

June 2020

# THE EDUCATED INVESTOR

A GUIDE TO RETIREMENT PLANNING

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## The Great Disconnect: the Markets & the Economy

### Key Takeaways

- The recent stock market rally has left many investors scratching their heads on what is driving the rally in the midst of terrible economic data.
- Resilience from a narrow group of mega cap technology and healthcare names have been the salvation of the recent rally.
- Massive stimulus and a concentrated rally have made it harder to read what's going on in the stock market, partially answering the question of how the stock market appears to have become so unhinged from the real economy.

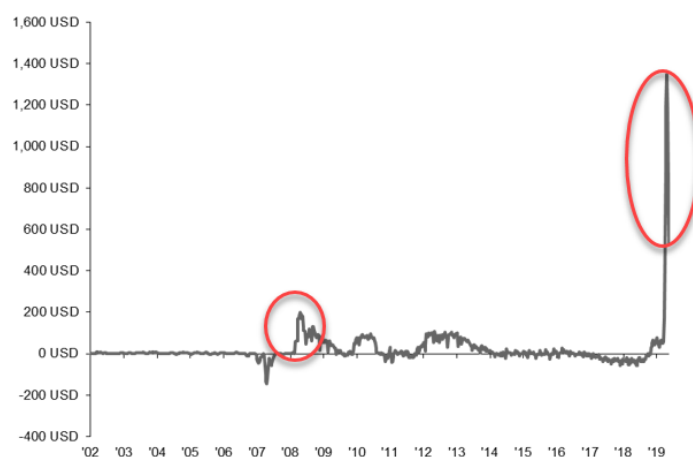
Over the past few weeks investors have likely struggled to reconcile a rallying stock market and a stumbling economy. Since the lows on March 23, 2020, the S&P 500 has rallied over 28%<sup>1</sup> through May 15, 2020 reducing the year to date losses to -10.7%<sup>2</sup> despite record unemployment of 14.7%<sup>3</sup>.

### What is driving the recovery in stocks?

A key driver in the market recovery has likely been the unprecedented level of monetary and fiscal support for the economy. In terms of monetary stimulus, in a short time period, the Federal Reserve (the "Fed") cut rates to zero. It also announced unlimited asset

purchases and established several lending facilities. These comprehensive actions have been aimed at alleviating liquidity pressures in the financial system and broadly supporting the flow of credit. Clearly, the Fed is not messing around this time after learning the lessons of the Great Recession — that is—to go big and go bold. The chart from J.P. Morgan<sup>4</sup> shows how the scale of recent Fed support through bond purchases dwarfs the response during the Financial Crisis.

Federal Reserve Bond Purchase Program (Billions)



Source: J.P. Morgan



## What do we know about the rally?

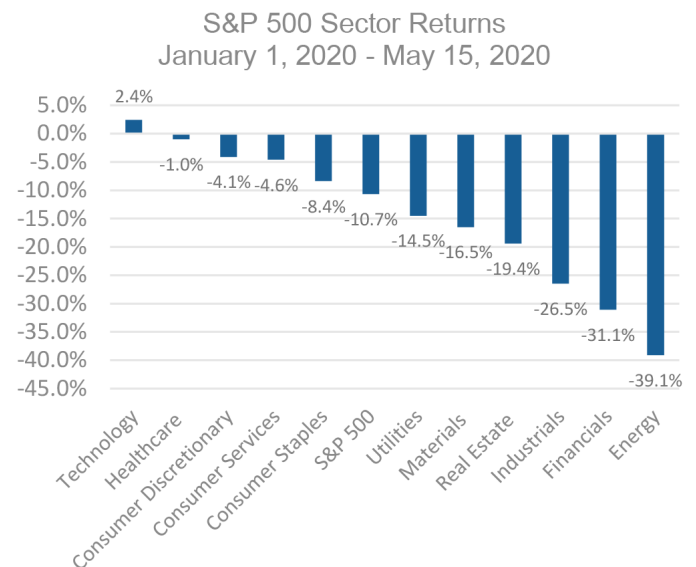
The headline stock market returns alone does not paint the full picture, which is, not all stocks have participated in the rally. The stock market recovery has been led by a narrow group of winners within the technology and healthcare sector. Technology and healthcare sectors alone make up nearly 41% of the S&P 500 index market cap<sup>5</sup> (dollar market value).

Within the technology sector, five companies Microsoft, Apple, Amazon, Alphabet (Google's parent company) and Facebook have driven nearly 22%<sup>6</sup> of the rally from the March lows through May 15th, 2020. These companies have certainly benefited from many people sheltering at home, spending time on social media and ordering goods online. Not only have the five biggest stocks helped power the market higher, they alone represent roughly a 20%<sup>7</sup> share of S&P 500 market capitalization continuing a trend that was prevalent during the nearly 11-year bull market.

Research by Ned Davis shows this is especially the case now that the Microsoft, Apple and Amazon alone account for 9% of the All Country World Index (ACWI), a global equity market cap that exceeds the percentage for every country outside of the U.S. For reference, the U.S. accounts for 58% of the ACWI weight while Japan's weight is a distant second at 7%<sup>8</sup>.

Looking at the year-to-date S&P 500 sector returns

through May 15, 2020 further highlights the uneven nature of the rally<sup>9</sup>. Energy, despite being the worst performing sector for the year, only makes a small dent in the returns because it represents a mere 2.8%<sup>10</sup> of the S&P 500 index. This is seen by the difference in the S&P 500 equal weight index, which uses the same stocks as the cap weighted S&P 500 but is allocated a fixed weight, is down -20.3%<sup>11</sup> year to date in comparison to -10.7% for the market cap weighted S&P 500. In other words, the rally from the select mega-cap growth stocks in technology and healthcare, which make up the majority of the index, are masking the pain continued to be felt by a large segment of the companies in the S&P 500 index as seen by the sector performance for the year.



Source: Morningstar

## What does this mean for investors?

Given the Fed support and the concentrated rally, it has been harder to read what's going on in the market, partially answering the question of how the stock market could become so unhinged from the real economy. Following a bear market low, it is not unusual for a relatively small group of stocks to lead the S&P 500 out of the trenches. As the market continues to work through the uncertainties in the COVID-19 crisis, it is likely to include more volatility. Going forward, we

will need clarity on the containment of the virus and a successful strategy to reopen the economy to drive broader participation from a wide range of stocks and sectors.

In the meantime, it is important investors maintain diversity in their portfolios. Diversification across asset classes as well as within equities is the most prudent way to manage portfolio risk over the long term, as it tends to lower volatility and reduces the likelihood that any one stock or a small group of stocks can severely damage overall portfolio returns.

<sup>1</sup>FactSet, Data as of 3/23/2020- 5/15/2020

<sup>2</sup>Morningstar, Data as of 1/1/2020-5/15/2020

<sup>3</sup><https://data.bls.gov/timeseries/LNS14000000>

<sup>4</sup><https://am.jpmorgan.com/us/en/asset-management/gim/adv/has-the-fed-done-enough>

<sup>5</sup>FactSet, Data as of 5/15/2020

<sup>6</sup>FactSet, Data as of 3/23/2020- 5/15/2020

<sup>7</sup>FactSet, Data as of 5/15/2020

<sup>8</sup>Ned Davis Research: [https://www.ndr.com/invest/products/INF20\\_17.PDF?card=3&source=WKLYCRH\\_EST202005011.HTML&downloadType=EL](https://www.ndr.com/invest/products/INF20_17.PDF?card=3&source=WKLYCRH_EST202005011.HTML&downloadType=EL)

<sup>9</sup>Morningstar, Data as of 1/1/2020-5/15/2020

<sup>10</sup>FactSet, Data as of 5/15/2020

<sup>11</sup>FactSet, Data from 1/1/2020-5/15/2020

AssetMark, Inc. 1655 Grant Street 10th Floor  
Concord, CA 94520-2445  
800-664-5345

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## Governor Cuomo rings bell as NYSE floor reopens with new restrictions

The trading floor of the New York Stock Exchange reopened for the first time in two months with New York Gov. Andrew Cuomo ringing the iconic bell, but the controlled chaos was more subdued Tuesday under new pandemic rules.



The floor, known worldwide for an anarchic atmosphere with traders shouting orders over one another, has been closed since mid-March due to the coronavirus outbreak. The NYSE says fewer traders will be on

the floor at a given time for now in order to support six-foot social distancing requirements. They also must wear masks.



Anyone entering the Exchange at 11 Wall Street is also being asked to avoid public transportation, and they will have their temperature taken before entry, said Stacey Cunningham, president of the NYSE.

Designated market makers, which oversee the trading of the NYSE's 2,200 listed companies, will continue to do so remotely and electronically as they have been since March 23.

Governor Cuomo rings bell as NYSE floor reopens with new restrictions

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Source: <https://www.nbcnews.com/health/health-news/live-blog/2020-05-26-coronavirus-news-n1214521/ncrd1214696#liveBlogHeader>



# | Householder Group Office Safety during Covid-19

Our offices are adapting to ensure we create a safe environment for those of you who wish to physically visit our offices. Some steps we are taking are the following:

1. Increased sanitation in public areas
2. Limiting the amount of individuals on the premises
3. Providing hand sanitizer stations and disposable gloves
4. Sanitizing writing instruments
5. Requesting that any individual who is under the weather refrain from entering the premises



Our Financial Professionals will continue to offer virtual meetings and the ability to electronically sign most documents. If you are a Financial Planning client, we now have the ability for you to pay for your financial plan with credit card or ACH through a secure vendor.

We look forward to accommodating you and your families during this time.

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## June Special Days & Holidays (National Annuity Awareness Month)

**1st-** Global Day of Parents

**5th-** World Environment Day

**12th-** Red Rose Day

**14th-** Flag Day

**15th-** Worldwide Day of Giving

**18th-** Go Fishing Day

**21st-** Father's Day &

First Day of Summer

**27th-** Celebrate your Marriage Day

**28th-** Insurance Awareness Day

**29th-** Great American Picnic Day

**30th-** FAFSA deadline



# Bahama Mama Cupcakes



## What's in Season for June?



**Blackberries**

Artichokes  
Asparagus  
Avocados  
Bananas  
Beets  
Blueberries  
Bok Choy  
Broccoli  
Carrots  
Cauliflower  
Celery



**Corn**

Cherries  
Cucumbers  
Grapes  
Green Beans  
Greens  
Leeks  
Lemons/Limes  
Mango  
Mushrooms  
Okra  
Papaya



**Melons**

Peas  
Pineapple  
Potatoes  
Raspberries  
Stone Fruit  
Strawberries  
Summer Squash  
Tomatoes  
Vidalia Onions  
Zucchini

## INGREDIENTS:

### FOR THE CUPCAKES

- 1 box vanilla cake mix
- 1 (12-oz.) can Sprite, at room temperature
- 1 tsp. orange zest
- 3 tbsp. shredded coconut, toasted

### FOR THE FROSTING

- 1 c. (2 sticks) butter, softened
- 5 c. powdered sugar
- 2 tbsp. pineapple juice
- 1 tbsp. white rum
- Orange wedges, for garnish
- Maraschino cherries, for garnish
- Paper umbrellas

**SERVINGS: 18**

**Time: 70 Minutes**

## INSTRUCTIONS:

1. Preheat oven to 350° and line two cupcake pans with 18 cupcake liners. Stir cake mix with Sprite and orange zest until thoroughly combined. Fold in toasted coconut. Divide batter between liners and bake according to package instructions. Let cool completely before frosting.
2. Make rum frosting: In a large bowl, beat together butter, half the powdered sugar, pineapple juice, and rum. Add the rest of the powdered sugar and beat until fluffy.
3. Pipe cooled cupcakes with rum frosting then garnish with orange wedges, maraschino cherries, and cocktail umbrellas.

Sources: <https://www.delish.com/cooking/recipe-ideas/a19487384/bahama-mama-cupcakes-recipe/>; Produceforkids.com



# The Sudoku Section



5	7	6				9		
			2				1	
8			7			6	5	3
1			9		2		6	
		2			6	3		
			5			7	9	
2	6		1				3	
	9	3						

9	8	2	6	3	4	5	1	7
5	7	1	8	2	6	3	9	4
9	3	4	7	5	1	8	6	2
2	9	7	3	1	5	4	8	6
1	4	3	6	7	8	2	5	9
8	6	5	2	4	9	7	3	1
3	5	9	4	9	7	1	2	8
7	1	8	5	6	2	9	4	3
4	2	6	1	8	3	9	7	5

*The answers*



Source: [www.printmysudoku.com](http://www.printmysudoku.com)