ASCEND
Investment Management, Inc.

Quarterly Investment Report
September 30, 2020

Dear investor:

Given how memorable 2020 is proving to be we aren't too surprised that September, typically one of the weakest months of the year, dinged us with not only a resurgence of Covid cases, but also the passing of the iconic Supreme Court Justice, Ruth Bader Ginsburg. An already politically charged election cycle promises to heat up. The 3rd quarter managed to clock in a positive return with an increase of 9.1% despite a September swoon of - 3.7%. Technology stocks, especially Apple, Amazon, and Zoom, performed very well in the quarter since their products and services function with special immunity to the pandemic.

No one knows if September's decline is a portent of the beginning of a correction (corrections are declines of 10% or less), or the start of a bear market and its defining 20% or greater decline. Either way, as we have said umpteen times, it's a fools game to try and time the market. Money is made over time, not by timing the market. If you have a comfort for your particular percentage allocation to stocks for the long haul, then it's prudent to live within that terrain that includes both the mountains and the valleys.

The S&P 500 Total Return
YTD: + 5.7%, 3rd QTR: + 9.1%, September: -3.7%

It's a complicated investment environment we're in. We're dealing with a global pandemic, a gradual recovery from a deep recession, huge amounts of monetary and fiscal policy coordinated around the globe, and an election. Let's look more closely at these issues.

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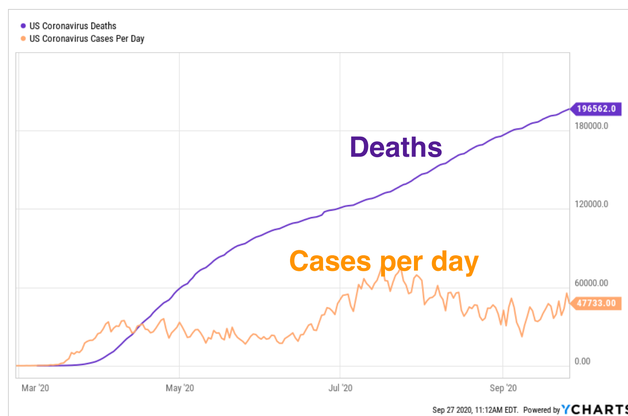
The pandemic appears to be slowly getting under control. Although, more recently, with new school, restaurant, and business openings, Covid-19 cases have spiked, there are now around 45,000 - 50,000 cases identified per day instead of ~ 60,000 cases as we had on average in July. And now we are seeing about 750 deaths per day, down from more than 1,000 back in July. Every day we are closer to an approved and effective vaccine. There are 42 vaccines in human trials and more than 93 in pre-clinical (animal) trials. In the U.S., four companies - Moderna, AstraZeneca/ University of Oxford, Pfizer/BioNtech, and Johnson & Johnson - have entered Phase 3 clinical trials. These Phase 3 trials are extremely large with thousands more participants than are normally used for vaccine trials. It could take until the end of 2020 or early 2021 to know if enough volunteers become sick with Covid-19 and, how many of those had been vaccinated, before the FDA can approve a vaccine.

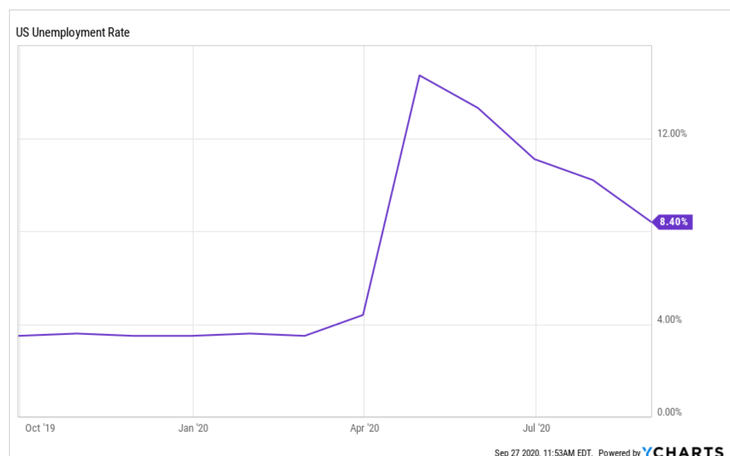


The economy has turned the corner. People are going back to work. We've had a huge bounce in retail sales. Annualized Gross Domestic Product (GDP) was down 3.4% in the first quarter of the year, down 31.7% in the second quarter, and the latest estimates are for an increase of 32% in the third quarter. The recovery is in place but we still have a long way to go to get back to normality.

A big improvement in unemployment since April

We've regained almost 50% of the jobs lost

The official unemployment rate stands at 8.4%. Taking into account those who have stopped looking for jobs, a more realistic number is closer to 11%. This is still a far cry from pre-pandemic levels.



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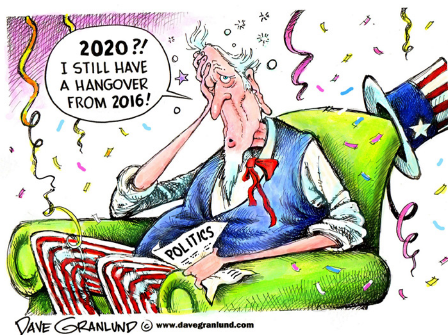
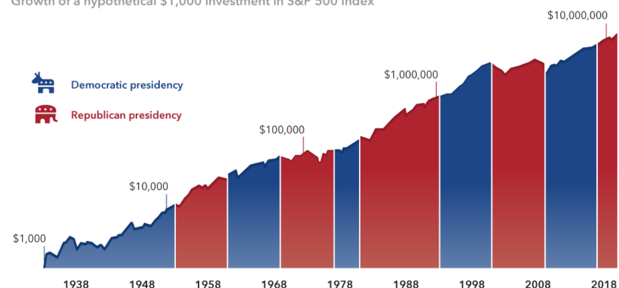
We have huge monetary and fiscal stimulus. This time is very different from the post 2008 recessionary cycle; now all major central banks (our Fed, Japan, UK, and the Eurozone) and governments are coordinated and in on the act. The watchword from the last cycle was austerity, which impeded growth; whereas today the watchword seems repetitive - spend, spend, spend. The hope is that where austerity impeded growth before, aggressive fiscal spending today will turn the tide once Covid-19 is checked. It's more critical than ever since our $3.3 Trillion deficit (soon to exceed $5.0 Trillion when an additional stimulus package is rolled out next year) as a percentage of GDP will exceed late 1940's levels. The Federal Reserve recently made it clear that short-term interest rates will remain close to zero through 2022 and they also announced that they won't raise interest rates until inflation is on track to modestly exceed 2% for an extended time. Given that inflation is only expected to approach 1.2% this year and 1.7% in 2021, the Fed is being as accommodative as can be. Plus, the Fed's quantitative easing policies are still active; they continue to buy $20 billion of Treasury bills per week! We have yet to see how post Covid lending and borrowing drives economic growth and if a desired modest level of inflation can be maintained.

And then there's that pesky election in 34 days. If there's a sweep across the presidency and both houses of Congress, for either party, then we could see even more aggressive fiscal spending in our future. We don't think it matters which party would sweep to see massive spending, since Republicans have seemingly discarded their angst around spending. The spending priorities would just be different between the two parties. As far as how the stock market will behave between a Trump or Biden win, it's impossible to predict. Those who left the market when Obama won lost out as did those who left the market when Trump won. Policies that impact corporate earnings drives the markets and, barring any absurdly hurtful policies, as long as the economy can recover, companies can do well, and so too their stocks.



Don't Invest Based on Which Party Wins the Presidency!

Stocks have trended higher regardless of which party has been in office
Growth of a hypothetical $1,000 investment in S&P 500 Index



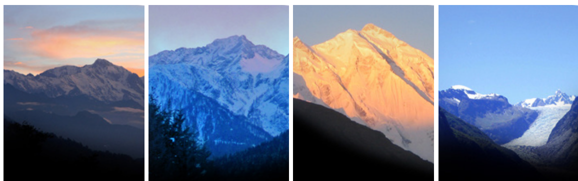
Sources: Morningstar, Standard & Poor's. As of 12/31/19. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

Promises and proposals that are made on the campaign trail offer an indication of a candidate's intentions, but bureaucracy and compromise help shape the reality once the candidate is in office. Politics and its impact on markets rarely play exactly to script. This is why we focus on bottom-up company fundamentals as the key driver of a company's returns. And we expect stocks to remain more attractive investments versus bonds as interest rates stay low. We can look beyond the election and the pandemic and see the beginning of a reasonable recovery. However… plan on seeing a rocky investing road into mid 2021 to include a few stomach turning corrections.

Stay safe everyone!

Sincerely,

Ellen P. Le, CFA
President



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Ruth Bader Ginsburg - Champion of Fair Investing

Insider trading is the trading of a security in breach of a fiduciary duty or other relationship of trust and confidence, on the basis of material, nonpublic information about the security.

Whichever side of the political spectrum one favors, most peopleare aware of Justice Ginsburg's impressive contributions to gender equality and disability rights in our country. Given that this is a financial newsletter, we thought it appropriate to honor her by describing a lesser known contribution she made to our financial system. While not as noteworthy as her other judicial opinions, Justice Ginsburg wrote the majority opinion in *United States v. O'Hagan,* which established insider trading law as more rigorous and protective of shareholders.

Statutes - Background

Insider trading statutes, i.e., legislative laws, began with the Securities Exchange Acts of 1933 and 1934. Rule 10b-5 of the 1934 Act is most often used to prosecute insider trading violations. The 1934 Act doesn't specifically mention insider trading, but its general antifraud provision forbids the use of "manipulative or deceptive" means in buying or selling securities. With the Insider Trading Sanctions Act of 1984 and the Insider Trading and Securities Fraud Enforcement Act of 1988, Congress enacted legislation imposing up to triple damages on a person found guilty of insider trading. And more recently, the Stop Trading on Congressional Knowledge (STOCK) Act of 2012 explicitly stated that there is no exemption from the insider trading prohibitions for Members of Congress, congressional employees, or any federal officials.

Classical and Misappropriation Theories

Two general theories of insider trading laws have evolved over time: the classical theory and the misappropriation theory. The former established that there is a duty to disclose material non-public information prior to a transaction only when there is a fiduciary or other similar relationship of trust and confidence between the parties involved in a transaction. In other words, classical theory says that only a true corporate insider owes a duty to disclose material non-public information. The misappropriation theory goes further and establishes that an outsider who happens across some material non-public information of a corporation may not use that information to trade because they owe a fiduciary duty to the source of the information.

United States v. O'Hagan

James O'Hagan was a partner at the law firm Dorsey & Whitney which was retained by Grand Metropolitan PLC to represent it regarding a proposed tender offer of Pillsbury stock. O'Hagan was not assigned to the case, but he learned about the possible takeover by overhearing a discussion at lunch. He then purchased 2,500 Pillsbury call options and 5,000 common shares. After the tender offer was announced publicly, O'Hagan sold his securities and netted a gain of $4.3 million. The SEC convicted him on 57 counts of mail fraud, securities fraud, fraudulent trading, and money laundering. The SEC alleged that O'Hagan defrauded his law firm and its client, Grant Metropolitan, of misappropriating for his own trading purposes, material, nonpublic information regarding the tender offer. But, all the convictions were reversed by the Court of Appeals for the Eighth Circuit based on its decision that while O'Hagan had misappropriated information, he did not violate SEC Rule 10b-5. The Supreme Court addressed two questions: (1) Does someone violate SEC Rule 10b-5 by trading securities on the basis of misappropriated information pertaining to a company other than his own? and (2) Did the SEC have the authority to enact Rule 14e-s(a)? That rule forbids security trading on nonpublic information of a tender offer.

The Supreme Court's 6-3 majority opinion, authored by Justice Ginsburg, held that someone who trades a security and doesn't disclose profits that were obtained due to material non-public information is guilty of employing a deceptive device in connection with the purchase of a security. Also, it held that a trader is guilty of insider trading by knowingly abusing the duty owed toward the source of information, whether or not the source is the trader's own employer. That means that the Court determined that not only insiders can be held liable for insider trading, but also outsiders, who obtain and act on material non-public information, can also be charged with insider trading. The Court also held that the SEC does have the authority to define and prescribe means reasonably designed to prevent fraudulent acts in connection with any tender offer. As a result, Rule 14e-s(a) could stand.

United States v. O'Hagan was a watershed case for applying the misappropriation theory to insider trading law. And, in doing so, it was a landmark case for strengthening fair trading in our country, ensuring more honest markets and promoting investor confidence.