

Looking Forward

As I review our last newsletter, “Main Street vs Wall St.,” which can be found on our website at www.paragoncap.com, there was tremendous uncertainty about what the second half of the year would bring. In May, cities began to reopen, hope was cautiously looked upon, doubt lingered if it would work without a vaccine. Revised May unemployment came in at 13.3% vs originally expected 19%, and again, hope of a recovery was in the news. There was optimism about another stimulus bill being announced before the August break.

As the third quarter progressed, Mother Nature grabbed the headlines. Hurricanes, tropical storms, and wildfires in California caused catastrophic damage to already economically depressed states. By July, cases of Covid-19 began to spike in Arizona, Florida, and Texas. GDP for the 2nd quarter was announced -32.9%, the worst ever. By August we had surpassed 5 million cases in the US.

We are not going to debate opinions on the virus; most people feel very strongly one way or the other. We are not going to make investment decisions on opinions either. We can debate whether the economy is recovering or deteriorating. Government numbers can be interpreted to meet your needs for your argument; some things are more concrete. For example, the airlines have announced 30,000 layoffs; there probably would be more, but the unions have a big factor in what they can do. Disney announced 28,000 layoffs as California keeps Disney Land closed, yet Florida allows Disney World to open with limited capacity. In the first six months of the year, 18 retailers have filed for Chapter 11 protection, including Neiman Marcus Group Ltd., J.C. Penny Co, Stage Stores Inc, Pier 1 Imports, Tuesday Morning, and GNC Holdings Inc. In July and August, Lucky Brand Dungarees LLC, Brooks Brothers Inc, Lord and Taylor, Ann Taylor parent

Ascena Retail Group Inc, Stein Mart Inc, and Tailored Brands Inc,- parent company of Jos. A. Bank and Men's Warehouse, filed for bankruptcy. That list does not include the locally owned businesses and restaurants that are closing daily.

Despite all this gloom and doom, the stock market is setting new highs, seemingly ignoring everything we have mentioned. Year-to-date, the S&P 500 finished the 3rd Quarter +5.57%. But are all the stocks doing well? A new term FAAMG gained headlines. It represents Facebook, Apple, Amazon, Microsoft, and Google. These five stocks represent almost 25% of the market cap of the S&P 500. We have never witnessed such have and have-nots. The S&P 500 Growth Index is +20.61% while the S&P 500 Value Index is -11.47%. How you are invested does matter. Active managers that can navigate these waters can add value. It is not just this year; over the last five years, S&P 500 Growth is annualizing at +18.37%, while S&P 500 Value is annualizing at just +8.84%. Technology and consumer discretionary are leading the market, while energy and financials are bringing up the rear.

Most investment firms have a strategic asset allocation of international, emerging markets, large cap, small cap, growth and value. Paragon is more tactical in our decision making on behalf of our clients. For example, we have been reallocated to 100% US domestic for well over a decade. Year-to-date, the MSCI EAFE (Europe, Australia & Far East) is -7.09% and emerging markets are -1.16%. Over the last five years they annualized at +5.26% and +8.97% respectively. That is far behind the S&P 500 at +14.15%. As always, our goal as active managers is to invest client assets where we believe risk and reward makes sense for our clients and we will implement changes to those allocations when the time is appropriate rather than staying with a static allocation.

Enough numbers, what do we expect for the last three months of the year? As we talk with clients and prospects, we are often questioned about the election. We are weeks away from the election, and most polls are showing Joe Biden with a comfortable lead. If Joe Biden wins and the Democrats take control of the House and Senate, would this be bad for stocks? Many believe the answer is yes, as fear of a corporate tax increase would decrease earnings and hurt stocks. There are also fears of increased personal taxes and increases in the capital gains tax rate. Yet the markets continue to rise, setting new highs each day. Focus is

on stimulus and vaccines. Markets reacted very negatively when stimulus talks stalled in favor of focusing on confirmation hearings of Amy Coney Barrett. After seeing the market's reaction, stimulus talks resumed. While confirmation hearings are underway, we doubt a stimulus bill will be passed prior to the election. This will continue to have detrimental effects on small and large businesses, local and state governments and those unemployed. The markets however know that a bill will be passed, eventually. The markets also know a vaccine or improved therapies are on the way. We expect the markets to enjoy a very positive earnings season, as the bar has been set very low with expectations for the worst.

Rest assured, we are continuing to monitor the ever-changing environment and looking for ways to protect and grow your portfolios. We continue to look for new ways to help you achieve your goals. Whether you are looking for long-term steady growth, protection and security from another correction or bear market, income in a low rate environment or faster growth for long-term goals, we can help you design a plan to achieve what you are looking for.

How to stay informed

For up-to-date news and thoughts from Paragon, plus interesting articles on topics like saving and investing for children, taking care of elderly parents and their finances and other timely topics- we encourage you to follow us on LinkedIn and/or Facebook. We have company pages for both and would appreciate your liking or following us.

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www.paragoncap.com

Also, please share your experiences with friends and family; we would love to help those you know with their financial success.

Even though Paragon's offices remain temporarily closed due to COVID-19, we are all working from home and staying in contact with each other daily. We are meeting with clients at the office by appointment only and are also available to schedule a video or phone conference/account review.

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