MONTAG

Viewpoints

SECOND QUARTER 2020

"Obviously, we need to readjust to in-office meetings."

Inside This Issue

MONTAG *Viewpoints* is published quarterly by MONTAG Wealth
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July 1, 2020

WELCOME TO OUR WFH WORLD — *Ned Montag*

As I write this welcome message, MONTAG is in its 16th week of WFH mode (Work From Home). The last time my colleagues and I enjoyed a "normal" day in the office was Friday, March 13th. That weekend, my brother John and I activated our firm's Business Continuity Plan – a plan which had been long on the shelf, but had been re-visited and revised as recently as the week prior.

From WFH day one, MONTAG staff have started every business day with morning "check in" calls via the Zoom communication platform. Like many around the world I suspect, our Zoom skills have improved over the weeks and months. Other meetings, like research or client meetings, have continued to take place – but not in person during this age of "social distancing".

The surprise? How well it is all working. Thanks to smart implementation of technology, thoughtful planning, and a dose of good luck to be sure, MONTAG is weathering the Covid-19 storm.

Our clients, and the important relationships we enjoy with you, are more important to us than ever before. There is a "new normal" future in store for us all on the other side of this pandemic. We look forward to discovering it together, and we wish you health and safety in the meanwhile. M

MARKET OBSERVATIONS: Where is my money safe? — *Chris Guinther*

By March 26th, the S&P 500 Index had declined nearly 35%, but by the end of June, it was only down about 3% year to date as investors began to anticipate a rebound in employment and spending in the back half of the year. All things considered, the second quarter had a sharp move higher in most asset prices and helped investors' portfolio values tremendously. The second quarter saw the DJIA up 18.5%, the S&P 500 up 20.5%, and the NASDAQ up a whooping 31%. Year to date performance was –8%, -3%, and +12.7% respectively.

The Coronavirus (or, COVID-19) pushed the economy into a recession, stocks fell into bear market territory temporarily and the clampdown response to COVID-19 plunged the world into recession. Most public securities saw a vicious drawdown in March. Fortunately, an unprecedented rapid and expansive U.S. monetary and fiscal policy response helped mitigate the most acute liquidity issues and thus far, has successfully offset a lot of the economic damage. Still, by the end of the 2nd quarter, uncertainty is at historically high levels by most measures and we expect volatility to remain very high. A more cautious portfolio tilt was implemented for many of our clients as the stock market re-approached February levels in mid to late 2nd quarter to account for the risks and so many unknowns. We remain confident that eventually, with so many of the world's scientists trying to beat the virus, that investors will be rewarded for remaining invested in equities long term.

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U.S. Government bonds benefited from their safe-haven status throughout the pandemic's early days as investors pushed yields on bonds to well below 1% in search of protecting their money at any cost. Most all other asset categories suffered significantly amid the liquidity crunch in March and there were few that didn't fall. Even riskier credit bonds (corporates) saw a dramatic sell-off from previously tight spreads, and of course commodity prices like lumber and energy declined sharply alongside global demand but rebounded well throughout the 2nd quarter.

The research team and portfolio managers wrestle daily with how much risk to add to portfolios given our long-term positive outlook for the U.S. economy and belief that the scientists will beat COVID-19. Trying to determine when a vaccine will be introduced is difficult at best and attempting to time the market short term is fraught with risk when volatility is so high. The team manages different risk levels and objectives but overall believes now more than ever, it's critical to focus on the long term, realizing that these tremendously valuable and unique assets (large companies in the U.S.) will continue to win, grow, take market share and.... provide solid returns for shareholders just like they have for the past 100 years. M


Chris Guinther is a Portfolio Manager and Senior Equity Strategist

We're confident that eventually, with so many of the world's scientists trying to beat the virus, investors will be rewarded for remaining invested in equities long term

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THE NEXT GENERATION: How to Start on the Right Financial Path

— Larry Mendel, VP of Sales

2020 has been quite the year for all concerned and we will all learn to live in the new normal. From different shopping habits, to social distancing, to appreciating family and friends even more, to market volatility and having a proper mentality and structure towards investing. While everything seems like it will be different and our habits change, the next generation is still graduating college, looking for jobs, beginning their families, and doing what all past generations have dealt with and future generations will continue to dream about while preparing for their adult lives.

I have 3 grown children and have watched them all spread their wings and learn about responsibility, thinking about their futures. Fortunately, and unfortunately for my children, having been in the financial services industry for my entire career, I see many life experiences through my financial/investing lens. Some of my children have a keen interest in investing, others just want it to run on autopilot. Either way, I continue to remind them about some principles I have learned which will help them to get off to a good start creating a good financial future. I hope you can pass these on to your children and grandchildren.

Number 1: You don't get in trouble financially with what you own, but for what you owe! In other words, live within your means and keep your debt levels under control.

Number 2: Your home is a place to live, to have a roof over your head, and raise a family, not an investment. Enjoy it for what it is built for.

Number 3: Have a set amount of money taken from your payroll and have it deposited into a savings or investment account before it hits your regular spending account. You won't miss it if you don't learn to live on it.

Number 4: Credit Cards should be considered as a convenient cash option not as "CREDIT". Interest rates are so high on credit cards, it is hard to ever catch back up once you miss the FULL payment. Refer to Number 1.

Number 5: Take advantage and understand the importance of company sponsored 401 (k) plans and always take advantage of the companies MATCH if they have one. Either way, as this is taken out pre-tax, and prior to it getting into your own checking account, you will never miss it and it will lay the

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This might be the year to binge on learning about investments, and beginning to start off with a positive investment mindset

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DID YOU KNOW?

The flu pandemic of 1918 became known as the "Spanish Flu" because Spain , a neutral country during WW1, was the first country to publicly acknowledge the outbreak. Combatants didn't want to reveal to their enemies their extent of infection. Which of these American cities was hardest hit by the outbreak?

A. Atlanta, GA

B. Baltimore, MD

C. Philadelphia, PA

D. St. Louis, MO

(Answer on Page 4)

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groundwork for your future. This is one of the greatest sources of wealth creation and it is basically a no brainer.

Number 6: Make payments to yourself. Invest in your most important asset, yourself and your family.

Number 7: Set up what I call an "Escrow" account for your quarterly, or annual expenses. Calculate your known future expenses, such as auto insurance, car repairs, tires etc. and have this money transferred to this account. When the bill comes in, no pressure, you already saved for it.

Number 8: The "last double" is what matters. Starting early makes all the difference. There are all types of studies showing the value of portfolios starting at age 25 instead of 35. If the market returns 7%, then the portfolio doubles approximately every 10 years. Do the math, at the age of 65 the value of a $10,000 investment at 25 vs 35, is $160,000 vs $80,000. Pretty good for a one-time decision.

Number 9: Risk Tolerance, diversification and time Horizon, are the key concepts to investing. Since the time Horizon is long-term, let the history of the stock markets work for you and stay invested.

Number 10 which is really #1: Get Started

For the Next Generation, who knows, while enacting a little social distancing, this might be the year to binge on learning about investments and beginning to start off with a positive investment mindset. M

Larry Mendel is VP of Sales

AROUND THE RESEARCH TABLE

MONTAG Portfolio Managers continue to debate stocks, the economy and other recurring themes that may impact clients' investments. Here are a few of the highlights for Q2:

⇒ We are seeing the return to normal occurring and allocations are back to neutral.

⇒ Fed shot a bazooka of stimulus actions which helped the economy faster than expected and effectively may take the testing of the lows off the table. They managed to do everything they did in 2008 and applied those principles as well as many new stimulus actions this time.

⇒ From our last issue of Viewpoints, we highlighted the 6 stages of an economic recovery (see back page). We have now moved through the first 5 where we received the stimulus and we are now in stage 6, looking at the real impact on company earnings and cash flow. Investors will begin to get their heads around the "new normal" to value all securities.

⇒ Continue to focus on adjusting holdings in client portfolio's to reflect the changing environment. M

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COMPLIANCE MATTERS: New Regulatory Form CRS—*Stacey Godwin, Chief Compliance Officer*

In June 2019, the SEC adopted rules requiring that registered investment advisers who serve retail investors file and deliver a new disclosure form (the SEC considers almost all of our clients "retail investors"). This new document is called the Form CRS (Client Relationship Summary). It's a two-page document drafted in a Q&A format with very specific parameters and even SEC mandated verbiage. Its purpose is to help retail investors (our clients) better understand and compare differences between advisory and brokerage services. The SEC believes this is better achieved with a shorter and more succinct document than the much longer, detailed Form ADV. We were required to file Form CRS as of June 30, 2020.

The SEC mandates that we send a copy of the Form CRS to all existing clients by July 30, 2020. Depending on your document delivery preference, you will receive it in either electronic or hard copy format. Going forward, there are certain situations that will require us to re-send the form to you at various times. Consequently, it's very possible you may receive multiple copies of this document during your relationship with our firm. We hope you will understand the duplication is mandated by these new SEC guidelines. We are also required to deliver the Form CRS to prospects, in addition to the Form ADV and Privacy Notice.

A copy of the Form CRS can be found on our website or requested at any time by contacting us. Please don't hesitate to let us know of any questions that arise as you read this new document. M

Stacey Godwin is Chief Compliance Officer

The new Form CRS (Client Relationship Summary) is to help retail investors understand differences between advisory and brokerage services

Lifecycle of Previous Economic Crises:

1) "Black Swan" event occurs – an event not expected and never seen before - dramatic and rapid equity price declines with credit spreads spiking.
2) Action - consumer behaviors change in travel, grocery, banking.....consumers and leaders evaluate, assess and plan.
3) FED - Monetary response - central banks step in to prevent systemic problems and contagion from occurring as a result of the problem.
4) Government intervention – in this case they organize social distancing, closing schools, closing travel and implement medical assistance.
5) Government fiscal response – Government attempts to prevent panic and create stimulus by spending where it can help the most.
6) Real impact on company earnings and cash flow hit – investors get their heads around the "new normal" to value all securities. M

We're here

DID YOU KNOW? *(from page 3)*

Answer: C. Philadelphia, PA

President Woodrow Wilson, whose attention in autumn of 1918 was devoted to winning World War I, did little to craft a national response to the flu outbreaks. Hence local responses were employed, with disparate results. Philadelphia's Mayor was widely criticized for allowing a Columbus Day parade to take place in early October, during which thousands of spectators became infected.

For its part, St. Louis enacted social distancing measures early on (including a ban on large gatherings), and was hailed as one of the nation's success stories with comparatively lower rates of infection. M

A PARTING THOUGHT

"We are not all in the same boat. We are all in the same storm."

- Columnist Peggy Noonan in the WSJ ("What Comes After the Covid Storm?", April 25-26, 2020, A15), quoting writer David Barr on peoples' varied circumstances during the spring coronavirus lockdowns

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