INVESTMENT UPDATE

Saltmarsh
Financial Advisors, LLC
AN AFFILIATE OF SALTMARSH, CLEAVELAND & GUND

3rd Quarter 2020

Dear clients,

In the aftermath of recent tropical weather, we want to offer our thoughts and prayers to our clients, friends and families impacted by Hurricane Sally. Please know that we are here for you in these difficult times.

Your friends,
Saltmarsh Financial Advisors

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Join Us for a "Elections, Politics, and the Stock Market" Webinar

The coronavirus pandemic certainly dominates the news cycle, but investors are also seeking to understand how the upcoming election might impact the market and their investments. We're excited to offer the opportunity to address concerns on the political landscape, upcoming election, and market volatility with Apollo D. Lupescu, PhD and Vice President at Dimensional Fund Advisors, one of the largest and most reputable investment managers in the country.

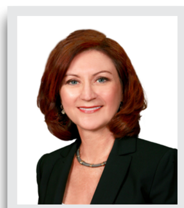
Dr. Lupescu will examine the market returns during election years, performance under different political administrations, and provide perspectives on why we observe these results. While the implications associated with elections will be the central topic, the discussion will not be political in nature and will not endorse or reject any ideological views.

Thursday, October 8th
2:00-3:00 pm CST/3:00 -4:00 pm EST

Please RSVP to Nancy Patton at nancy.patton@saltmarshcpa.com or (800) 477-7458.

ABOUT THE SPEAKER | Apollo D. Lupescu, PhD

Apollo is a Vice President at Dimensional Fund Advisors, where he started in 2004 after finishing his PhD in economics and finance at the University of California, Santa Barbara. During his tenure at the firm, Apollo has gained experience in a wide variety of practical subject matters. He is currently Dimensional's "secretary of explaining stuff." In this role, he frequently presents around the country and the world at financial advisor professional conferences and individual investor events. Prior to joining Dimensional, Apollo had his own consulting firm, which provided services to the US Department of State and the White House on a variety of projects.



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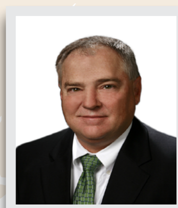

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Value Investing

by David Booth, Executive Chairman and Founder of Dimensional Fund Advisors | August 26, 2020

Booth has won numerous awards for his accomplishments in applying financial theory to the practical world of asset management, particularly for his pioneering work in indexing and small cap investing.

If studying financial markets for 50 years teaches you anything, it's to keep things in perspective.

During times of great uncertainty, like we're experiencing now, investors may feel tempted to project today's headlines forward or forget the useful lessons we've learned from the past.
I've been thinking about this a lot lately in the context of the growth vs. value stock debate.

Too often, news headlines distract us from taking the long view. They create a sense of urgency around what's happening in the market right now. But we have nearly a century's worth of data, and decades of financial science, to look to for guidance. That evidence reveals many investment lessons. For example, over long periods of time, stocks have generally outperformed bonds. This makes sense when you think about it. Stocks are riskier than bonds, so you expect to earn a premium return.

Most investors are probably familiar with this so-called equity premium, but they may be less familiar with the market's size and value premiums. The same basic logic applies, and the same record backs them up. Historically, the stocks of smaller companies have outperformed those of larger companies. And relatively inexpensive stocks have outperformed more expensive stocks.

There's solid theory behind thinking about investments in this way, but the premiums don't necessarily show up every day. In fact, there can be long stretches when they don't—stretches that can test the faith of investors.

I haven't met many people who expect stocks to return less than US Treasury bills. And yet back when we started Dimensional Fund Advisors in the early 1980s, we found ourselves at the end of a 14-year period where T-bills actually outperformed the stock market. I remember a cover of Businessweek magazine proclaiming "The Death of Equities." People then were saying the stock market would never be positive again. Of course, investors have since experienced one of the longest bull market runs in history.

We're experiencing a similar historical variance right now with value stocks. Over the past decade, growth stocks have largely outperformed value stocks. But it's important to keep things in perspective. According to Dimensional's research, while value's performance in the US from 2009–2019 was in line with its historical average (12.9% vs. 12.7%), growth significantly exceeded its historical average (16.3% vs. 9.7%). In other words, value has performed similarly to how it has behaved historically—it's growth that's been the outlier, performing better than expected. Financial science suggests you should enjoy these unexpectedly good returns, but don't count on them repeating.

In my view, the rationale for investing in value stocks is as strong as ever: The less you pay for a stock, the higher your expected return. This is simple algebra. Still, some people are questioning whether the value premium has somehow disappeared. If value investing no longer worked, we'd have to throw out our economic textbooks and develop a new algebra.

I'm often asked what investors can do during times like these. The key to capturing any premium is to maintain consistent exposure to it. While we understand that the value premium may not show up every day, every year, or even every decade, sticking with value stocks can help you capture that premium over time.

No one can predict when premiums will show up, but we know they can show up quickly. In fact, some of the weakest periods for value stocks compared with growth stocks have been followed by some of the strongest. On March 31, 2000, growth stocks had outperformed value stocks in the US over the prior year, prior five years, prior 10 years, and prior 15 years, according to research conducted by our firm. As of March 31, 2001—one year and one market swing later—value stocks had regained the advantage in each of those time periods.

Why such a dramatic swing? It's human behavior to stick with what's working, and during periods when growth stocks are outperforming, many investors keep piling into those stocks. But many long-term investors think of it another way: The expected return on relatively cheap stocks is getting higher, which means more opportunity. As I like to say, value stocks are crouching lower now so they can spring up higher later.

Over half a century of observing markets, time and again I've seen that returns come in spurts. That's why getting into and out of the market repeatedly is such a bad idea—you're too likely to get caught on the wrong side of your decision. You can't time returns. And you can't predict them. To capture the historical premiums, you have to stay disciplined.

My long career in finance has taught me that there's great value in keeping perspective, which includes keeping perspective on value. As my friend Robert Novy-Marx says, "I wake up every day expecting to see the value premium." I, too, wake up every day expecting value stocks to deliver higher returns for investors. Time has only strengthened that conviction.

Originally published in *MarketWatch*. This material is in relation to the US market and contains analysis specific to the US.

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Is the Stock Market Divorced From Reality?

by Weston Wellington, Vice President of Dimensional Fund Advisors | September 10, 2020

Wellington is one of Dimensional Fund Advisors' market research experts. He works closely with financial advisors in the US, Canada, Europe, and Australia.

I have been sheltering in place on a former dairy farm in rural New Hampshire—surrounded by more Scotch Highland cattle than people—and relying on my iPhone and Microsoft Surface Pro to keep in touch with the office via email and Zoom video. I haven't sat in a restaurant in six months, so my dining out costs are close to zero while my grocery bill is sharply higher. I venture out every 10 days or so to stock up on supplies (Hannaford supermarket, Walmart, Tractor Supply, Home Depot) and order frequently online. Judging by the traffic on my dead-end dirt road, I'm not the only one whose habits have changed. It's only a small exaggeration to say every third vehicle going up or down the hill is a FedEx or UPS truck making another delivery, most likely from Amazon.

For many of us, the daily routine has changed dramatically from a year ago. This writer is no exception. I customarily travel extensively for business, with well over 100 airline flights and dozens of hotel stays over the course of a year. Since March 18, the number is zero on both counts, and the near future offers little reason to expect any change. With this shifting landscape in mind, it shouldn't be surprising that some companies have prospered during this upheaval while others—especially travel-related firms—have struggled. From its record high on February 19, 2020 the S&P 500 Index[1] fell 33.79% in less than 5 weeks as the news headlines grew more and more disturbing. But the recovery was swift as well: from its low on March 23, the S&P 500 Index jumped 17.57% in just 3 trading sessions, one of the fastest snapbacks ever among 18 severe bear markets since 1896. As of August 18, 2020 the S&P 500 Index had recovered all of its losses and notched a new record high.

Many individuals are puzzled by this turn of events. For those under the age of 75, the news headlines are likely the grimmest in memory: Millions have found themselves suddenly unemployed, and storied firms such as Brooks Brothers, Neiman Marcus, and JC Penney have entered bankruptcy proceedings.

How can stock prices flirt with new highs while the news is so discouraging? One financial columnist recently observed that the stock market "looks increasingly divorced from economic reality."[2]

IS IT? LET'S DIG A LITTLE DEEPER

The stock market is a mechanism for aggregating opinions from millions of global investors and reflecting them in prices they are willing to accept when buying or selling fractional ownership of a company. Share prices represent a claim on earnings and dividends off into perpetuity—current prices incorporate not only an assessment of recent events but also those in the distant future. In some sense, the stock market has always been "divorced from reality" since its job is not to report today's temperature but what investors think it will be next year and the year after that and the year after that and so on.

Moreover, the universe of stocks does not march in lockstep. At any point in time, some firms are prospering while others are floundering. This year's wrenching economic turmoil has inflicted great hardship on some firms while opening up new opportunities for others. Based on this admittedly abbreviated list, it appears the stock market is doing just what we would expect—reflecting new information in stock prices.

No one could have predicted the tumult we have seen this year in financial markets. But investors would do well to focus on what hasn't changed.

1. Markets are forward-looking, so focusing on today's economic data is akin to looking at the rearview mirror rather than the road ahead.
2. Broad diversification makes it more likely that investors capture market returns that are there for the taking—including companies that do far better than expected.
3. Since news is unpredictable, a strategy designed to weather both expected and unexpected events will likely prove less stressful and easier to stick with.

Bottom line: read the newspaper to be an informed citizen, not for advice on how to navigate the financial markets.

Company	Total Return YTD August 17, 2020
Boston Beer (Angry Orchard cider)	120.99%
Amazon.com	72.22%
Tractor Supply (new wheels for log splitter)	65.45%
Apple	57.19%
Clorox	50.26%
Netflix	49.07%
United Parcel Service (first name basis with driver)	39.79%
Microsoft (Surface Pro 4)	34.07%
Home Depot (barn light fixtures)	33.71%
Ahold Delhaize NV (Hannaford Supermarkets)	29.01%
Walmart	15.60%
Alphabet (Class A) (Google)	13.20%
S&P 500 Index	**5.95%**
Starbucks	−8.80%
Walt Disney	−10.55%
General Motors	−16.97%
American Express	−20.57%
JPMorgan Chase	−26.54%
ExxonMobil	−35.54%
Marriott Intl.	−36.54%
United Airlines	−60.95%
Carnival Corp. (cruise lines)	−70.78%

Past performance is not a guarantee of future results. Source: Bloomberg. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. All figures are in US dollars unless otherwise noted.

1. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.
2. Matt Phillips, "Repeat After Me: The Markets Are Not the Economy," New York Times, May 10, 2020.

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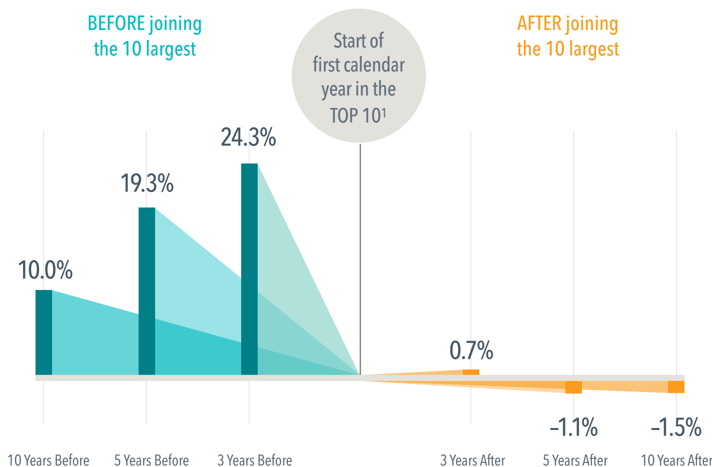
Why Investors Might Think Twice About Chasing the Biggest Stocks

by from Dimensional Fund Advisors | September 21, 2020

AVERAGE ANNUALIZED OUTPERFORMANCE OF COMPANIES BEFORE AND AFTER THE FIRST YEAR THEY BECAME ONE OF 10 LARGEST IN US

(Compared to Fama/French Total US Market Research Index ,1927–2019)



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As companies grow to become some of the largest firms trading on the US stock market, the returns that push them there can be impressive. But not long after joining the Top 10 largest by market cap, these stocks, on average, lagged the market.

- From 1927 to 2019, the average annualized return for these stocks over the three years prior to joining the Top 10 was nearly 25% higher than the market. In the three years after, the edge was less than 1%.[2]
- Five years after joining the Top 10, these stocks were, on average, underperforming the market—a stark turnaround from their earlier advantage. The gap was even wider 10 years out.
- Intel is an illustrative example. The technology giant posted average annualized excess returns of 29% in the 10 years before the year it ascended to the Top 10 but, in the next decade, underperformed the broad market by nearly 6% per year. Similarly, the annualized excess return of Google five years before it hit the Top 10 dropped by about half in the five years after it joined the list.

Expectations about a firm's prospects are reflected in its current stock price. Positive news might lead to additional price appreciation, but those unexpected changes are not predictable.

1. Ten largest companies by market capitalization.
2. Returns are measured as of start of first calendar year after a stock joins Top 10.