Cygnus
ASSET MANAGEMENT, LLC

Honesty. Integrity. Perspective.

A View from the Bevy – 3Q21

Market Overview

September became a self-fulfilling prophecy for the stock market. September is usually one of the worst months of the year for stocks and this year was no different: the S&P 500 fell 4.8% during the month, the first monthly loss of the year and the worst month the index has had since March of last year. Most other stock indices, including the DJIA and Nasdaq, also had their worst month of the year. Losses in September wiped out almost all the gains seen during July and the surprisingly strong August, with many indices ending the quarter in negative territory as shown below. Other than emerging markets, however, most indices still have double digit gains for the year.

Stock Market Indices	3rd Quarter	Year-to-Date
S&P 500	0.58%	15.92 %
S&P 500 (Equal-Weight)	-0.22%	18.92%
Dow Jones Industrial Average (DJIA)	-1.46%	12.12%
NASDAQ Composite	-0.38%	12.11 %
Russell 2000	-4.36%	12.41 %
MSCI World	-0.01%	13.04 %
MSCI World ex U.S.	-0.66%	9.19 %
MSCI Emerging Markets	-8.09%	-1.25 %

Source: AJO. Data supplied by FactSet Research Systems.

The important question to ask now is if September is signaling the beginning of a longer downturn or if it was just … September. Optimists will say that not a lot has fundamentally changed, and, seasonally, the 4th quarter is historically a strong one for the markets. They will argue that the self-inflicted noise from Washington, which rattled markets, will work itself out like it always does (so the government will not shut down and the debt limit will be raised), while the U.S. Federal Reserve (Fed) will remain accommodative.

Pessimists argue that the Fed has been sending mixed signals about when it will raise short-term interest rates, which has confused markets. Meanwhile, today's inflation is more than transitory and will continue as long as global supply chains remain out of synch. Pessimists will contend that corporate earnings, which ultimately drive stocks, will be impacted by both these supply issues as well as labor shortages.

Realists, like us, recognize that reality probably ends up somewhere in the middle.

Outlook

We remain cautiously optimistic as we enter the final quarter of the year, recognizing that the increased volatility that we witnessed in September is likely to continue in the short term. Like September, October is typically a rough month for stocks, while November and December are historically better. We view any volatility as an opportunity to buy high quality stocks at lower valuations.

Corrections are a normal part of bull markets and are in fact healthy. Given the recovery in stocks since the initial shock of the pandemic, a rise that has been faster and more impressive than even the most optimistic market participants had anticipated, a temporary pause should not be surprising or overly concerning.

In addition, most of the prolonged downturns in the market historically have been caused by large unanticipated macroeconomic shocks. Examples include the 1918 Spanish flu epidemic, the 1929 Great Depression, the burst of the housing market bubble that led to the 2008 global financial crisis, and the more recent global pandemic. Short of such an event occurring, occasional downturns and volatility should not be overly alarming.

As always, there are currently both positive and negative forces impacting the market, and while we are cognizant of what can go wrong, we still feel that the overall direction of the market will be positive throughout the rest of the year, albeit with some bumps along the road.

We are keeping a close eye on the supply chain and labor shortage issues that continue to be seen around the globe – here the pessimists have a reason for concern. Because of these supply/demand imbalances, many companies are struggling to get products to market and many retail establishments are finding it hard to hire enough employees. Inflation appears poised to remain elevated for longer than most people initially believed, perhaps through 2022. While corporate profits will likely be impacted as companies adjust, we continue to believe that these imbalances will ultimately be rectified before too much damage occurs.

The uncertainty over how this plays out and for how long could make some investors uneasy. It is always important to remember, however, and especially after market corrections, that time in the market is more important than trying to time the market. Investors who panicked in March 2020 have missed out on the fastest market recovery in history.

As always, we continually monitor events that can impact client portfolios, and we will proactively adjust portfolios as necessary as conditions warrant. Please feel free to reach out to us if you have any questions or concerns. In the meantime, as Fall begins and the holidays approach, we hope you all have a great end to 2021.

Of Interest: Cryptocurrencies

"Everything you don't understand about money combined with everything you don't understand about computers." That was the description of Cryptocurrencies on the March 11, 2018 episode of HBO's *Last Week Tonight* with John Oliver.

Cryptocurrencies have only emerged as a financial innovation during the past decade, but the global market for digital currency is already over $2 trillion (according to coinmarketcap.com).

Until recently, cryptocurrencies had been used by digital enthusiasts and individuals who believe that traditional currencies may become obsolete. The rapid increase in the prices of many cryptocurrencies, however, has attracted the interest of many new potential investors.

Unlike traditional money, no physical notes or coins are involved, no central bank issues the currency and no regulators are involved. Instead, cryptocurrencies exist only digitally and are stored in online wallets or in hardware wallets similar to a thumb drive. Transactions are recorded on a public ledger called blockchain. Strong cryptography rules secure transaction records in the ledger to verify the transfer of coin ownership and to govern the number of coins that circulate.

Bitcoin is the largest and best known of the cryptocurrencies, but there are thousands of alternative digital currencies available, and it can be difficult to understand the nuances of the different technologies which underly them. The table below highlights the 10 largest cryptocurrencies.

10 Largest Cryptocurrencies
(By market capitalization as of October 1, 2021)

Bitcoin
Ethereum
Cardano
Binance Coin
Tether
XRP
Solana
USD Coin
Polkadot
Dogecoin

Source: coinmarketcap.com

Cryptocurrencies have made headlines for some negative reasons as well. Some users have lost access to millions of dollars' worth of bitcoin due to forgotten passwords that can never be recovered. A prominent cryptocurrency consulting firm estimates that 20% of all outstanding bitcoin are "stranded" assets which are unavailable to their rightful owners. Additionally, crypto exchanges and blockchains are frequently targeted by hackers. Per CipherTrace, losses from crime in the cryptocurrency market were $1.9 billion in 2020. These are the kinds of risks that traditional investors in stocks and bonds are likely not accustomed to.

While alternative and inexpensive ways to invest in cryptocurrencies, which help avoid these problems, are emerging – including ETFs, custodians, and apps that allow for purchase of partial coins– these innovations are still unproven.

The environmental impact of mining for bitcoin has gained attention as well. 'Mining' involves using powerful computers to compile recent transactions into new blocks by solving a highly complex mathematical puzzle which delivers new coins into circulation. Investors who are concerned with sustainability may worry about the amount of energy required to mine for coins.

The increasing attention paid to cryptocurrencies has also brought heightened scrutiny from regulators. The U.S. Securities & Exchange Commission (SEC) has been loudly advocating for tighter crypto regulations while warning that fraudsters are exploiting the popularity and returns of crypto to lure investors. Regulations will evolve over time and currently vary greatly between jurisdictions.

Bottom line, cryptocurrencies represent both a financial innovation and an investment with tremendous uncertainty. The risk of investing in cryptocurrencies has been evident lately, given recent large and volatile swings in prices. We believe that a goals-based approach using traditional investments, which has helped investors grow their wealth for decades, is still the most advisable.