CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

October 15, 2020

As the Year Ends and the Election Approaches

Core made modest equity investments in the last quarter, but we retain large holdings in cash and short-term bonds against post-election risks.

We are in the final weeks before the election and the final calendar quarter of the year. The election, if contested, presents risk—more on this below. Before that, a review of our investments and the various markets in the quarter just ended. Our accounts earned modest gains in the third quarter and, as you know, very strong gains for the year to date. Our principal investments--long-term US Treasury bonds, short-term, high-grade US corporate bonds, and gold --were all positive in the last quarter, although their appreciation was less robust than in the first half of the year. During the last quarter, we made some new investments, including in German stocks, in large East Asian companies and in a gold mining company. As noted in an earlier *Core Comments*, German stocks have, in recent years, gained far less than American stocks. Similarly, the Asian companies in the exchange-traded fund we purchased have also underperformed US companies, as shown on the graph on the next page. Because of this, they offer less risk than their American counterparts and the likelihood of gains that will exceed those of the American companies in the years ahead. As for the gold miner, Barrick Gold, it is very profitable with gold at the present high prices and will quite likely appreciate more than gold itself if and as the latter rises further in price.

In the aggregate, these new investments comprise just 18 percent of the portfolios Core manages. By contrast, our conservative and very safe positions in short-term bonds and cash comprise more than 25 percent of the assets we manage. Thus, as we approach the election in this period when, once again, Coronavirus infections and hospitalizations rise, and while the labored recovery from the economic devastation of the first half of the year falters, we have chosen to maintain a low-risk strategy.

The election and investments. Election day is less than three weeks away, but already millions of voters have cast their ballots by mail. Many millions more will do so before November 3rd; many voters have well-founded fears for their health if they go to their regular polling place to vote in person. Because mail-in ballots will not be counted before November 3rd, it is unlikely that the winner of the presidential election will be known on election day. Under 'normal' circumstances, the delay might merely be inconvenient. This election, however, does not present 'normal' circumstances.

By

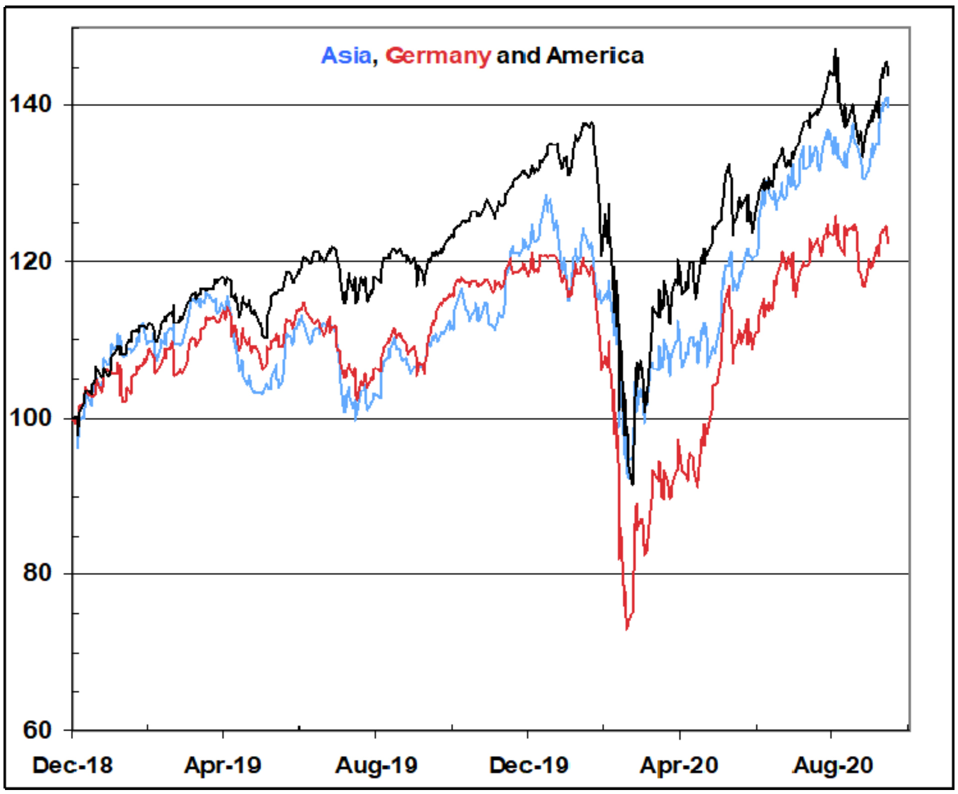
Jack Mayberry

Our president has repeatedly claimed that mail-in voting is rife with fraud--an assertion not grounded in historical experience. He declares often that the election will be 'rigged.' More alarmingly, he refuses to say that he will accept the result of the election if he loses it. We know that many lawyers are at work preparing litigation to contest or defend election results in states with significant

The graph below shows our recent investments in Germany and Asia compared to American stocks, all rebased to 100 as of the end of 2018. Asian stocks are in blue, German in red and the S&P 500 in black.

mail-in balloting. Given the calls by Mr. Trump for his supporters to go to polling places and to be on the lookout for voting fraud, we may expect some of Mr. Trump's violence-prone followers to seek to disrupt Americans' exercise of their voting rights.

America has deep and long-standing democratic institutions; will these prevail against Mr. Trump's attacks on them? I believe they will, but they will be tested. There have been several contested elections for president in our history; we all remember the most recent in 2000 when, five weeks after election day, the Supreme Court stopped Florida's vote recount and handed the victory to George W. Bush. It was an unsettling period until the Supreme Court ruled. However, Mr. Gore promptly and without cavil accepted the Court's decision and Mr. Bush became the president. The 2000 election and its aftermath may well be seen as a cake-walk compared to what lies ahead.



The uncertainties posed by this election season are reflected in the volatility (i.e., price changes) in various markets. Since mid August, the standard measure of stock price volatility, the so-called VIX, has risen back to levels consistent with a fearful stock market. (Of course, the VIX is far below its exceptional levels that prevailed from late February through April when it appeared that a second Black Death was upon us.) But if Mr. Trump acts on his various threats, we are in store for a much more troubled stock market than prevailed in the aftermath of the 2000 election. Note that during November and December of that year, stocks fell by 12 percent from election day to just after the Supreme Court decision, while gold and Treasury bonds rose in price. I make no prediction about the outcome of the election nor how Mr. Trump might act in the event he losses, but I think it prudent to be careful with investment capital for the time being.

CORE Comments

CORE ASSET MANAGEMENT

PO Box 1629
108 Caledonia Street
Sausalito, California 94966
(415) 332-2000 • (800) 451-2240
fax (415) 332-2151
www.coreasset.com
info@coreasset.com