Q3 2020 Update

Dear Members of Flower City Capital,

We hope you and your families are having a safe and healthy Fall. To say this has been an eventful year would be an understatement. Below we attempt to answer some of the key questions you might be wondering about right now:

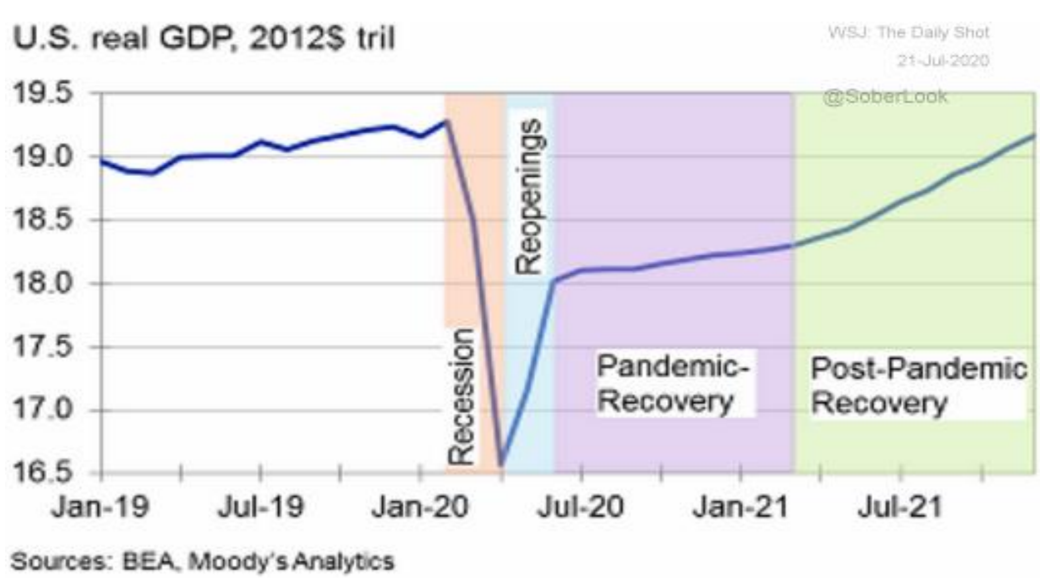
- What is going on?
- What impact could the election have on my portfolio?
- Are there potential tax changes to be concerned about?
- Does the market make sense at these levels?
- Will there be another big sell off?
- Will this year's events affect my long-term plan & goals?
- What is our path forward?

Naturally, we will be unable to delve too deeply into any one topic in this format. Please do not hesitate to reach out if we can help elaborate or clarify anything.

Also, it is tax planning season as well as annual benefits renewal. We offer some additional insights on our tax planning process below at the end of this letter. Please let us know if we can help.

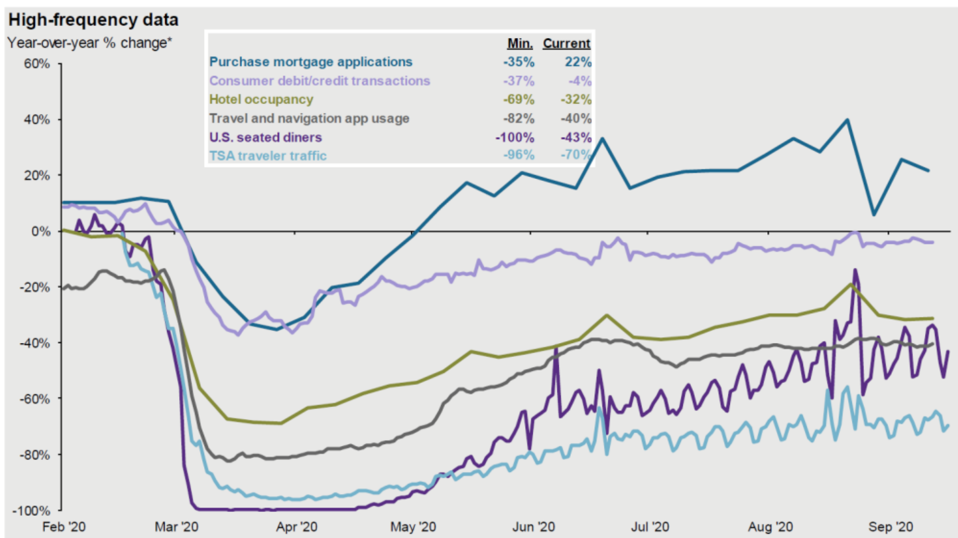
What is Going On?

- The first part we all lived through
  - The virus emerged, markets crashed, and millions of people were put out of work
  - Governments around the world responded with unprecedented amounts of stimulus in an effort to bridge the economy through to a recovery
  - The economy is now in the healing phase after whipsawing from deep recession by the way of a massive contraction to an initially rapid V-shaped rebound



- The reaction to the pandemic has varied by industry both for the economy and financial markets
  - For example, anything related to travel & leisure is still well below last year's levels – a theme that is also reflected in employment data where restaurants, hotels, etc. have been the hardest hit sectors
  - Meanwhile, shares of technology, healthcare, online retail, and home improvement companies (anything related to staying home) have done quite well this year

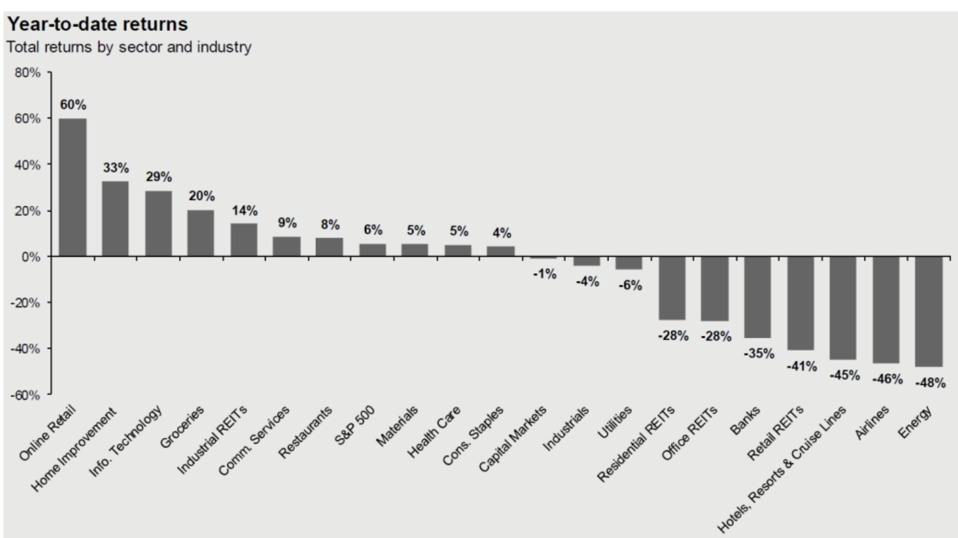
Since 'staying home' sectors make up a relatively larger percentage of the US publicly traded stock market, the S&P 500 has been able to turn positive for the year even though the economy has contracted overall.



Source: App Annie, Chase, Mortgage Bankers Association (MBA), OpenTable, STR, Transportation Security Administration (TSA), J.P. Morgan Asset Management. *App Annie data is compared to 2019 average and includes over 600 travel and navigation apps globally, including Google

Travel and Leisure have yet to recover

While 'Staying home' sectors have done very well this year



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2020.

What Impact could the Election have on my Portfolio?

- The short answer is, "not a big one"
    - Markets price in elections in real time reflecting parties' potential policy changes as their favorability rises and falls in the polls
    - A common narrative has been a Biden victory spelling disaster for markets and portfolios
        - All one would have to do is look at the current market which has rallied concurrently with Biden's rise in the polls to see that might not be the case
        - This is likely due to the current belief that a new Democratic administration might be able to pass more stimulus

- Historically, market returns have not varied significantly based on which party is in control

- This is simply because people go to work and businesses function regardless of who is in office

- Over time it is the economic fundamentals of companies such as earnings power and employee compensation that drives markets

- It is also worth reiterating that elections are notoriously difficult to predict, so we would not rely on forecasts or polls as a key input into your long-term plans or investment process

Are there Potential Tax Changes to be Concerned About?

- Though politicians do not drive the economy directly, at the margin they can re-route resources through regulation and tax policy

- To oversimplify, Republicans tend to favor lower taxes and less government spending while Democrats favor higher corporate taxes and more spending on social programs
    - We are not likely to see to many changes should Republicans win as the incumbents
    - The Biden tax plan would raise taxes on high earners and unwind half of the 2017 tax cuts in order to fund more fiscal spending

- Broadly speaking, the market has viewed the two candidates positions as relatively balanced since their tax/stimulus policies would largely offset and both would be looking to help grow the economy out of the downturn

- Regardless, it can be hard to plan for laws that aren't written yet that depend on an election that has not yet occurred
    - Should these conditions change we will reach out to you to make recommendations during our ongoing tax planning process

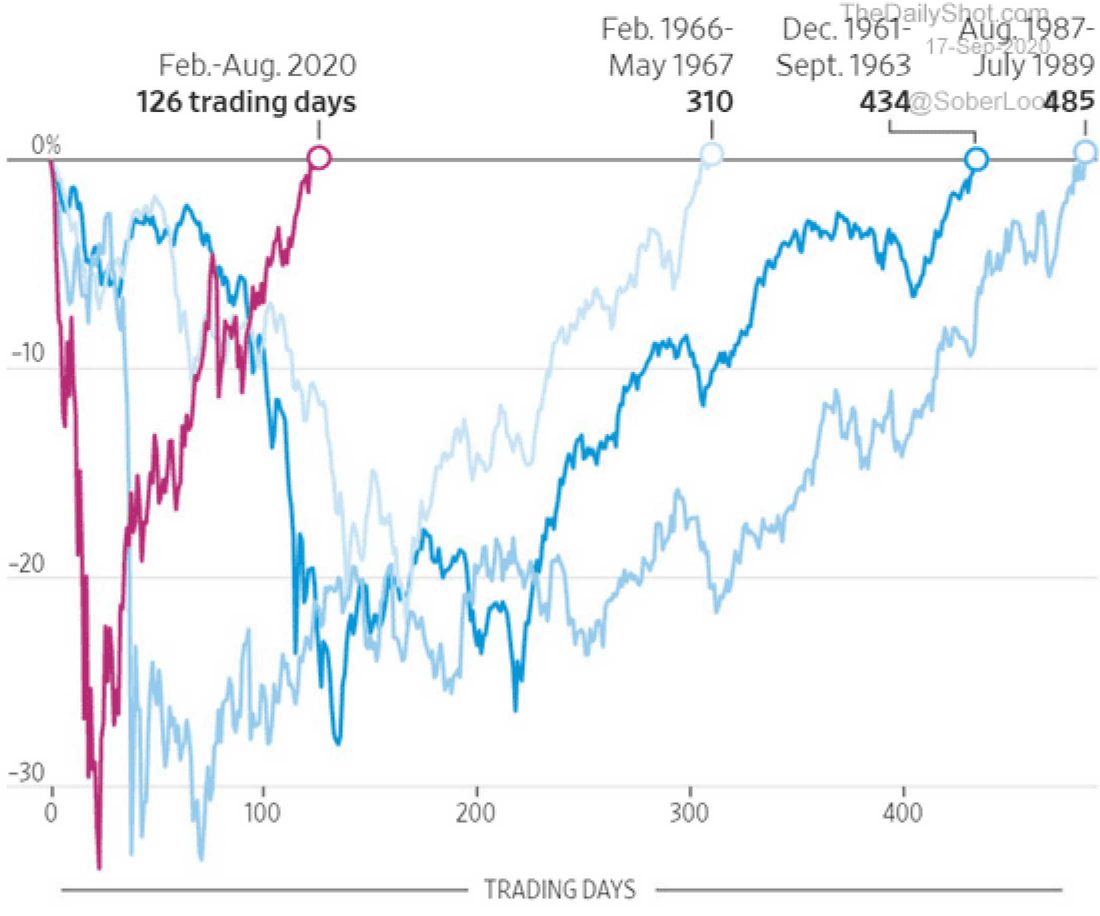
Does the Market Make Sense at these Levels?

- The fact that we are basically back to where we started on the year may be surprising given the significant volatility and poor earnings expectations

- The explanation lies in the monetary and fiscal stimulus discussed earlier
  - By effectively flooding the market with cash, the Federal Reserve reduced interest rates within the bond market making them relatively less attractive
  - Combined with large scale government spending (the CARES Act), the stock market was able to quickly recover and stay afloat

- Also, the market is looking to the future where earnings are expected to return to their 2019 levels by the end of 2021 – so effectively standing still would make some sense since it is mostly the same companies with the same level of earnings as before

S&P 500 fastest recoveries following a bear market, from record high to new record



Source: Dow Jones Market Data

Will there be Another big Selloff?

- There could be, but it would likely be smaller so long as there is additional stimulus
    - Market corrections of 10-20% are quite common
    - Large sell offs of 30% or more are rarer and tend to be attributed to major structural imbalances (example. housing debt bubble in 2008) or panic

- Such an imbalance is notably absent in the current environment, and the likelihood of a big selloff continues to decline given record liquidity and less uncertainty regarding the virus

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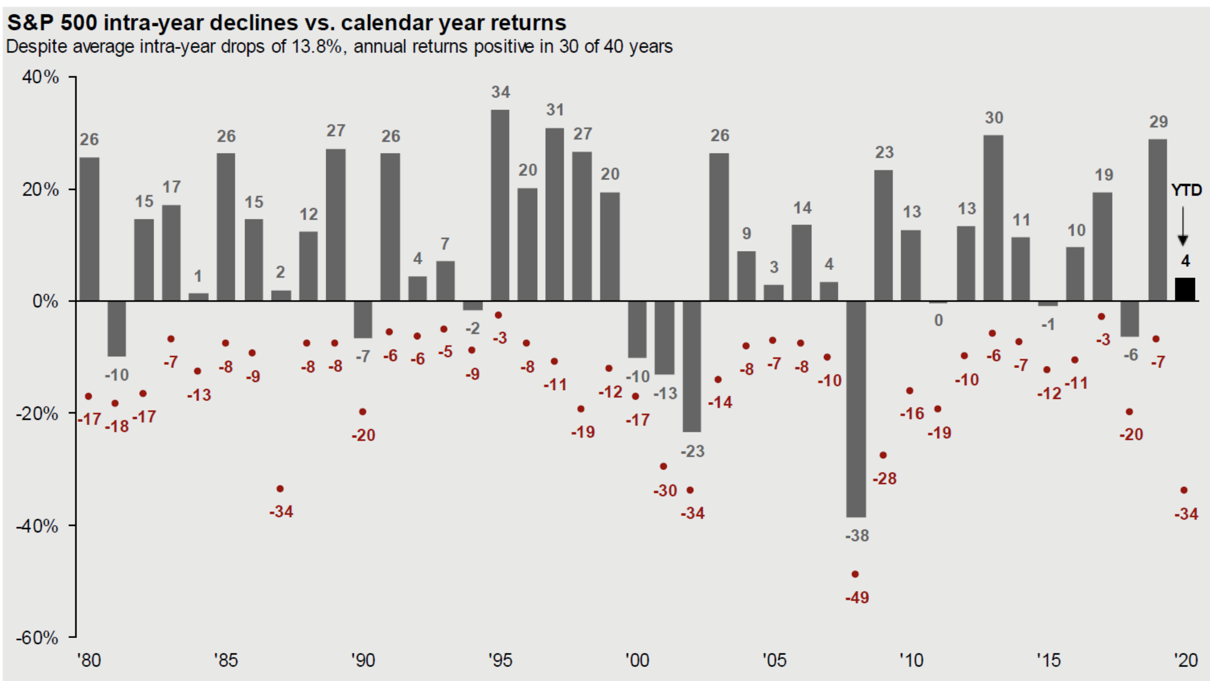


Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Will this Year's Events Affect my Long-Term Plans & Goals?

The short answer is "no" for most people. Our hearts go out to those whose businesses closed or their family were directly impacted by the virus. Unfortunately for them it is a different answer. For the average person, market performance has been in line with what we would expect in the context of historical returns.

One area we can see impacting plans is low bond rates. Many retirees rely on bond interest payments to fund their regular living expenses. Our team has been working to reconfigure portfolios in order to reduce exposure to low return bonds.

What is Our Path Forward?

We will attempt to answer this question in two parts.

1. How the world may advance
2. How are we thinking about and managing portfolios

Projections about the future are difficult, but we will attempt to lay out how we see conditions evolving. Said simply, the world will deal with the virus in one way or another over the next 1-2 years. Over time, there should be enough progress for people to feel more comfortable leaving their homes and travelling again. As the recovery continues, the economy should begin to heat up. This would favor some of the most oversold sectors (i.e. energy, banks, etc.)

With that in mind, our portfolio strategy mirrors a rational person's behavior. There are still plenty of risks out there and it would be hard to argue that one should be overly aggressive in this environment. The time for that would have been back in March during the original sell off. During that time, we were quite busy rebalancing, tax loss harvesting and buying up oversold bonds. This activity has served our portfolios very well this year and we are happy to walk you through the impacts of those decisions on your individual accounts.

Given some of the risks that remain and with markets back at all-time highs, we have a fairly neutral view on risk. However, this cycle does have some unique features, the most obvious being the lowest interest rates in the history of the United States. At 0.7%, the 10-Year Treasury bond will have a difficult time fulfilling its purpose for portfolios, which is to generate safe income and help protect portfolios from market shocks. If one accounts for 2.0% inflation, which has been the average for the last 30 years, an investor will likely lose spending power over the long-term.

US Treasury Yields are the Lowest in the History of the Republic

Source: BofA Global Investment Strategy, Global Financial Data, Bloomberg

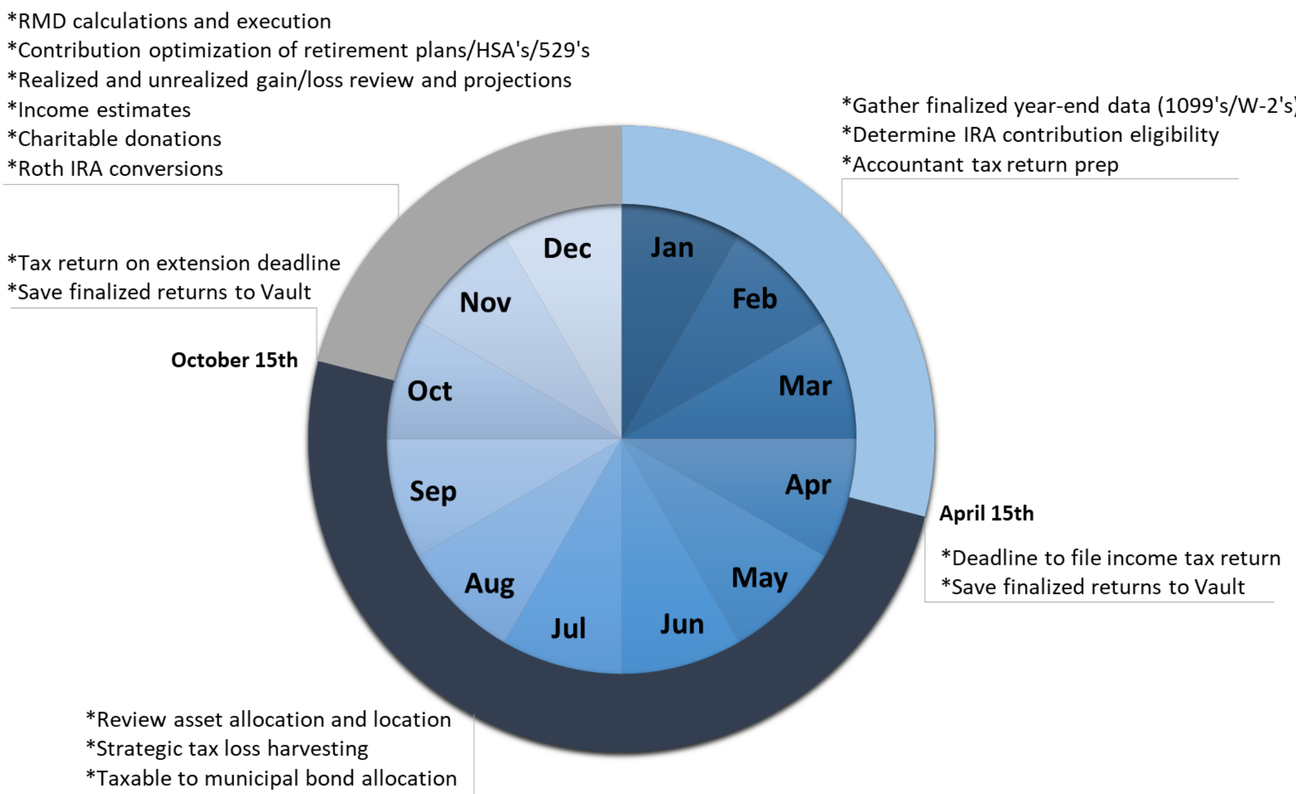
For these reasons we have been actively managing our bond exposures away from low yielding government bonds and towards higher yielding sectors. We have also begun examining several real estate and alternative income options to help client portfolios over the longer term.

Tax Planning

Tax planning is an important part of any effective financial plan. It is a year-round process with many moving pieces. In the next several weeks we will be assisting clients and their accountants with estimating their taxes and looking for any areas where they can be improved.

Into the new year, around mid-February you will be receiving 1099's from Schwab and potentially W-2's if you are still working. We will review this information and discuss if you are eligible to make IRA/Roth IRA contributions for 2020 and/or 2021, which if desired will be processed prior to 4/15/2021.

FCC Tax Planning Annual Roadmap



Please do not hesitate to contact us with any questions, investment or otherwise.

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