPDR:** This product represents the U.S. equity/stock market.
- **BND, Total Bond Market ETF Vanguard:** This product represents the U.S. bond market.
- **VWO, Emerging Markets ETF MCSI Vanguard:** This product represents the emerging equity/stock market.
- **AOR, Growth Allocation Ishares Core ETF:** This product represents a moderate-risk diversified portfolio. This product does not necessarily match how your diversified portfolio is allocated. You can find your allocation on the following report titled *Client Position Summary by Account*, top left, under *Asset Allocation*.

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I am happy to share with you some exciting news. The Stonehearth family grew in June as Amanda and her husband Justin had their first baby, Ava Marie Sylvia. Ava Marie and Mom are doing great!

In the first quarter (Q1) the US markets (represented by S&P 500 and SPY above) experienced the worst Q1 on record.[1] This past quarter (Q2) we witnessed the strongest rally since Q4 1998.[2] The last time we witnessed such volatile swings were back in 1932 & 1938 during the great depression.[3]

As you can see in the chart above all major asset categories performed well in Q2, led by SPY. Even bonds (BND) produced a respectable 4.14%. This is not a market for the faint of heart.

I've spoken with a lot of families over the last couple of months many of whom remain shocked at the market's rise over the last 3-months in the midst of a gripping recession. There are two reasons for this disconnect. First, markets usually reflect projected economic activity 6-12 months into the future. If markets are trending higher today, then the majority of investors believe the economy will be stronger in 6-12 months.

The second factor is the stimulus coming from the US Government. The Federal Reserve and the US Treasury acted quickly and decisively to help offset the economic shutdown. Investor confidence grew as fears of a prolonged recession receded. So far, the Government's efforts have worked. There is a saying in our industry, "don't fight the fed" because they print the money. The hope is that when it comes time to unravel the stimulus that the economy will be strong enough to stand on its own two feet. I'm not a big fan of the phrase "this time is different" because when we have the luxury of hindsight, we find that most times it is not. This is the largest stimulus plan we have ever seen so we are in uncharted territory. There will likely be consequences but there is no way to know what they are, or their magnitude, in advance.

As if COVID-19 were not enough, we are also quickly approaching the Presidential election. Something that is getting more attention is Vice President Biden's goal to raise corporate tax rates from 21% to 28% (formerly 35% prior to President Trump's tax cuts in 2017). The stock market rallied as a result of Trump's tax cuts so I think any rate increases will likely present headwinds for the markets going forward. Stay tuned.

Hedging Protocol (Risk Management Tool)

Our hedging protocol looks at 49 different indicators that have been selected based on their historical track record at identifying market risk (*past performance is not indicative of future results*). Thirty-four of these indicators come from Ned Davis Research (NDR), an independent research group, and the remaining 15 were chosen by SCM's Investment Committee to complement NDR's indicators. Together they provide us the ability to observe risk as it unfolds to help us determine if trades are needed to manage risk within our clients' diversified portfolios.

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[1] Ned Davis Research, 7/1/2020 "Stocks bounced back in Q2"
[2] Ned Davis Research, 7/1/2020 "Stocks bounced back in Q2"
[3] 7/1/2020, 6:55 am tweet @sentimentrader

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As the indicators improved in Q2 we added stock/equity exposure to each of our risk profile portfolios. Conservative was increased by 6% (from 18% to 24% of portfolio), moderate by 10% (from 37% to 47% of portfolio) and aggressive by 15% (from 59% to 74% of portfolio).

We continue to monitor each of the indicators for guidance on how much risk we should be taking within each risk profile. We will be sure to let you know if/when we make changes to our hedged exposure, but for the time being, we are happy with how we have portfolios positioned.

Please join us for our CIO's Corner, Quarterly Update Webinar with Chief Investment Officer, Chris Gauthier, CFA

- Tuesday, July 21st starting at 12:00 pm EST
- Register now at www.stonehearthcapital.com