Accelerate
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Dear Investors,

We are three quarters of the way through a historic year for everyone on our planet. The entire globe has had to adapt to a rapidly changing work, leisure and life balance that has created unique opportunities. The good news is that a vaccine appears to be on the way and the bad news is that this is will be at least six months out from here and likely closer to twelve. As we navigate our new reality, signs of optimism counterbalanced by pessimism are providing a market that is at times euphoric, while at other times indicating that the worst is yet to come. It has been a tale of two markets as the Russell 1000 growth index is up 19% year to date while the Russell 1000 value index is down -14% year to date.

What happens in the short term is hard to predict, but medium term, we have a Federal Reserve that is doing everything in its power to stimulate the economy and keep people spending. Record low interest rates combined with the continued bond buying by the Fed has depressed interest rates such that we have seen the yields on different sovereign bonds decline markedly. At the corporate level, many companies are issuing debt at record low yields. The spread between those of top-quality issuers and junk bonds continues to narrow as well.

Having the Fed this accommodating leads to record stock prices for the mega-cap tech names with the FANG's enjoying a historic run. Legendary value investor Benjamin Graham would surely be shocked at the concentration and velocity of money entering these stocks at already lofty valuations. Understandably, the FANG's are very well-run companies with dominant positions in the marketplace, however, valuations at some point will start to matter.

"*The intelligent investor is a realist who sells to optimists and buys from pessimists*."
— **Benjamin Graham**

The Standard Wealth strategy has been employing this philosophy, which is evident in portfolio construction. This quarter we added to Philips 66 as the price of the stock has continued its downward trajectory. Reduced demand for aviation fuel has hurt the bottom line, although we believe demand will pick up in the next few quarters. It was not long ago that in 2018 that the company earned $11.80 per share. It is not looking likely to get back to those earnings levels any time soon, but 2021 earnings is projected at $5.14, which is more than adequately covering the dividend and providing sufficient cash flow to grow the business.

We did reduce our position in Altria during a period of strength and continue to believe this is a great company to own for the long term. Management has made some missteps when looking to diversify its revenue stream, which is cause for concern. Still, the dividend is adequately covered from current earnings with the Board of Directors recently raising the payout.

Noteworthy from the Fed commentary is the desire to see inflation near the 2% threshold.

"*We're not going to even begin to think about lifting off, until we actually get observed inflation – and we measure it on a year-over-year basis, equal to 2%. Also, we want our labour market indicator to be consistent with maximum employment*"

- Federal Reserve Vice Chairman **Richard Clarida**

According to the U.S. Labor Department, the annual inflation rate for the United States is 1.3% for the 12 months ended in August 2020. If we see this inflation rate creep up to 2%, it begs the question of who would be buying 10-year treasuries other than the Federal Reserve, when yields are 0.66% as of September 28. At the prevailing price, investors are getting a negative real rate of return of -1.33%. The Fed's continued stance to provide record low borrowing costs will provide a solid base of money to be directed into spending, company R&D and investment in the stock market. It has never been a smooth ride in the equity markets but taking out short-term gyrations, we are confident that we will see an upward trajectory of stocks until the Fed's stance on loose monetary policy changes.

Our Standard Wealth portfolio strategy will continue to invest in companies with key competitive advantages through regulations and barriers to entry. As we continue to experience volatility in the market, it provides opportunities to invest in these dominant companies at attractive valuations. The patient investor is currently earning a dividend yield of 6.7%, with a current portfolio price to earnings ratio of 13.5. As of September 30, 2020, the portfolio has a trailing twelve month return of -14.5%.

As we stay the course in philosophy and strategy, the Team here at Accelerate would like to wish you wonderful last few months of a challenging year.

Best Regards,

Fred H Mannix