NELSON ROBERTS
INVESTMENT ADVISORS

Quarterly Commentary

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IN THIS ISSUE:

ECONOMIC OVERVIEW

Flirting with Euphoria

After suffering the fastest bear market on record earlier this year, the S&P 500 rebounded to a bull market and notched a new record high 116 trading days later. Stocks gave back some of the gains through the month of September, but the index still finished about 52% above its low on March 23. This eye-popping recovery was powered by the five largest names in the index—Apple, Microsoft, Google, Amazon, and Facebook. These five companies were already a substantial portion of the market-cap weighted S&P 500 at the beginning of the year. When the lockdowns began in March, these stocks saw positive tailwinds due to the countless secular changes: People rushed to buy computer hardware for remote work and school environments (Apple, Microsoft), shunned in-person shopping in favor of e-commerce (Amazon), and began spending more time on social media and other internet platforms (Google, Facebook). The pandemic has driven this market concentration to an even greater extreme.

Valuations, as measured by the S&P 500 trailing 12-month price-to-earnings ratio, reached nearly 27x in early September, flirting with the euphoric levels seen twenty years ago—in stark contrast to the deluge of abysmal economic data. The magnitude of Q2 GDP decline was more than double the decline witnessed during the depth of the financial crisis in 2009. This illustrates the remarkable “delinking” between the stock market and the economy. How can one explain this spectacular stock market recovery during the worst recession since World War II? We see a few possible explanations. First, the unprecedented amount of fiscal and monetary stimulus has given hope that the economy will remain afloat. The Federal Reserve has pledged to continue its pace of quantitative easing and has signaled that it will allow inflation to run higher before raising rates. This likely means zero percent interest rates will continue through 2023. Second, vaccine progress has allowed some optimism that

Index Performance	Q3 '20	YTD
Dow Jones Industrials	8.22%	-0.91%
Standard & Poor’s 500	8.93%	5.57%
EAFE (international stocks)	4.87%	-6.69%
Russell 2000 (small stocks)	4.93%	-8.70%
Barclays Interm. Gov/Credit	0.62%	5.92%
Barclays Municipal	1.23%	3.31%

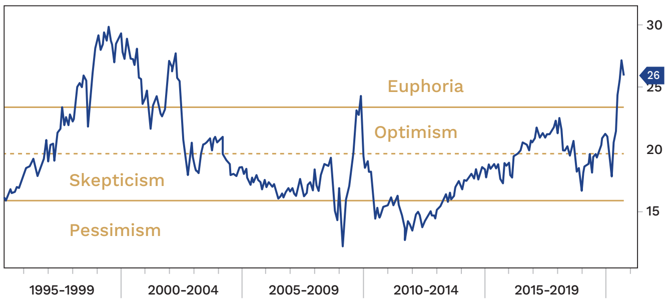
We apply rigorous analysis in asset selection so you can focus on your passion

ECONOMIC OVERVIEW

Flirting with Euphoria (cont.)

an end to the pandemic may be in sight. Third, with fixed income returns near zero, the “fear of missing out” (FOMO) and “there is no alternative” (TINA) factors have driven investors disproportionately into the equity market. Fourth, economic data and corporate profits, though awful, have been better than many predicted and indicate that the trough may be behind us. Finally, the top five largest holdings in the S&P 500 all have legitimate fundamental tailwinds that have driven their prices higher. These stocks have pulled the broader market up along with them.

S&P 500 Trailing 12-Month Price-to-Earnings Ratio



Source: Bloomberg

Given the challenges that remain, we are concerned about valuations. Although job losses have slowed to less than one million per week, the fact remains that over 10 million jobs have been lost since March. Some of these workers may be rehired in the near term, but many will not. Furthermore, despite the massive amount of fiscal stimulus already injected, many agree that more is needed to keep the economy afloat. The market is expecting a fifth coronavirus stimulus package to be passed, but Republicans and Democrats cannot seem to agree on the size and scope. The added agenda item of replacing late Supreme Court Justice Ruth Bader Ginsburg further dims the hope of passing a near-term stimulus bill. The November election could also bring volatility. Joe Biden was leading in the polls during the height of the pandemic, but President Trump has been gaining ground in more recent data. Regardless of who wins the election, we believe higher taxes are ahead, as the fiscal stimulus will need to be financed.

The talking heads debate the shape of the eventual economic recovery, whether V-shaped (a quick rebound), U-shaped (a slower rebound), or W-shaped (an uneven rebound with multiple declines). We think the most likely scenario is a “K-shaped” recovery. In this scenario, white-collar workers who can work remotely will recover more quickly, while blue-collar workers who are not able to return to work will continue to face a lingering decline. This will likely exacerbate the wealth inequality trends that have been building for the past 40 years. We also see a K-shaped recovery forming in the equity markets, with growth and momentum stocks' outperformance accelerating relative to value stocks' performance. Early in the pandemic, we recognized the potential upside in growth stocks that would benefit from remote work trends, such as Apple (tkr: AAPL) and DocuSign (tkr: DOCU), while selling value stocks such as IBM (tkr: IBM) and Schlumberger (tkr: SLB). Now, we are focusing on taking money out of overbought positions in favor of undervalued companies that will weather the remaining stages of this pandemic.

ASSET TRANSACTIONS

Poised to Perform

In the third quarter, we sought to add relatively undervalued stocks in companies that are geared to perform well both during the remainder of the pandemic and in the anticipated recovery.

In the real estate sector, we bought a position in Iron Mountain (tkr: IRM), the global leader in document storage and information management systems. Iron Mountain has a reliable core business and boasts a hefty 9.5% dividend. To facilitate growth, the company is working to expand into new areas such as data centers. We trimmed our position in Ventas (tkr: VTR), reversing a strategic tax loss purchase in taxable accounts. However, we retained a small holding, as Ventas is well-positioned over the long term to benefit from an aging baby boom population.

We purchased Adobe (tkr: ADBE), the leading provider of content creation software. Adobe is a software company with a recurring revenue stream, which should insulate it from some of the negative effects of the COVID-19 outbreak.

In the consumer discretionary sector, we bought a position in Chewy (tkr: CHWY). Chewy is the largest pet "e-tailer" in the world, offering the speed and convenience of e-commerce with the personalized service of a neighborhood pet store. The growing humanization of pets and focus on pets as family members has led to increased spending on pet care products and services. Chewy is benefiting from the pandemic, with record numbers of pets being adopted and people gravitating toward online shopping.

In the healthcare sector, we sold our position in Gilead (tkr: GILD) as there are no near or medium-term growth drivers for the company. Its popular HIV drug, Truvada, is going off patent this year. Additionally, UnitedHealth Group said it would not cover Gilead's other HIV drug, Descovy. Lastly, the multiple acquisitions that Gilead has made recently are not ready for prime time, and it will likely be two years or more before any of Gilead's new drugs have a meaningful impact on revenue. We bought a position in Quidel (tkr: QDEL, see Featured Equity), a company that helps make healthcare more efficient by focusing on point-of-care diagnostic testing. Though Quidel has benefited from the release of its SARS-CoV-2 molecular assay and antigen tests, we believe there is opportunity for point-of-care testing in many other applications beyond the pandemic. Furthermore, as flu season kicks into full gear, it will be crucial to differentiate COVID-19 cases from flu cases.

We trimmed our position in Alphabet Inc. (tkr: GOOG) to a market weight as we noted elevated risks for the company. Aside from the increasing regulatory threats, we reduced our portfolio's total exposure to the five largest stocks in the S&P due to concerns about market concentration. Alphabet also has large exposures to travel and leisure customers that have been impacted by the shutdowns due to COVID-19.

In the industrial sector, we sold our position in Eaton (tkr: ETN) and replaced it with Trane Technologies (tkr: TT). Trane Technologies is a dominant player in commercial and residential heating, ventilation, and air-conditioning (HVAC) systems, as well as in transportation refrigeration. HVAC providers may see an uptick in commercial HVAC business, as having updated ventilation in buildings will be essential for employees to safely return to offices. We expect air filtration, air-quality assessment, and touchless access control solutions to become larger market opportunities due not only to COVID-19, but also the smoke from the disastrous west coast wildfires. Longer term, the shift towards sustainability and energy efficiency provide additional tailwinds for the company.

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FIRM UPDATES

On August 4, 2020, the firm welcomed Sloane Jacqueline Nelson, daughter of Evan and Katie Nelson, and granddaughter of Brooks Nelson. She and her parents are healthy and doing well.

Nelson Roberts is pleased to welcome Tiffany Young to the team. Tiffany joined the firm June 1st and was formerly a branch manager at Wells Fargo Bank for 9 years. Tiffany is a California native who enjoys scuba diving, hiking, traveling, sports games, and concerts. She is also a board member for the San Jose chapter of Active-2030, a nonprofit group that aims to improve the lives of children in their communities.

WEALTH MANAGEMENT

What Should I Do with My Cash?

The quick stimulus actions by Congress and the Federal Reserve in the early stages of the pandemic have thus far succeeded in stabilizing the economy and the capital markets through the injection of large amounts of cash. As we detail in our Economic Overview, the equity markets have not only recovered, but have also notched record highs. The surge in equities has led to lofty valuations, while yields on fixed income investments remain near historic lows. This begs the question: What should one do with excess cash?

Do something for yourself. The last six months have been a challenge for even the most optimistic among us. The daily news cycle is relentless, filled with pandemic case numbers and deaths, hazardous air from wildfire smoke, a divisive political environment, and social unrest. Some consumers have exchanged their vacation budgets and gym memberships for Pelotons and puppies. Purchases such as these are geared toward providing a mental and emotional break during these challenging times.

Pay down debt. During periods of uncertainty, it is important to examine the liability side of one's personal balance sheet. One way to improve cash flow as the economy rebounds is to use accumulated cash to pay down debt burdens (student loans, automobile debt, etc.) or utilize the lower interest rate environment to refinance.

Buy stocks. Despite the high valuations in the current equity market, there is still a compelling argument to participate in the capital markets. We anticipate short-term volatility in the stock market as the economy regains its footing. Still, the medium- and long-term prospects for economic growth remain strong. Cash with an investment time horizon beyond a few years will benefit in the short term from the dividend income, and in the long term from the realization of future growth opportunities. There also are sectors of the economy that remain attractively priced relative to their pre-pandemic valuations. While these sectors may be priced attractively due to the business challenges they face in the near term, prospects for a vaccine or therapeutic solution increase the chance that revenues in those sectors will return to pre-pandemic levels.

Buy bonds. Interest rates are unquestionably low, but bonds are still an effective safe haven for cash without volatility in price movements. Bonds can be used as a store of liquidity for cash flow needs in the short term without fear of their value evaporating in difficult markets.

Investigate alternative investments. Since the stock and bond markets we have traditionally utilized for investment allocations are expected to remain challenged in the short term, we believe now may be the time to look for ways to generate return beyond these traditional investments. We are in the process of analyzing strategies that would be considered "alternatives" to traditional stock and bond securities. These investments typically relax one or more of the constraints Nelson Roberts has historically applied to security selection. This could mean including the use of derivatives or relaxing liquidity constraints in order to achieve attractive risk/return profiles. Alternatives would make up a small allocation to a client portfolio, and they are not appropriate for all clients. We would solicit the approval of clients prior to implementing an investment in an alternative strategy.

TOP 15 HOLDINGS

- AMAZON.COM INC.
- VANGUARD DEVELOPED MARKET ETF
- ISHARES S&P SMALL-CAP ETF
- MICROSOFT CORP.
- APPLE INC.
- COSTCO WHOLESALE CORP.
- ALPHABET INC.
- HOME DEPOT INC.
- MEDTRONIC
- VERIZON COMMUNICATIONS INC.
- QUALCOMM INC.
- SALESFORCE.COM INC.
- VANGUARD EMERGING MARKET ETF
- LINDE PLC
- ILLUMINA INC.

FEATURED EQUITY

Quidel

Quidel (tkr: QDEL) is a relatively small, U.S.-based company that aims to make healthcare more efficient by focusing on point-of-care (POC) diagnostic testing. POC testing is done right on the spot, as opposed to obtaining samples to be sent to a lab elsewhere. Quidel is the market leader in POC infectious disease testing using its installed base of 42,000 Sofia-branded analyzers. Quidel was the first company to have a SARS-CoV-2 antigen test approved under the FDA's Emergency Use Authorization, which drove the stock price to over $300 per share. On August 30, when Abbott announced that its rapid antigen test had been approved, Quidel's stock price fell to $163 per share, as investors became concerned about the increased competition. We saw this as an opportunity to buy Quidel, since we believe the theme of POC testing will endure beyond the pandemic. Quidel was founded in 1979 and launched its first product, a dipstick pregnancy test, in 1983. The company is headquartered in San Diego and employs about 1,250 people. All manufacturing is done in the U.S. Quidel has a strong position in the development, manufacturing, and marketing of rapid diagnostic testing solutions, even against larger competitors such as Thermo Fisher, Becton Dickinson, Danaher and Abbott. Quidel offers four product categories: rapid immunoassays, cardiac immunoassays, specialized diagnostic solutions, and molecular diagnostic solutions. Products are sold directly to end users and distributors for professional use in physician offices, hospitals, clinical labs, reference labs, university health centers, urgent care clinics, retail clinics, pharmacies, and wellness screening centers. POC testing for certain diseases or diagnoses has become an accepted adjunct to central lab and self-testing because it leads to fast and accurate results, greater cost-effectiveness, and more satisfied patients.

Quidell Corporation

Source: FactSet

In past years, over one-quarter of Quidel's revenue has come from rapid-result influenza testing. This has become important because there are drugs available to mitigate the more serious symptoms of influenza. In the fall of 2020, distinguishing between COVID-19 and influenza will be particularly crucial given their similar and overlapping symptoms. Quidel's other big source of revenue is cardiac immunoassays, which allow healthcare providers to use a portable testing platform to quickly assess and risk-stratify patients with heart disease. This portion of the business has been hurt by the pandemic, as patients have been reluctant to seek care, even when experiencing potentially life-threatening symptoms. However, this type of testing is already beginning to recover.

Although Quidel is a relatively small company, it is financially healthy, has no debt outstanding, and was growing revenues at a 26% compound annual growth rate even before the pandemic. We like that it is U.S.-based, its products are U.S.-manufactured, and that the company makes healthcare more efficient and affordable with its POC testing solutions. The company is also small enough to be a possible acquisition target, while large enough to continue doing well on its own.

(The preceding information regarding the featured equity should not be construed as a recommendation to purchase the security. It should not be assumed that future returns will be profitable or will equal the historical performance. Please contact us for a complete list of holdings.)

OUR TEAM

Brooks Nelson, CFA
Brian Roberts, CFA, MBA
Steve Philpott, CFP®, MBA
Ann Oglesby, MD, MBA
Darcy Nelson Smoot, CFA
Evan Nelson, CFP®
Sarah Sinclair
Erin Rodriguez
Chrissy Domingo
Marissa Wisniewski
Tiffany Young

SPECIAL TOPIC

Trusted Contact Person

In response to the increasing number of financial fraud cases against seniors, regulators have implemented new rules to protect older clients. SEC and FINRA rules require financial advisors to ask their clients if they would like to designate a person to be contacted in the event that the advisor suspects fraud or mental decline.

What is a "trusted contact person?"

A trusted contact is someone who Nelson Roberts Investment Advisors can get in touch with to:

- Address possible or suspected financial exploitation involving your account;
- Confirm your contact information in case we have trouble reaching you;
- Confirm if there is someone acting as a legal guardian, an executor, a trustee, or holder of a power of attorney; or
- Determine your mental or physical health status.

It is important to note that your trusted contact does not have authority to access your account or make transactions on your behalf. Instead, the trusted contact's role is to help us contact you; to provide the identity of any legal guardian, executor, trustee, or holder of a power of attorney; or to help us guard against financial exploitation.

Why should I add a trusted contact person to my account?

Investment advisors often serve as the first line of defense when it comes to cases of possible financial exploitation. A trusted contact person is another resource to help protect you and your loved ones against financial abuse. A trusted contact person is another way of protecting your personal assets when something unexpected happens in your life. It adds an additional level of security to your account.

Who can be a trusted contact?

Trusted contacts are usually family members or close friends—people you trust and who are likely to be in the best position to know your current situation. A trusted contact must be at least eighteen years old. Please note, a trusted contact person need not be the same as someone who acts as a representative under a power of attorney.

Part of your financial planning should include identifying people who Nelson Roberts Investment Advisors can contact if we suspect you are a target of financial exploitation or if we see signs suggesting that you are becoming unable to manage your finances alone. Please contact us if you wish to add a trusted contact person to your account.

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