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Third Quarter, 2020

Mobile Sales

To a gentleman in the mid 20th century, this title would suggest a car purchase. But to a millennial, it might call to mind "Venmo," a modern shorthand for the Latin words vendere (sell) and mo (mobile), a popular means of financial transaction through a smartphone.

We have numerous ways to make payments, including checks, credit and debit cards, and cash itself. But recently, payment apps have drawn widespread attention for offering relative convenience as well as superior safety from hacking. Apple Pay, Google Wallet, Venmo and Samsung Pay are among many apps in the field. These apps provide a consumer the ability to send or receive money directly through a mobile account linked to a personal balance, bank accounts or credit and debit cards. The credit or debit cards, or bank accounts which may be backing up the transaction need not be divulged to anyone. Not only do these payment methods reduce the likelihood of hacking, but they also increase the speed of transactions, and make them much easier to administer.

Hacking typically occurs at the point of sale where personal accounts, especially credit cards, are revealed. This is not an issue with modern payment practices free from payment cards that make data vulnerable to theft. Also, with the apps, transactions are effective immediately. While bank accounts or credit cards may support the payments, the app activates the transaction right away and deals with the supporting entity. With mobile application, you don't need to carry, locate or handle multiple credit cards when you anticipate financial transactions (basically whenever you leave the house). Nor must you be concerned about the potential stress and struggle of losing a card or an entire wallet. You simply need your smartphone. In fact, as a special benefit, you needn't worry about contracting COVID-19, at least not through making an in-person purchase. It's touch free but for your own phone!

In selecting a payment app, or a related online payment opportunity, you need to identify the differences. Apps vary by the type of phone with which they are compatible, (Android v. iOS for example, or even specific phone models). Along with other "digital wallets" they also differ by fees, the permitted amount of money transacted during various span of time, the nature of transactions allowed, and their range of services.

Some distinctions are particularly evident. Most of us are familiar with Paypal, a grandfather of the "digital wallet" which in 1999 began a long history of developing various electronic payment and online money transfer systems. Paypal became especially well known as the default payment method for a large percent of eBay customers. Over time, Paypal experienced many changes in business relationships. It also expanded its scope to include more banking services, including donations to charities, international payments, cash withdrawals, establishing money pools, and fraud protection.

The contrast between Paypal and Venmo which became its subsidiary in 2013, best illustrates the breadth of characteristics in this field. Launched in 2009, Venmo was designed with millennials in mind. This smartphone generation is mobile oriented, being attached to their phones for a myriad of purposes. They also are socially oriented, wanting to maintain continual communication with friends, not only through social media but also with social get-togethers. Venmo's product is relatively simple and limited: a mobile-only based system facilitating peer-to-peer transactions of sending and receiving, which are

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Continued: Mobile Sales

in relatively small amounts, and for little or no fee. The primary purpose of Venmo is to enable the "quick, easy and secure" transfer of money between friends. The money sent is from the personal Venmo account balance, or from linked bank accounts, credit cards or debit cards mentioned previously. Venmo offers a Mastercard Debit Card by which you can make ATM cash withdrawals or receive cash back when making a purchase.

Venmo transactions appeal to millennials for the their convenience and sociability. A group of people gathered for a dinner out no longer has to struggle with a waiter who won't write multiple checks, or with having to divvy up the total cost and get exact payment from each diner, or even handling the "I'll pay you later" promise. Each individual who wants "to Venmo," can use their app to instantly send the right amount to the friend meeting their expense. This practice can be used to share a rent payment, cover a lost bet, or just make a gift. Given the format, the process can be both practical and playful. The delivery is accompanied by a message identifying the payment's purpose by using text or emojis which are fun little symbols present in 30% of messages. 90% of Venmo messages include some form of social communication.

The transactions' online posts are displayed in a "feed," whose setting is chosen in advance by the sender: either "public," "friend," or "private." While the monetary amount is not revealed in any of those feeds, the default is "public" which allows anyone opening the app for "public" feeds, to view names and messages. These can amount to considerable data concerning the sender. Because Venmo's goal is to meet both the practical and social needs of a generally friendly age cohort, their clients tend to be far less concerned about privacy than Paypal consumers. Venmo is subject to considerable criticism for jeopardizing clients with the public default. The company is also condemned for lacking adequate security protection measures.

The company's early response was that Venmo, partially intended to serve the social media appeal, was "designed for payments between friends and people who trust each other." That's sweet, isn't it?

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Environmental, Social and Governance

"Sustainable Finance" isn't a new concept or practice. Yet it's a rapidly growing trend, in volume, complexity, and vocabulary. In essence, Sustainable Finance is the process of investing with the multiple goals of economic performance, and social or environmental dividends. It has been described as "the ethical version" of seeking financial returns (which raises a question we aren't going to address here). Perhaps you'll prefer the designation of "venture philanthropy." "3D investing" describes investment with a "triple bottom line," returns that are simultaneously financial, social and environmental.

SRI or Socially Responsible Investing was a common label several years ago. More recently, "ESG" refers to investments that include objectives to improve environmental, social, or corporate government conditions. "Green Finance" refers to efforts to positively change ecological problems, often battling climate change. "Social Finance" aims at bettering human circumstances such as making good jobs or decent affordable housing more available. A "Social Business" is an endeavor to make money while also making a certain constructive impact. Microfinance, as an example, involves investment in tiny new enterprises run by highly disadvantaged populations. Interest in these investment trends is growing among pension funds, charitable institutions, and Millennials, of whom 17% want their investments to include the highest ESG standards.

Investment specialists debate the balance of the two goals, yield and compassion, in order to guide investors. Some suggest that involving a benevolent motivation in investing is sacrificial, as it diminishes returns. Yet there are studies which challenge that judgement, asserting that the impact-focused investor can have his/her profit and eat the altruism too.

ESG investing already was in an accelerating trend, but some investors feel that the pandemic added a "springboard" for even greater participation. Our ongoing crisis has exposed people throughout the world to our vulnerability and to our need for global cooperation in seeking solutions. At the same time, the Employee Benefits Security Administration has submitted, with highly unusual haste, a new rule to limit retirement plan fiduciaries' ability to invest in funds with an ESG direction. Seen by many as hostile towards ESG and green investing, the administration has met with enormous resistance from financial services companies.

Please call us at Assabet Advisors if you are interested in discussing ESG investment.

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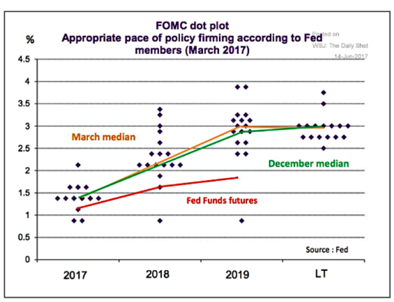
Economic and Financial Overview

2020 has been a year of extremes on all counts. The stock market responded to the growing horror of the coronavirus by plunging –33.9% between February's market peak and March 23. Our lifestyle changed abruptly as many people were confined to home, illnesses and fatalities rose, unemployment mounted and basic consumer items were hard to come by. Unprepared to handle such an unfamiliar crisis, the Federal government ultimately countered by injecting fiscal and monetary liquidity into the system. Businesses were granted (or loaned) money. Individuals suffering job losses, also received financial help, including monthly stipends and rent forgiveness for a period. The Federal Reserve moved rapidly to enact a highly accommodative monetary policy through interest rate reductions and Quantitative Easing (QE).

The economy improved somewhat in response to the massive influx of liquidity, and to "opening up." Consumers enjoyed low interest rates, ignoring travel and service expenses in favor of goods and housing. The economy has continued to maintain the early cycle phase begun in the Spring, but has been uneven and slow to advance. Asset prices have shown greater impact from monetary policy than has the general economy. The stock market experienced an unusually rapid decline, quickly followed by an abnormally swift recovery which persisted through the 3rd quarter. Market returns improved. The S&P rose +8.47% for the quarter, +4.09% YTD. Large growth stocks, especially from technology and consumer discretion categories, were the greatest winners. Small stocks +4.60% in Q3, -9.64% for YTD, developed international stocks +4.3% Q3, -7.09% YTD. Emerging markets +8.87% Q3, -1.0% YTD. High yield stocks recovered. Fixed income rose +0.62% in Q3, +6.79% YTD.

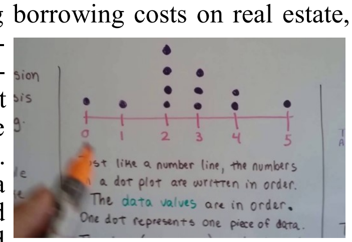
Despite a strong Q3, currently we face fiscal drag on the economy, shortfalls in state and local budgets, and the expiration of earlier support for unemployed people. And in many areas, early "opening" has begun to decelerate economic growth. Many analysts argue that additional fiscal backing will be required to sustain recovery. They also remind us that we are vulnerable to the pressures of COVID-19 and volatile political conduct, both of which are difficult to predict.

Dot Plot



Are you conversant with a Federal Open Market Committee's (FOMC) Dot Plot? If so, you can skip this article. If not, let's prepare you for the next Fed report scheduled for soon after the election. The Fed began including a Dot Plot in their quarterly minutes in 2012, in an effort to be more transparent regarding their policies. The distribution of datapoints offers a visual display of expectations by the FOMC for the Federal Funds level at the end of each of the next three years, and in the long run. Because the Fed is charged with maximizing employment, setting and maintaining a range of inflationary levels, and directing interest rates, their policies can impact many financial factors for which professional money managers and consumers wish to have some guidance. These include bond yields. stock prices, consumer interest rates, and inflation.

Setting the Federal Funds rate is one of the Fed's tools to manage inflation, and to preserve the steadiness of the markets and stability of the financial system. The Federal Funds rate is the target for Federal Funds, the money borrowed by banks in order to meet reserve requirements. And the reserve requirement is the amount a bank must maintain for offering loans. When the rate is reduced, interest rates tend to drop making borrowing cheaper. This likely causes growth in both business and employment as well as higher inflation. Higher rates have the opposite effect, raising borrowing costs on real estate, consumer car loans, business investment, etc. leading to lower demand for goods and services, lower prices and lower employment. Thus sound predictions of Fed policies are extremely important for investors who value the Dot Plot. It records the forecast, really a "best guess," for future rates by all 12 FOMC members plus 7 other Fed bank presidents. The dots are anonymous and it's the median of all dots that represents the quarterly forecast. Investors, hungry for sound estimates, need to remember that the Dot Plot forecast isn't a dependable guide. It's not binding. It fluctuates frequently with changes in membership and with unexpected events. Moreover, only 12, or ~2/3, of those voting set Fed policy. Fed Chairman, Jerome Powell, has even suggested that the Dot Plot may be discarded because it could cause confusion or market disruption.



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Time to Move?

This topic is full of contrasts. The coronavirus pandemic introduced both a recession, and also a real estate boom. In the early spring, home prices fell with declining buyer interest yet by August, both the number of buyers and prices soared. Home sellers prospered while many owners and renters dreaded losing their homes.

As Americans reacted to growing evidence of an infectious disease, attitudes altered gradually. Initially, the shock of an unfamiliar peril made people hide at home, anticipating a month or so of fear and confusion. Parents were sent home to work, children joined them, and forays outside of the dwelling were avoided for fear of contamination. The regular real estate selling season was delayed. Early on, as families adapted to confinement, some parents enjoyed going without the commute or business attire, and they valued new contact with their kids. But as the pandemic lingered, homes felt uncomfortably constricted. When traveling and recreation with neighbors were blocked, coronavirus cabin fever took hold. Spending 24/7 in the home made flaws more apparent. In urban areas especially, people were discouraged by density of population. Those with early recognition that the pandemic was likely to last at least through the summer, chose to not live through another cold season in the same home. As people became restless in late April, home prices began to rise and the real estate boom commenced. In search of more space, reasoning that working from home negates the need to live close to the office, and motivated by remarkably low interest rates, hopeful buyers sought new homes. They favored those in the suburbs where they could have greater room inside and out. Given a severe property shortage and competition among buyers, it wasn't easy. In Boston, single family home prices rose by 14% in August while the number of homes for sale dropped by 23% from last August. Homes together valuing $53 billion were sold in July in the Washington DC district, nearly a $1 billion higher than the prior July. Recently, buyers have made concessions to surpass others: eliminating contingencies, forgoing inspections, and, of course, bidding high.

It has been difficult for realtors as well to market homes in a pandemic. They have tried to offer safe settings with very few showings at a time. People entering houses removed their shoes, wore masks and used hand sanitizers. Doors were kept ajar to make touching door handles unnecessary. Some showings were entirely virtual. And, given social distance requirements, attendance at closings was limited.

Some researchers advise people to not respond simply to the low interest rates, but to hold off from moving until they have more insight into the future. A period in which the economy is improved, the political context is more peaceable, and the pandemic is under control would surely be better. But when will that be? Other people believe that it's wiser to anticipate something more of the same. Newly built urban dwellings, designed with pandemic pressures in mind, are set up with more space for offices and for working out, and outdoor space such as balconies or roof gardens.

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Wayne Ushman read Social Security Made Simple by Mike Piper. At just 100 pages, it's an easy read, basically a beginners' guide to a complex subject. Don't depend upon this book for truly technical questions. At that level, Social Security is far from simple.

Robert Jacobsen read 12 Rules for Life by Jordan Peterson. Not at all a light collection of advice, this book contains essays dealing with themes of life's chaos and suffering, and our ability, and our need, to be responsible and dutiful. Reviews range from very admiring to extremely derogatory. What not judge for yourself?