Market Commentary
October 19, 2020

Dear Investors:

It was a turbulent week for investors.

Waves of positive and negative news buffeted financial markets last week:

The financial sector delivered upbeat earnings news
Currently, many financial companies in the Standard & Poor's 500 Index have reported third quarter earnings and have done better than expected. Despite upbeat earnings, some companies' shares declined because of uncertainty about the path of economic recovery. If recovery continues, some banks may have excess reserves; however, if recovery falters and a double-dip recession occurs, banks may need to add to reserves, reported *Barron's*.

Coronavirus cases surged across the United States and Europe
A rapid rise in the number of COVID-19 cases worried investors at home and in Europe. New restrictions intended to slow the spread of the virus were implemented in France and the United Kingdom. A source cited by *Financial Times* reported, "…economists and investors had not expected governments to allow the virus to reach the point it has now."

Two treatment and vaccine trials paused
The surge of new cases was compounded by setbacks in the search for effective coronavirus treatments and vaccines. Two COVID-19 trials, one for a treatment and one for a vaccine, were temporarily put on hold because of safety concerns.

Retail sales were strong, but manufacturing and industrial production weren't
Last week, economic data provided a mixed picture of the economy. On the plus side, September's retail sales were stronger than expected despite the tapering of unemployment benefits. On the negative side, U.S. manufacturing and industrial production both came in below expectations, reported *Financial Times*.

The number of Americans filing for unemployment benefits increased
The number of people filing for first-time unemployment benefits was higher than expected, and higher than it had been for the past two weeks, even though California had temporarily stopped processing new claims. Almost 3 million people filed for extended benefits, meaning they'd been unemployed for 26 weeks or more. Overall, more than 25 million people relied on unemployment benefits last week.

Major U.S. stock indices eked out gains last week.

Data as of 10/16/20	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.2%	7.8%	16.5%	10.9%	11.4%	11.4%
Dow Jones Global ex-U.S.	-1.0	-4.4	2.4	-1.0	2.9	1.6
10-year Treasury Note (Yield Only)	0.7	NA	1.8	2.3	2.2	2.5
Gold (per ounce)	-1.0	25.1	28.3	13.5	10.0	3.4
Bloomberg Commodity Index	0.2	-9.3	-6.3	-5.2	-4.0	-6.6

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

ONE DOLLAR IS A LOT LIKE ANOTHER, ISN'T IT? In theory, we think of all money in the same way. In practice, we don't.

Money is fungible. That means one dollar has the same value as another dollar or four quarters or ten dimes or 100 pennies. If you are buying something valued at $1.00, you can purchase it with $1.00 in bills or coins.

However, when making financial decisions, people tend to engage in something called mental accounting. One aspect of mental accounting is assigning labels that identify the intended purpose of money. Sometimes this decision-making shortcut can improve financial choices. Other times, it can produce a financial setback.

Mental accounting often guides spending and saving decisions
A common mental shortcut is budgeting. People and companies rely on budgets to help them make sound financial decisions. Typically, budgets allot specific amounts of income to spending and saving. For an individual:

- Spendable money may go to housing, food, utilities, clothing, entertainment, and other expenses.
- Saved money may go into emergency, vacation, retirement, or other savings accounts.

When people categorize money, they are reluctant to spend it on other things. *Behavioral Economics* reported, "When a resource [in this case, money] is divided into smaller units…consumers encounter additional decision points – a psychological hurdle encouraging them to stop and think…opening a partitioned pool of resources incurs a psychological transgression cost, such as feelings of guilt."

In other words, your brain will be reluctant to spend your retirement savings on a vacation.

Some shortcuts lead to irrational financial decisions
Mental accounting is a double-edged sword. If people do not think flexibly then mental accounting can cost them. For instance, focusing too intensely on labels can result in decisions that hurt your financial position rather than help it. *Kiplinger's* provided an example:

> "Mental accounting leads us to hoard money in a savings account that earns 0.3 percent interest while keeping a high balance on a 15 percent-interest credit card. We like the psychological comfort we get from having money in the bank, even though transferring cash from savings to pay off a credit-card balance can essentially 'earn' us a quick 14.7 percent."

Like many things, mental accounting can be helpful or hurtful, depending on how it's applied.

Weekly Focus – Think About It

"A long habit of not thinking a thing wrong, gives it a superficial appearance of being right, and raises at first a formidable outcry in defense of custom. But the tumult soon subsides. Time makes more converts than reason."

--Thomas Paine, Author of 'Common Sense'

Best regards,

SYMPHONY FINANCIAL SERVICES, INC.

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
* Asset allocation does not ensure a profit or protect against a loss.
* Consult your financial professional before making any investment decision.

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