Integer Wealth Advisors Group, LLC

Advise, Guide and Protect

Market Commentary

We start every market commentary by highlighting an observation from our previous commentary. Here is what we said last quarter regarding the markets:

"In the history of the S&P 500, going back to 1928, there have been 13 times the S&P 500 exceeded an annual 30% return. The year that just ended was the thirteenth time it has occurred. That means only 14% of the returns since 1928, a 91-year stretch, have achieved the feat."

Given the extraordinary events of the date this commentary covers more than the first quarter.

What a Difference A Few Weeks Make

Writing this update leaves us struggling for any insight that can describe the past couple of weeks. The destruction of life and economic prosperity wrought by an invisible invader seems like the stuff of Edgar Allen Poe's short story "Masque of the Red Death". We have all gone into hiding trying to keep the disease from spreading. Safety of life and limb takes precedence over the value of one's portfolio. Each of us is certain this virus will slow down and a vaccine found, we know that, the question once it does is what will life be like in a post-pandemic world? How will the markets and the economy rebound? The former will be addressed at the end, the latter can be described as a "W". Expect the markets to advance, decline, advance, decline over the balance of the year, not only as we work through the virus, but as we get closer to the November elections. We have a feeling that none of us will look back on this time-period with "2020 vision"!

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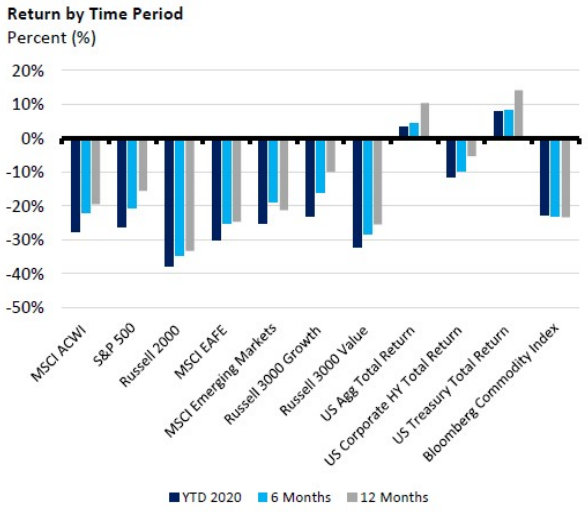
A Tale of Two Markets

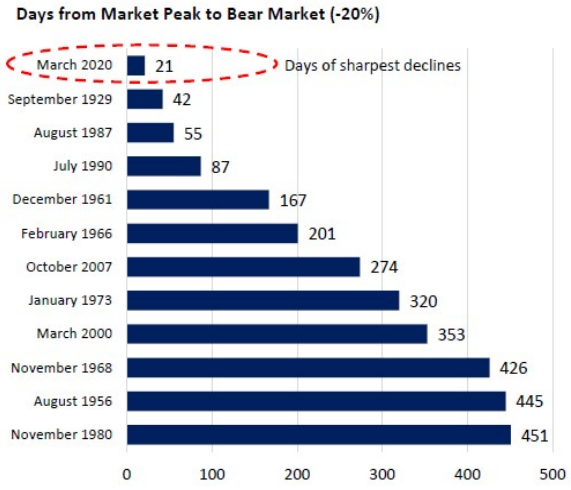
Continuing on our literary theme, we have seen the best of times and are seeing the worst of times, especially the past eight weeks. No one is alive today to report how they managed money in the Great Depression. But we know the tales. And we got some market moves that mirrored the wildness of the Great Depression and Great Recession markets. The final chapters have yet to be written since they will depend upon the news of the day.

Let's begin with a quick recap of the movements of the markets. On February 19th, 2020 the S&P 500 reached its all-time high of 3386. One month later it had finished at 2237, a drop of 34%. Along the way all three averages gained entrance into the record-books with percentage drops on par with the Great Depression and the Financial Crisis. On March 23rd the Dow, S&P 500 and Nasdaq hit what might be the lows for the bear market. As of this update, we have yet to fully revisit the low of March 23rd, which saw the Dow finish at 18,591. We have yet to revisit that low and do not feel that a retest to that level is likely.

Equity markets have now given up all of their gains over the past year while higher-quality fixed income has outperformed.



The S&P 500 is now down about 30% from its all time high, officially in bear market territory, and this selloff has been one of the sharpest declines in history.



Source: Bloomberg data as of March 16, 2020.
Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index.
Past performance is no guarantee of future results. Please refer to Appendix for Asset Class Proxies, Index Definitions and Important Disclosures.

The real story in this tale, is that of the bond market, because much like the Financial Crisis of 08-09, there was some real fear that the bond market was on the verge of implosion. Many of you may recall that during the quarter we moved all money market accounts that were not in government or treasury money market funds into those two types of funds. A little-known feature that resulted from the Financial Crisis was the ability for firms like Schwab or Fidelity to restrict access to cash in times of financial stress. Two types of funds were exempt, those investing in government and treasury money market funds.

Up until March 20th, money market funds were not transacting properly, and bond funds were dropping in value. What we did not realize at the time was that in addition to everyone selling stocks, companies were selling bonds to raise cash. The market was flooded with sell orders with very few takers. Yields jumped around like bingo balls. The Fed had been monitoring this and decided to step in with their money "howitzers" to stabilize the market. That may have been the seminal event that market the bottom on Monday March 23rd.

However, the Fed was not done yet because the municipal bond market was also suffering from a similar problem. Buyers were backing away from new issuances. So on April 9th the Fed pulled out the "B1-Bombers" of money purchase programs and announced they would buy municipals as well as high yield bonds (since companies that issue high yield bonds, aka junk, were experiencing difficulties in raising capital). That has further stabilized the credit markets which has helped stabilize the equity markets.

If you want to see the impact this has had on the bond markets, just take a look at your bond funds today and try and locate the price of the bond funds on or about March 20th. It is simply stunning. Price movements in the bond market of a couple of basis points are normal in a given day, we are talking percentage points of change in a day.

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The equity markets have been on a rollercoaster and the only sector to come through relatively unscathed has been technology. Consider the following through the end of April:

DOMESTIC EQUITY STATISTICS

Index	Past Three Months Thru 4.30.2020
S&P Small Cap	-21.3
S&P Technology Sector	-3.9%
Dow Jones Average	-13.84%
S&P 500 Index	-9.71

(Period Ending 4/30/2020. Source: S&P Dow Jones Price Weighted Indices)

SECTOR	PERCENTAGE WEIGHT	Past Three Months Thru 4.30.2020
S&P 500		-9.71
Energy	3%	-28.56
Materials	2.5	-9.79%
Industrials	7.9	-20.72%
Consumer Discretionary	10.5	-3.65%
Consumer Staples	7.4	-7.82%
Health Care	15.4	0.7%
Financials	10.6	-23.89%
Info. Technology	25.7	-3.9%
Communication Services	10.8%	-6.67%
Utilities	3.3%	-16.96%
Real Estate	2.9%	-13.55%

Source: Standard and Poor's (www.spindices.com), price returns as of 04/30/2020.

Energy, at one time in the past, made up over 10% of the S&P 500. Today it makes up less than the Utility sector and just barely ahead of the Real Estate Sector. Only two sectors have been making any progress in the markets over the past few months, healthcare and technology.

The chart above does hold a warning for investors, as you will see below. Technology is now 25.7% of the S&P 500, a level not seen since the 1999-2000 technology bubble blowoff. If we recall correctly, technology had risen to around 30% of the S&P 500 back then. As investors sour on all other types of market investments, technology becomes a bigger piece of the S&P 500 and all other indexes as investors put more money to work in tech stocks

The style box highlights this point immensely, as of Friday May 15th, the difference is staggering. Growth, mainly large capitalization growth, has been the main driver in the market rebound. No other style comes close. These differences in performance are generational, something we've never seen before. The message is clear: Diversification is a hard portfolio management style to use when markets are in extreme distress. With technology's promise to open up new business lines, investors are rushing in to buy the "stay at home" stocks that will power the next market. It is a good idea to remember the lessons of 1999.

Style Return Box Thru May 15, 2020

	VALUE	CORE	GROWTH
LARGE	-20.96%	-10.5%	-1.63%
MID	-31.33%	-22.94%	-15.25%
SMALL	-35.7%	-29.76%	-24.23%

Source: Morningstar, price returns.

Domestic Markets

Staying in the market is always difficult, especially with this current environment, however, we have history on our side regarding a long-view perspective. The chart below shows what happens to an investor's return if you miss the best 10 days of a decade. With the issue regarding technology's place in the broad market, it is important to stay invested in the markets with a long view for ownership within a diversified portfolio. Tactical allocation, meaning the weightings assigned within a portfolio, can move around as conditions dictate. This is different from being "all in, or all out" of the market via market-timing. So an investor may wish to overweight technology to a degree, but not to the abandonment of all other classes.

Excluding the 10 best days of performance per decade for the S&P 500 drastically cuts down returns

Decade	Price Return	Excluding Best 10D Per Decade
1930	-42%	-79%
1940	35%	-14%
1950	257%	167%
1960	54%	14%
1970	17%	-20%
1980	227%	108%
1990	316%	186%
2000	-24%	-62%
2010*	161%	75%
Since 1930	**13,445%**	**72%**

* 2010 Decade as of August 19, 2019.
Source: BofA Merrill Lynch Global Research. Data as of August 19, 2019.
It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**
Please refer to the end of this presentation for index descriptions.

International Markets

The international market continues to be a tough place to put money to work, yet diversified portfolios should include some allocation to the international markets, especially when considering how all markets work during an economic rebound. At this point we continue to underweight international and emerging market allocations in client portfolios, generally limiting to less than 10% of a client's portfolio, with the balance going to developed markets and lesser amounts to the emerging markets.

Again, this is consistent with our prior statement. Tactically shifting within a strategic asset allocation is reasonable given the current market conditions and an investors risk/reward perspective. For most it is reasonable to assume that international markets will underperform the domestic markets for the foreseeable future. However, some exposure should be maintained since we never can perfectly predict when turns in markets occur.

Fixed Income

As we mentioned earlier the fixed income market had a very difficult market period as investors sold everything to raise cash. While we have not been sellers of fixed income, we have, up until recently, been parking cash in money market funds as the yields were very reasonable. Now that the Federal Reserve has entered the marketplace as a "buyer of last resort", yields for cash have fallen as buying has increased (recall that as price goes up, yields go down).

Longer dated maturities have also benefitted from the backstop provided by the Fed which has kept yields low while boosting the underlying bond prices. As we mentioned earlier, you can see the difference from around March 23rd to today with respect to the change in value in underlying positions. This has allowed us to strategically shift from cash, now earning very little, to short-dated fixed income funds earning well north of cash.

Looking Forward

To switch from the literary to the musical, we paraphrase the-late, great Aretha Franklin's song "Chain of Fools"; we all know the future will be about "Change, change, change". How it all shakes out is still to be determined, but we think it is safe to assume that social behavior will not be what it was prior to the virus, not until a vaccine is developed. We are in the midst of the largest social revisionary experiment in history. What was once considered a perk (i.e. working from home) may rapidly become the new norm as companies seek to avoid another round of epidemic/pandemic come flu season. The impacts will be profound as companies re-evaluate their need for office space and headcount while trying to integrate measures to protect their workers.

It may take years for us to regain full employment as businesses, mostly small, will evaporate. It will take some time for the entrepreneurial spirit to fill the gap of those that do not make it by developing new ways to market and serve future clients. Consumer sentiment on re-engaging in public will take time, and it is a good bet that

it will not happen anytime soon. Businesses of all stripes that require public interaction will have to spend more on cleaning, sanitizing, and reducing touch points.

Civil liberties will now be challenged as workers may be forced to carry "contact tracing" apps on their phones and be subject to temperature taking before entering an office. Those with slightly elevated temperatures will be barred from entering the office, while those that may have come in contact with a contagious individual will need to self-quarantine. We cannot even imagine what schools at all levels will have to contend with when they open toward the end of the summer.

It is a brave new world that doesn't begin to touch the technology driven society envisioned by Aldous Huxley in his excellent fictional novel of the same name. But if technology cannot develop a cure or effective prophylaxis, we can assume that a small piece of our humanity; the one of touch and group interaction, will be suspended for the foreseeable future. This is why we don't see a return to the market highs for several years to come. The long-view and patience are what we need to hoard at this time.

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