BH | *Beech Hill Advisors*

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Dear Clients,

US Equity markets provided another quarter of consecutive gains building on the rebound from March lows. The S&P 500 and Dow Industrial Average provided a total return for the third quarter of 8.5% and 7.6% respectively, with the former gaining approximately 5% and the latter down 1% year to date. The cumulative gains represent the best two quarter performance since 2009. The third quarter also provided leadership rotation as the Transports, Consumer Discretionary, Industrials, and Materials segments outperformed the Information Technology sector. This broadening shift in market leadership from those benefiting from stay at home and economic lock down measures to those benefitting from a prolonged economic recovery bodes well as a leading economic indicator. This should come as no surprise as we continue to observe gains in employment and consumer spending, as well as positive progress regarding Covid-19 data and medical developments and a domestic economy exhibiting remarkable resilience and adaptability in the face of historic uncertainty. Additionally, comments by the Fed at their September meeting were supportive of the notion of a continued recovery as they raised their previous economic guidance in response to better than expected data throughout the quarter. Investors found further comfort in the Fed statement as they reconfirmed rates would remain low for years. On balance, the third quarter provided a supportive environment for equity gains.

Rose colored glasses aside, ongoing economic and market gains are dependent on continued improvements in the aforementioned conditions among other identifiable risks. Although the quarter provided healthy gains in aggregate, September declined across the board with a 10% correction in the tech heavy NASDAQ in three days, illustrating the speculative excess in the pricing of some emerging industry names and their market fragility. The Covid-19 virus remains an ongoing dominant concern and there is a fear infection rates will begin to climb as we enter the colder months of the year leading to another round of closures or extending current lock downs, forcing a recalibration of growth and a corresponding market reaction. Testing failure in either the leading vaccines or treatment options would dampen market enthusiasm. And, finally, the looming Presidential election and any uncertainty or delay regarding the results would not be welcome news. If the first debate is any indicator, one would expect the rhetoric to ramp up and the tone to become increasingly negative as we near election day. The outcome of that race as well as controlling the House and Senate will be important considerations in future investment strategy decisions.

As we have noted in recent monthly commentaries, we have been net sellers during the quarter raising cash positions in response to valuations and volatility in order to preserve principal and provide for opportunistic investment in the future. For our growth-oriented strategy, we have trimmed many of the large cap technology names as valuations warranted due to rapid price appreciation over the past few months, bringing cash levels to approximately 20%. We made small additions to emerging industry names in the solar, genetic sequencing, and ride sharing industries at favorable valuations. For our income investors we added positions in the utility sector providing yield as well as capital appreciation potential at current levels. Our balanced strategy encompasses a blend of both strategies. Across the board we have exited all fossil fuel positions as their secular decline is more suitable for shorter trading strategies than longer term investment as well as sales of those companies with deteriorating projections and less favorable potential gains in order to increase cash levels. We continue to look for opportunities in future growth industries, discounted industry leading blue-chip companies, and those that will benefit from the behavior shifts in commerce due to Covid-19. At present, patience is a virtue and investors should expect a deliberate and measured approach in the near term.

We continue to believe a conservative invested posture to be the most appropriate stance. We believe the economy does not suffer from a lack of demand but is hindered by the lockdown restrictions on business and commerce, as those states with highest unemployment and economic suffering are those that have continued the strictest lockdowns. Ideally, more stimulus measures will provide the necessary bridge until we are able to unlock all commerce and protect those most vulnerable to the virus. We remain cautious optimists as we exit the traditionally volatile September markets and enter the seasonably favorable fourth quarter. Please do not hesitate to call with any questions or concerns.

Best regards,
Beech Hill Advisors