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With your help, we have made a donation to Salvation Army again this year. Obviously, with the ongoing pandemic, we would not have been able to have a barbeque get together anyway. Please see our Facebook page for more details if you wish.

"The Wall of Worry." If you have stayed with the markets this year you have likely been rewarded financially, but you have unquestionably suffered psychologically. And it likely may not end with the election in a few weeks. You have experienced some of the most challenging times we have ever witnessed, giving credence to an old saying, "The markets climb a wall of worry." Many days this year it has seemed this statement has never been more accurate.

Woodard and Company celebrated its 35th anniversary this year, and it has proved to be among the most challenging. When John Woodard started in the investment industry with a major Wall Street firm in the late 1970's, the Dow Jones Industrial Averages was a little over 700 and the daily trading volume on floor of the New York Stock Exchange was about 15 million shares. There would soon be a significant "Wall of Worry" to climb for the U.S. economy. Inflation would soar to 14.8% by April 1980 and the 30-year mortgage rate climbed to 18.5% by October 1981. That was then.

The Dow Jones Industrial Average is currently approaching 29,000 and the NYSE daily volume is between 2 and 6 billion shares. The current average for the 30-year mortgage rate is right at 3% and U.S. inflation for the 12-month period ended July 2020 is roughly 1%. These are some very good underlying economic numbers to help us going forward and create a solid backdrop for economic growth.

Over those 40-plus years since John started in this industry, we have seen boom and bust. We have seen opportunity and witnessed disaster. We have endured inflation, recession, asset and sector collapse, with political turmoil and upheaval throughout. We have always had a "Wall of Worry." We have seen Winston-Salem lose Wachovia, BB&T, and RJ Reynolds and so many other businesses and industries which have transitioned or dissolved. If someone had told us in 1985 that Wachovia and RJR would someday not be here as they were at that time, we would have had second thoughts about the future of this wonderful community. And yet here we are, stronger and better.

The "Wall of Worry" today consists of many components. The pandemic and the political response to it have created massive dislocations in the airline, travel and leisure, banking, and oil industries. On top of that, we have small business failures all over the country which will have ongoing negative effects. Historically, bankruptcies continue to accelerate for nearly eighteen months following the end of a recession. Many industries stagger and then slowly fall which – a scenario that will likely play out in the months ahead. There are also political questions which may unfortunately remain unanswered for a few months, and hopefully resolved one way or the other.

There are many positives and sometimes our concerns make it difficult to appreciate them. The economy is rebounding in spite of the aforementioned problems. To a large extent the rebound is being fed by strong housing markets and an actively engaged consumer. Housing consists of between 15%-18% of GDP in the U.S. and has long been considered the engine of the U.S. economy. That engine is revved up as housing starts in July soared 22.6%. While the massive crisis spending ($5 trillion in the second quarter) from the U.S. Government leaves us with serious long-term debt issues, near term it puts us awash in capital.

Additionally, there is investor money still on the sidelines waiting to get into the market. Some of it is slowly trickling in which feeds the upward move. It appears that many experts believe it likely that we will have a Covid-19 vaccine by year-end. That potential event is a powerful magnet for an upward market move.

The markets are more than just a "stock market" or a "bond market." Critically, the markets are composed of individual companies. Investment in these companies is represented by ownership of the individual shares of the stock or the debt of these companies. One such company is Procter and Gamble. It is the maker of products such as Crest toothpaste and Tide detergent. Fine companies like these are not going out of business. People brush their teeth and wash their clothes even if the economy is bad. Stocks go up and down, but over time, well managed businesses with good products and services prosper and grow.

Businesses are always looking for the best way to navigate difficult and challenging circumstances and conditions. If they were unable to adapt in such a fluid economy, then this market rally would likely not have occurred. Most businesses and industries adapt and they endeavor to overcome and thrive in this changing world and challenging economic environment, made stronger by the competition and the difficulties they face.

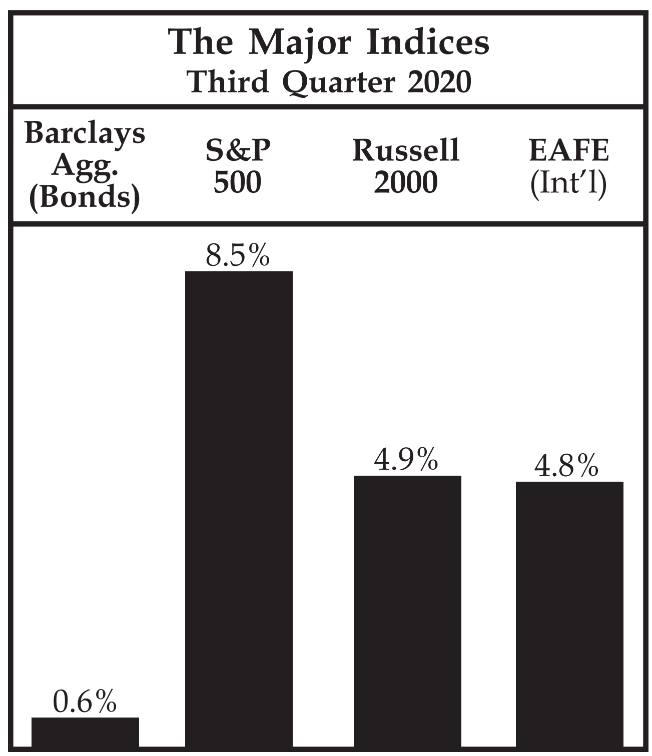
The markets are looking to the future. There will always be more problems, unforeseen events, industry and business failures and there will also always be opportunity and growth, new products and new ideas.

At the end of the day, a sound investment portfolio of quality underlying securities, appropriately diversified in a consistently applied process will prevail in spite of the ups and downs in the markets. If history is any evidence, investing in U.S. businesses always results in success over the long-term.

Market Review and Forecast. The September jobs' report saw only 661,000 new jobs created last month, compared to the 800,000 that was forecast. (In August, the recovery added 1.49 million jobs and July's number was a stellar 1.76 million gained.)

Some disappointing job news continues as many companies announce labor force reductions. For example, American and United Airlines recently announced they are laying off a combined 31,000 while Disney is furloughing 28,000.

However, before we focus more closely on the highly uncertain outlook for this quarter, let us celebrate the terrific third-quarter stock market gains. Despite a 3.9% September loss, the S&P 500 rose 8.5% last quarter.



Diversification once again hurt results as both international and small-cap stocks rose slightly less than 5% last quarter. For the first nine months of this year international stocks have lost 7.1% while small caps are off 8.6%.

Any kind of rational forecast for this quarter is virtually impossible. We know that the market reacts badly to elevated uncertainty levels. We also now know that the ongoing covid-19 infections include the President and the First Lady.

The unknowns are mind-boggling. Hopefully, the President and Mrs. Trump will have fully recovered by the time you read this. But does Trump's illness help or hinder his re-election chances?

And what happens if Biden wins. We should take a close look at Biden's tax proposals as laid out in a long 90-page platform proposal.

Biden proposes to raise taxes $3 to $4 trillion over the next 10 years. The well-respected Factcheck.org states that the "vast majority would see tax increases of less than 6%" while the "top 1% would see increases of about 40%." According to *Kiplinger's Magazine* it took a $525,351 income in 2017 to be ranked in the top 1%, with those one-percenters paying a whopping 38% of all income taxes.

Biden's proposals hit hardest those making more than $400,000. For example, anyone making more than $400,000 would have to pay the 12.4% FICA tax that is split 6.2% each between employee and employer. Under current law, everyone pays FICA taxes only on earned income up to $137,700. Also, anyone making more than $400,000 would have deductions capped at 28% of his income.

Probably the worst Biden proposal for the stock market is eliminating the step-up cost basis for inherited assets. Now, the tax-cost basis is the price the day the deceased died. Biden wants the cost basis to be the price that was paid when the asset (stocks, bonds, houses, art objects, etc.) was purchased, even if it were a half-century ago.

How much did grandpa pay for his house in 1970? You mean I must figure out how much my mother paid for all the stocks she bought decades ago? And there is no adjustment for inflation. However, the odds are slim that eliminating the step-up cost basis for inherited assets will pass Congress, as no doubt many of his other proposed tax increases will fail without a solid majority in the Senate.

Another scary market proposal is Biden's plan to increase the corporate tax rate from 21% to 28%. He also proposes doubling the 10.5% corporate tax rate to 21% on foreign income, and create a 15% minimum tax for corporations that book $100 million or more in yearly profits. Some market pundits believe these three proposals would reduce corporate profits by about 8%.

Biden also proposes hiking the highest income bracket from 37% to 39.6%, the same as it was before the 2018 tax bill was passed. Any taxpayer that made a million dollars or more would have to pay that same 39.6% on long-term capital gains; the highest rate now is 23.3%. He also would cut in half the estate tax (death tax) exemption from $10.98 million to $5.49 million.

What would he do with that money? Spend it of course. No politician wants to pay down debt. One expensive proposal is to lower the Medicare age for everyone from age 65 to 60. He also proposes allowing a public option for anyone to purchase health care insurance through Uncle Sam.

Other spending proposals include an $8,000 tax credit to help offset child care costs and universal preschool for 4-year-olds. Family caregivers would get up to a $5,000 tax credit. He has also endorsed a refundable tax credit for low and middleincome workers who contribute to IRAs and employer-provided retirement savings plans.

Other Biden proposed spending increases are for 1) infrastructure, 2) clean energy, 3) tuition-free community colleges, 4) home-buying subsidies and a renter's tax credit for those with low incomes, and 5) research and development funds for manufacturers.

But given the unlikelihood that most of Biden's tax and spend policies would actually go into effect, the question then becomes, how much influence does a President's political party have on stock market returns? A recent study dating back to 1860, when the first Republican president was elected, discovered that the President's party makes almost no difference to stock market returns. From 1860 to 2016 the stock market average under Democratic presidents was 8.4% while under Republican presidents it was a nearly identical 8.2%.

Another research effort dating back to 1912 looks at 27 presidential elections -- 18 of them where a president was running for reelection. What are the chances of winning a second term if there is a recession within two years of the election? In 12 of 18 of those elections there was a president seeking reelection but no recession. Every one of those 12 won.

In six of those elections, there was a recession two years or less before the election as has happened this year. Five of those six presidents lost -- the only exception was Calvin Coolidge's victory in 1924. Of course, this pandemic is a very different scenario than we have seen before, and the recession it caused was the shortest on record.

A Biden win and Democrats capturing the Senate could cause stocks to sell off 5 to 10% or perhaps more. However, once the election is decided, the emphasis would likely slowly return to a successful vaccine (or two) that, once approved, will most likely spark increased economic activity and a market bounce back.

Some hope can be taken in the ongoing second round of stimulus talks. And though a new $2.4 trillion relief package passed by the House of Representatives is going nowhere in the Senate, the ongoing negotiations between Treasury Secretary Steven Mnuchin and Nancy Pelosi could produce a compromise that would propel stocks higher.

Another reason for some market optimism is the Federal Reserve's support of the economy. There is an old stock-market axiom that says "don't fight the Fed." The Fed is committed to keeping interest rates at almost zero even if inflation rises above 2%.

From February to June the Fed increased its balance sheet by $3 trillion and the federal government borrowed about $2 trillion for a total of $5 trillion created by Uncle Sam. (A trillion seconds is almost 32,000 years.) The whole economy's GDP for the second quarter was less, totaling $4.87 trillion.

While the short-term outlook for the market may be somewhat uncertain, a bullish long-term scenario seems almost a given, especially if Trump is re-elected and investor fears of substantial tax hikes are off the table. An all-time-record-high money creation by the government and an almost certain successful vaccine by year end or early next year should combine to propel stocks to record highs by next spring.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.