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2020 – It was a marketer’s dream. Prior to this year when someone said “2020” you thought 20/20, vision, clarity, sight, etc. Companies, including ours, adjusted messaging at the turn of 2019 to start this year with images of foresight and wisdom provided by clear vision...2020. Well things started to get cloudy in March and by April most people’s vision had become occluded. We are headed down the homestretch of the most fascinating year of my lifetime, and while much has changed, our focus on helping clients reach their goals has not wavered. It’s been challenged and stretched but our vision in 2020 is the same as it was in years prior and will continue to be in years to come...” to provide comprehensive solutions and personal service in pursuit of a secure financial future.” Thank you for trusting us to help make your vision become a reality.

Stay Healthy. Stay Safe. Stay Positive.

Michael Joyce

President, Private Wealth Advisors

## INVESTMENT MANAGEMENT



### ***The Two Handed Economist*** ***(Our apologies Mr. President)***

I’m a sucker for Presidential history. This is especially true in an election year. Last week, I briefly pondered blowing the dust off of my copy of David McCullough’s biography on Harry Truman. Then the reality set in that it is nearly 1,000 pages and that I am the parent of two small children. Oh well, next election cycle perhaps. For those who haven’t read the book, it’s safe to say that Truman was one of our more colorful (and quotable) residents of 1600 Pennsylvania Avenue. The owner of the iconic desk plaque that read “The buck stops here” was also famous for quips such as “Always be sincere, even if you don’t mean it” and “You want a friend in Washington? Get a dog.” I wonder what he would have thought about Twitter. There’s a story involving Truman and a discussion he was having with one of his economic advisors. The President apparently felt that he was not receiving enough clear direction on the particular issue they were discussing. Truman, growing frustrated with his advisor’s “on the one hand, this” but “on the other hand, that” approach is reported to have snapped “Can’t someone bring me a one-handed economist?” The quote could be apocryphal but the message is clear. While I think we can all appreciate the desire for

perfect clarity, we should remember that there are always competing narratives and differing interpretations of data that investors must weigh as they navigate uncertainty and risk. This is especially true in 2020.

The recovery that began in the second quarter continued in July and August, but the markets lost steam after hitting fresh highs in early September. Reopening efforts, low interest rates and the dual prospects of a vaccine and improved corporate earnings in 2021 helped the S&P 500 and the NASDAQ post double-digit gains between July 1st and August 31st. In September, the markets experienced the first correction of this young bull market as investors digested rising cases of covid-19, stretched valuations in the face of potentially slower growth and enhanced political gridlock punctuated by the approach of the November elections.

As the Fed stated in their September meeting minutes, the path of the economy will depend significantly on the course of the virus and there are risks to the downside and the upside. On the one hand, the US did experience a rise in reported cases of covid in the third quarter. The economy has not yet fully reopened and it is likely that any hit to personal income from increasing layoffs and the lack of additional fiscal stimulus will weigh on consumer spending and corporate earnings. On the other hand, mortality rates have come down compared to earlier in the year and the likelihood of another complete shutdown seems low. Additionally, it appears we are moving closer to a vaccine at some point next year as there are currently 11 candidates in phase-three trials. The combination of post-election stimulus as well as the approval and widespread availability of a vaccine will go a long way in supporting the recovery in the labor market and the broader economy.

Attributing sharp market movements to a particular cause can be difficult at times but one of the criticisms of this market recovery has been its narrowness. Concerns about the sustainability of high valuations in those sectors and companies most tied to growth during the height of the pandemic (technology, communication services and consumer discretionary) may have contributed to September’s decline. The technology sector in particular sold off rather strongly, declining by over 7%. With the Fed’s recent shift to targeting maximum employment versus full employment as well as their move toward targeting average inflation of 2% over time, they are sending a strong signal that policy will remain very accommodative for a very long time which should keep borrowing rates lower for longer and serve as a tailwind for the equity markets. On the one hand, sharp pullbacks and rebounds can be uncomfortable to sit through but on the other hand, we think the backdrop remains supportive for stocks and pullbacks present the opportunity to invest for our clients at lower

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prices or rebalance back to target equity weights.

The upcoming elections are also a source of uncertainty. This may be the reason why there has been a rise in the implied future volatility of the S&P 500 recently. On the one hand, we understand why this is contributing to nervousness in the minds of our clients. Even though this is an exercise, we embark on every four years this election is occurring against the backdrop of a pandemic. Of course, just to add a little 2020 flavor to the mix, there is the possibility of not having a clear winner when we wake up on November 4th. Oh, and we learned that the President himself is battling covid. How's that for an October surprise? On the other hand, it is important to keep in mind a couple of points. The first is that national polls and betting markets have been reflecting an advantage for former Vice President Biden for many months and the equity markets have been positive. Second, since 1960 there have been 15 presidential elections. A look at the post-election performance for the S&P beginning one day after each of those elections reveals that the index has been positive 10 out of 15 times (67%) three months after the election and positive 11 out of 15 instances (nearly 75%) six months after the election. In the midst of uncertainty there can be a desire to move to cash and wait for bluer skies. We would not advocate abandoning the plan you worked with your Private Wealth Advisor team to create and implement. While elections can contribute to short-term volatility their impact over the longer term is fairly muted because the outlook for corporate profits is a more meaningful driver of equity market returns than election results.

Close:

On the one hand, the trajectory of covid-19, its interconnectedness with the health of the economy and election uncertainty do present downside risks and make the short-term outlook a little foggy. On the other hand, the economy is healing, monetary policy remains accommodative and, over the long-term, equity markets will take their cues from the outlook for corporate profits and reward investors who stay the course. Given how the first nine months of 2020 have played out, we have some sympathy for the two-handed economist. Our apologies Mr. President.

Lee Shirley



## WEALTH MANAGEMENT



### *Understanding Your Story*

"If I had an hour to solve a problem and my life depended on the solution, I would spend the first 55 minutes determining the proper question to ask, for once I know the proper question, I could solve the problem in less than five minutes." - Albert Einstein

Here is some inside information about your First Merchants Private Wealth Advisors team that will not get anyone into hot water. Before any person on our team meets with you, we plan. We take time to think about the questions we should be asking based on previous conversations or where we believe we need to gain more information. This is all in an effort to orchestrate a comprehensive plan based on your life goals and making them a reality. Members of your relationship team and internal partners who may offer expertise that could benefit you, but perhaps you have not yet met, come together beforehand to make sure we are asking the best questions each and every time we meet with you.

The idea is to engage on a level that helps us understand your assumptions, values and beliefs all of which drive your goals and ultimately, gives us the direction to ensure you have the financial wherewithal to achieve them. When done well and with sincere motivation, questions which may provoke thought or even trigger doubt, lead to better outcomes for your life and your heirs. There is a financial connection to every life event. As our lives change, and inevitably will, it is up to your team of advisors to engage with you to determine how to best position or reposition your overall financial situation.

Here is a little more inside information to demonstrate how good questions can lead to better conversations, planning and ultimate success. There is a strong likelihood that at some point during conversations with an advisor you may have been asked "what keeps you up at night?" It is a good question and provides insight into what matters most to you. However, another meaningful and possibly more thought-provoking question may be "how will your family manage if something were to happen to you and/or your spouse?" If you are a business owner, a meaningful question may be "who will make important decisions for the company if unexpectedly, you are unable to do so?" Delving into how you picture your future and the circumstances which could change that picture, whether for better or worse, leads to meaningful conversations that result in better solutions for you, your family, and your heirs.

Consideration of how your family will manage if something happens to you and/or your spouse could lead to a realization that while your accumulated assets may appear to be ample or even plentiful, in the event of a medical or other difficult situation, liquidity may be a challenge. Or perhaps, if elevated levels of care are needed, what appears to be sufficient funds, may in fact fall short. If funds are not readily available to address a need, there are strategies and solutions your team of advisors can provide to make sure you are able to cover expenses either in the short run or for the long term. To protect and ensure continuity of your business, you may wish to explore options should those who you expect to step in to manage your business choose not to do so or are unable. There may be other planning options which could ensure you and your company have a strategy to fund buyouts, maintain operations and provide stability for customers and employees.

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Yes, these questions are personal and often difficult. We are sensitive to our clients' desire to discuss or raise certain matters. We understand that being your central source for financial advice is predicated on mutual trust, appropriate timing and other considerations. That is why we plan before each conversation. We must be ready to address or anticipate important circumstances and ask questions in a way that is in synch with you. Your life is a series of events which impact and build on each other. Each conversation you have with your Private Wealth Advisors team will feel connected to the last. We take our lead from you by listening carefully and pinpointing areas which may need to be changed or perhaps have not yet been addressed. We believe the best way to serve you is by understanding your story and providing strategic advice and solutions which take into consideration your entire financial picture. Asking good questions can lead to changing your story for the better. We plan so your plan will be successful not just at a certain point in your future, but along the way as well.

Audrey Mistor



## PRIVATE BANKING



### *Meaningful Relationships*

With full disclosure, I come to you in this writing at the conclusion of the week that brought us the “debate” and a COVID positive in the White House. As we all absorb the seemingly endless journey to the other side of what has become 2020, there can exist a very real effort to dig deep down and stay positive as well as an essential need to pick each other up along the way. For me, I look to my Dad as my model of inspiration, who lost much too early into his retirement 16 years ago. Yet, he always remains thankful and has much gratitude for the rich life he has in the meaningful relationships that surround him. Thank you, Dad.

My banking career has largely been dedicated to Private Banking and developing meaningful relationships with the many clients whom we serve. I most often liken the profession of a private banker not as a job but rather as a lifestyle, with blurry lines that separate work and personal between ourselves and our clients. With that mindset, this year in particular has only sharpened and brought into focus the importance of those blurry lines and the need for meaningful relationships between our private banking team and you. The richness of this relationship extends well beyond numbers on a balance sheet. Rather, it's knowing that we

are there for you in times when perhaps there really isn't a banking “need” and a simple wellness check-in provides comfort and assurances your Bank and banker cares. It's knowing that in times when a banking need arises you know who to call, assured in advance with a confidence you will receive a warm and knowing response in return. Ultimately, you know that your private banker knows how to, and wants to solve, your needs. Our solutions are many, most often not limited to a product off the shelf, because they are tailored to you. Our private banking team and I welcome the next conversation with you - to listen and hear how you are doing and how we can serve you. Thank you for welcoming the blurry lines.

Best wishes to you and your families in the upcoming Holidays. Stay healthy and safe.

Nancy Leming



*“As the adage goes, clients do not care how much you know until they know how much you care. And more than the reward of effective expertise, it is the strength of the relationships we have with our clients that brings us charging through the door each day.”*

- Michael Joyce,

President, Private Wealth Advisors

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## RETIREMENT PLAN



### Stay the Course

Ever heard the term “dollar cost averaging”? What does the concept mean to you? In the retirement planning world, this is how you ensure that you aren’t trying to time the market with making payroll deduction contributions. Keeping your contributions steady is a great way to smooth out the ups and downs in the market. Staying invested based on your long term goals is another. Trying to time when to be in the markets and when to pull out can be a very costly mistake if you guess wrong. For example, the last quarter of 2018 saw the S & P 500 index drop 13.55%. If that drop in such a short period of time made you nervous and motivated you to move your investments from an equity environment to a safe haven of money market investments, the next question is, “When do you go back into the market?” Human nature takes over and tells you to “wait until the market turns around” then jump back in. By waiting for the market to recover also means missing out on some very big up days in the market, which can make a huge difference in your portfolio’s returns over a period of time.

Here’s how a \$10,000 initial investment fared over the past 20 years depending on if its investor stayed invested or instead, missed some of the market’s best days.

January 4, 1999 to December 31, 2018	Dollar Value	Annualized Performance
Fully invested (S&P 500 index)	\$29,845	5.62%
Missed 10 best days	\$14,895	2.01%
Missed 20 best days	\$9,359	-.33%
Missed 30 best days	\$6,213	-2.35%
Missed 40 best days	\$4,241	-4.2%
Missed 50 best days	\$2,985	-5.87%
Missed 60 best days	\$2,144	-7.41%

SOURCE: JP MORGAN

So the moral of the story is; keep your payroll-by-payroll contributions consistent through good market movements and through not so good times. And stay the course with your investments, keeping your eye on the big picture and not the day to day movements in the market.

If you have any questions or would like to talk to one of our retirement plan team members, the Retirement Specialists at First Merchants Private Wealth Advisors are here to help:

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