

Delbarton Investment Club - Annual Report

Time: 5/1/19-4/30/20

Club Leaders: Theo Coughlin '20 and Pierce Lutz '20



Introduction

The Delbarton Investment Club's primary goal is to educate students in the basics of investing and market concepts. In addition to its educational value, this student-run organization expects to provide funds from its returns toward a worthy Delbarton scholarship. With over 40 members across all grade levels on the club's Schoology page and consistent attendance at club meetings, the first year of the Investment Club has been a rewarding, enjoyable and exciting experience.

The club's voting members were faculty moderator (Mr. Tom Brady), a liaison from the school's Investment Committee (Mr. Rob Failla '89, P'20, P'22 for the first half of the year and Mr. Michael Szymanski P'18, P'21 for the second half), two student leaders (Theo Coughlin '20 and Pierce Lutz '20), and Tyler Mayes '20, Mac Clark '20, Jason Strollo '20, Christian Lalin '21 and Garrett Larson '21.

At inception, the Investment Club was funded with an initial \$25,000 investment, \$20,000 from the Delbarton School Endowment Fund and \$5,000 from the Business and Economics Club. Our initial portfolio was modeled after the Delbarton Investment Committee's portfolio, and the first investments were made in early August. The club directs Vanguard Advisors, Inc. to invest and reinvest assets within account JAF35. The club invests at the asset class level and does not participate in single-security trading. Vanguard Advisors communicates club performance separately as part of its regular reporting. In early December, we received an additional \$2,000 in funds from the Business and Economics Club.

Formal meetings were held on the first Friday of every month and mid cycle meetings were also held when deemed necessary, according to market conditions. While the Covid-19 virus has taken us out of school since February 28, trading, Schoology page updates and Zoom meetings have continued.

The following is the Investment Club report on the past year from May 1, 2019 through April 30, 2020.

Macroeconomic Recap

2019-2020 witnessed the collapse of the decade long bull market that has supported strong economic growth globally since the Great Recession. When the Delbarton Investment Club initially began investing in August 2019, the global economy was coming off the tailwinds of decreased tensions created by the China-US trade dispute that slowed both economies during the earlier part of 2019. As the 2019 school year began, trade barriers and uncertainty about the continued strength of the global economy had weighed on GDP growth. Global macroeconomic conditions began to worsen in early 2020, impacted by the financial crisis in Argentina, social unrest in South America, and geopolitical tensions in the Middle East. The United States, however, maintained its strong economy into early 2020. Fourth quarter GDP for 2019 maintained a 2.1% growth rate, while unemployment floated throughout the mid-3% range, reaching a low of 3.5% in February 2020. The United States economy also had a strong hold on inflation which moved around 2% throughout 2019 and into 2020. The Federal Reserve maintained a dovish stance toward slowing growth as 2019 closed and ultimately bolstered markets.

The beginning of 2020 witnessed macroeconomic events that have shaken the global economy. At the outset of 2020, tensions rose between Iran and the United States, which included war-charged statements from both nations along with a series of military actions including infrastructure assaults to oil production facilities in Saudi Arabia, a shot-down American drone, and missile strike exchanges. Late 2019 and early 2020 also saw the outbreak of COVID-19 (commonly referred to as coronavirus) in China and eventual outbreaks in several other Asian nations. In early March 2020, COVID-19 was declared a global pandemic and has infected 3.5 million people to date, killing nearly a quarter of a million. The global economy has begun to suffer the massive implications of the COVID-19 outbreak. As the United States and other major economies began to close businesses and shutter their countries, layoffs and furloughs hit nearly every industry worldwide while others worried about solvency concerns in an unknown period of minimal revenue. As COVID-19 became a global concern, shocking aggregate demand worldwide, a Saudi-Russian oil supply dispute further damaged global economies, especially those reliant on oil. Into April 2020, oil prices plunged into negative territory as WTI Crude May 2020 contracts fell to nearly -\$50 a barrel due to storage concerns. As COVID-19 froze the United States' economy, the United States Federal Government and the Federal Reserve initiated an unprecedented combination of fiscal and monetary relief to support credit markets, businesses, individuals, and global markets. The financial implications of COVID-19 produced a -4.8% decline in first quarter GDP and massive unemployment as the March 2020 U3 rate rose to 4.4% and jobless claims surged by millions each week.

As the Delbarton Investment Club transitions into a new year, the macroeconomic future is clouded by uncertainty of the COVID-19 pandemic's length and financial reach.

Financial Markets Recap

As a result of a strong, decade-long bull market, major financial indexes including the Dow Jones and S&P 500 returned over 30% in 2019. Record corporate earnings drove markets higher even in the face of slower growth. But as the COVID-19 pandemic expanded from its epicenter in China to other major economies as a global outbreak, the bull market ended and volatility brought financial markets into and out of a bear market several times. 2020 year-to-date return on the S&P 500 of over -12% stresses the extent of the COVID-19 pandemic's impact on financial markets. April 2020 witnessed a strong rebound with index prices soaring over 30% from March lows. As May 2020 began, 2nd quarter earnings, jobless claims, and the April report on labor statistics will be the main indicators for summer equity returns. Stimulus by the Federal Reserve along with investor fears has produced soaring bond prices and subsequent yield deterioration. The United States 10-year note yield fell to under .5% and to date has only corrected to around .6%. Long term hopes for financial markets are pinned to the success of social distancing and efforts to produce vaccines and therapies for COVID-19. Throughout 2019-2020, the yield curve also faced significant pressure, briefly inverting in August 2019. The 1-year Treasury bill/10-year Treasury note spread has since normalized to a spread of about .5%.

Current Portfolio (as of market close on 04/30/2020)

Current Allocation



Bonds are 100% domestic while stocks are 87.3% large cap, 8.9% medium cap and 3.8 small cap.

Portfolio

Symbol	Name	Expense ratio	Fund & account	Quantity	Price as of 04/30/2020	Change		Current balance
VDADX	Vanguard Dividend Appreciation Index Fund Admiral Shares	0.08%	5702-88779429507	95.761	\$30.84	-\$0.53 ↓	-1.69% ↓	\$2,953.27
VDIGX	Vanguard Dividend Growth Fund	0.22%	0057-88779429507	105.947	\$27.49	-\$0.34 ↓	-1.22% ↓	\$2,912.48
VMFXX	Vanguard Federal Money Market Fund Sweep account-Order Of St Benedict Of Account, 76064505	0.11%	0033-88779429507	5,476.900	\$1.00	—	—	\$5,476.80
VITAX	Vanguard Information Technology Index Fund Admiral Shares	0.10%	5487-88779429507	23.215	\$123.92	-\$0.77 ↓	-0.62% ↓	\$2,876.80
VBILX	Vanguard Intermediate-Term Bond Index Fund Admiral Shares	0.07%	5314-88779429507	131.714	\$12.34	-\$0.01 ↓	-0.08% ↓	\$1,625.35
VFIDX	Vanguard Intermediate-Term Investment-Grade Fund Admiral Shares	0.10%	0571-88779429507	121.563	\$10.19	—	—	\$1,238.73
VFSUX	Vanguard Short-Term Investment-Grade Fund Admiral Shares	0.10%	0539-88779429507	208.296	\$10.73	\$0.01 ↑	0.09% ↑	\$2,235.02
VBTLX	Vanguard Total Bond Market Index Fund Admiral Shares	0.05%	0584-88779429507	109.319	\$11.51	-\$0.02 ↓	-0.17% ↓	\$1,258.26
VITSX	Vanguard Total Stock Market Index Fund Institutional Shares	0.03%	0855-88779429507	90.920	\$71.08	-\$0.86 ↓	-1.20% ↓	\$6,462.59
Total								\$27,039.40

Performance

Monthly totals

Month	Beginning balance	Purchases & withdrawals	Market gain/loss	Income returns	Personal investment returns	Cumulative returns	Ending balance
04/2020	\$25,268.07	\$0.00	\$1,755.69 ↑	\$15.64 ↑	\$1,771.33 ↑	\$35.21 ↑	\$27,039.40
03/2020	\$27,172.63	\$0.00	-\$1,982.62 ↓	\$78.06 ↑	-\$1,904.56 ↓	-\$1,736.12 ↓	\$25,268.07
02/2020	\$28,790.95	\$0.00	-\$1,631.78 ↓	\$13.46 ↑	-\$1,618.32 ↓	\$168.44 ↑	\$27,172.63
01/2020	\$28,886.49	\$0.00	-\$110.86 ↓	\$15.32 ↑	-\$95.54 ↓	\$1,786.76 ↑	\$28,790.95
12/2019	\$26,274.12	\$2,000.00 ↑	\$342.63 ↑	\$269.74 ↑	\$612.37 ↑	\$1,882.30 ↑	\$28,886.49
11/2019	\$25,821.47	\$4.19 ↑	\$434.13 ↑	\$14.33 ↑	\$448.46 ↑	\$1,269.93 ↑	\$26,274.12
10/2019	\$25,472.29	\$0.00	\$329.60 ↑	\$19.58 ↑	\$349.18 ↑	\$821.47 ↑	\$25,821.47
09/2019	\$25,200.94	\$0.00	\$176.32 ↑	\$95.03 ↑	\$271.35 ↑	\$472.29 ↑	\$25,472.29
08/2019	\$0.00	\$25,000.00 ↑	\$193.35 ↑	\$7.59 ↑	\$200.94 ↑	\$200.94 ↑	\$25,200.94
Total		\$27,004.19 ↑	-\$493.54 ↓	\$528.75 ↑	\$35.21 ↑		

Performance against various benchmarks

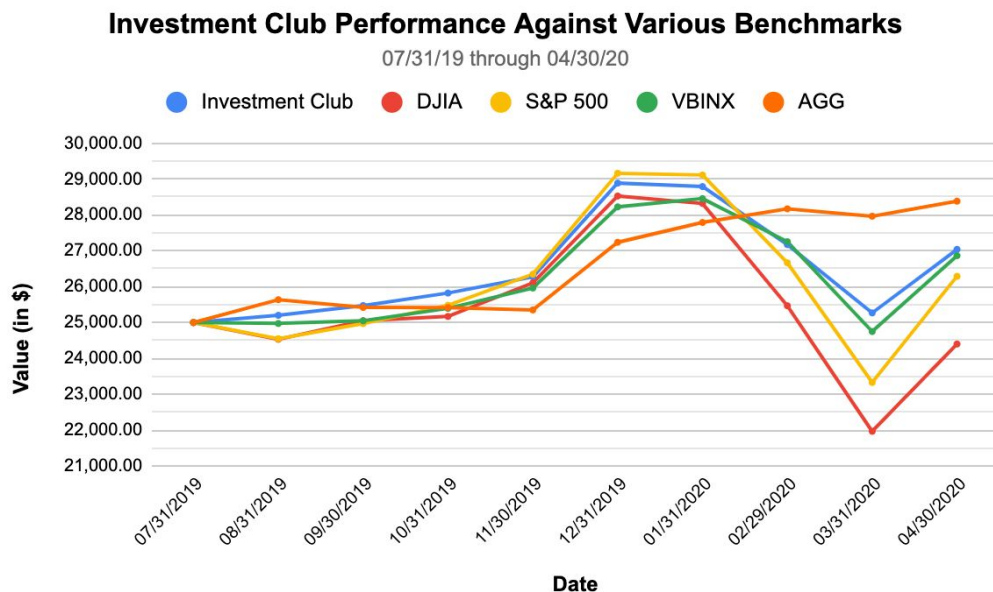
** Note: The sharp increase from 11/30/2019 to 12/31/2019 is due to the additional \$2,000 deposited into the account. For the benchmarks, we acted as though we invested the \$2,000 into each respective benchmark on December 9, 2019, the first day available for investment after the money was deposited.

Dow Jones Industrial Average: 30 large cap, diversified companies; meant to track the overall performance of the stock market

S&P 500: 500 companies; meant to track the overall performance of the stock market

VBINX (Vanguard Balanced Index Fund Investor Shares): A Vanguard fund that invests roughly 60% in stocks and 40% in bonds.

AGG (iShares Core US Aggregate Bond ETF): A fund of US investment-grade bonds.



Analysis of the performance against the benchmarks:

The Investment Club performed relatively well against these benchmarks; only AGG posted higher returns. The Investment Club portfolio had outperformed all indexes until the COVID-19 started to impact the markets and bond values spiked. The club maintained a portfolio of roughly 75% stocks and 25% bonds throughout the year and outperformed VBINX, a portfolio of roughly 60% stocks and 40% bonds. The worst performers over that time period were the Dow Jones Industrial Average and the S&P 500. Overall, Investment Club performance has stayed relatively flat from our inception to today. It has been a historic 9 months, and to come out of it unharmed is clearly a positive result.

Trades Throughout the Year (from the club's archives)

Friday, October 25, 2019

The voting members came to the meeting on Friday, October 25 with the purpose of making the club's first-ever trade. After reviewing our current holdings profile, we agreed on a couple of trades. First, we agreed that our roughly \$5,500 of cash (in the form of government backed securities (VMFXX)) in our portfolio should be completely invested. After mulling over various trade recommendations from club members, we decided to invest in high dividend, blue chip companies. After contemplating investments in two similar funds, VDIGX and VDADX, we decided to split our money between the two. These funds included companies such as Microsoft, Procter and Gamble, Walmart, Visa, Comcast, Johnson & Johnson, McDonald's, Costco, Coca-Cola, Nike, and Colgate-Palmolive and provided exposure to large market cap companies. Also, with their commitment to strong dividends, even if the market remains flat, the dividends will provide a revenue stream.

We also agreed to move our fixed-income investments from short-term investment-grade bonds (totaling roughly \$4,400 between VUSFX and VFSUX) to intermediate investment-grade bonds. Interest rate hikes are not likely in the near future, and the higher rate of return of the intermediate bonds is certainly more attractive while providing little additional risk.

As a result, we decided to sell 100% of VUSFX and keep 100% of VFSUX. With the proceeds from VUSFX, we invested in VBILX which splits investments 50/50 between corporate bonds and US government bonds. The money remaining in VFSUX acted as reserves with a low rate of return while providing safety and liquidity.

Wednesday, January 15, 2020

We came into this voting member meeting following a general club meeting on Friday, January 10 seeking to better position the portfolio. Two funds that were proposed at the general meeting were VGT (an Information Technology fund) and VSMAX (a small-cap index fund). Following some conversation, we decided that technology is poised to be one of the most successful sectors in the years to come. VGT's largest holdings include Apple, Microsoft, Visa, Mastercard, Intel, Cisco Systems, Adobe, salesforce.com, Oracle, and Accenture. We decided to sell all of our holdings in VGSLX, our worst performing fund held since inception, worth just above \$1,000. VGSLX is a real estate fund, so it is just as risky as VGT due to the volatile nature of both sectors. We also decided to sell our holdings in VMFXX Money Market Fund worth \$2,000. With the subsequent \$3,000 to invest, we voted to invest it all in VGT.

We know that most of the companies in VGT have had an extremely successful previous 12 months and we acknowledge the fact that a pullback could come in the near future. Depending on the US-Iran tensions, presidential race and other factors, we will watch VGT's performance closely and will not hesitate to quickly liquidate our holdings if times of distress come. Finally, as noted in the report from the last voting member meeting in October, the money

that we still hold in short-term bonds in the fund VFSUX, worth \$2,200, continues to act as our money reserves for future investments.

UPDATE (1/16): After contacting Vanguard to execute the trade, we were alerted that we could not buy VGT as it is an ETF. VITAX was suggested as an alternative, and we decided to go with this fund as it is basically made up of the same companies, with its ten largest holdings in Apple, Microsoft, Visa, Mastercard, Intel, Cisco, Adobe, NVIDIA, salesforce.com, and Accenture.

February 27, 2020

We met to discuss the future of our portfolio as COVID-19 starts to have a more negative impact on the markets. After discussing our options, we decided to sell our international equity in the form of VTSNX. We feel as though the international markets are going to be hit harder by the coronavirus as it grows. Thus, as we had close to \$6,000 invested in VTSNX, we converted this all to cash and will wait for a proper time to reallocate these funds.

Political Risk Subcommittee - 2020 US Presidential Election

The Political Risk Subcommittee was a great highlight of the club this year. With the presidential election just six months away from the time of this report, we decided as a club in December that understanding each potential Democratic presidential candidate and his/her potential impact on the financial markets would be essential for success. Led by Ather Williams '20, the group included Tyler Mayes '20, Arthur Metzler '20, Garrett Larson '21, Pierce Munsey '21, and Robbie Maffucci '22. We received a very valuable report at our meeting on Friday, January 10, 2020 on all possible candidates: Joe Biden, Bernie Sanders, Elizabeth Warren, Andrew Yang, Tom Steyer, Michael Bloomberg, Pete Buttigieg, and Amy Kloubuchar. Now that Joe Biden is the presumptive Democratic nominee, we include the portion of the report dedicated to his candidacy:

- One of the more moderate candidates and is the most plausible candidate to win the Democratic bid
- He also wants to give workers more bargaining power by getting rid of "abusive" non-compete clauses, removing rules in contracts that prevent employees from discussing pay with each other, and stopping companies from classifying low wage workers as managers in order to avoid paying them overtime. Biden supports raising the federal minimum wage to \$15.
- Biden believes that expanding the educated workforce will help the economy. He wants to make two years of community college free for qualified students in order to boost the GDP. In the past he has mentioned making state universities free as well, but appears to have dropped the proposal for now.
- Expand or fix debt relief programs
- Biden says his health care proposal will expand Obamacare so that 97% of Americans are insured. This program will cost \$750 billion over 10 years. He wants to introduce a public health insurance option like Medicare that will be available premium-free to individuals in states that haven't expanded Medicaid and people making below 138% of the federal poverty level.
- "Folks in the middle class are in trouble. It's not just their perception. They are in trouble," said Biden.
 - Big bring back the middle class guy, BUT he doesn't blame people at the top
- Biden wants a pro-growth, progressive tax code. He proposes raising the top income tax rate back to 39.6%, making those with annual incomes over \$1 million pay 39.6% on capital gains instead of 20%, reducing tax expenditures that benefit investors or job creators and closing tax loopholes like stepped-up basis in order to to pay for programs like Social Security and Medicare.

- Biden wants to help rural communities, which make up 20% of the U.S. population, by fighting for fair trade deals, investing \$20 billion in rural broadband infrastructure, creating low-carbon manufacturing jobs, reinvesting in agricultural research, improving access to federal resources and funds for farming and small businesses, expanding health services and medical training programs and spending 10% of federal program funding in areas with persistent poverty.
- As Biden is more of a moderate candidate, his spending is significantly less than the others and he is one of the better Democratic presidential candidates for the health of the financial markets.

We thank the Political Risk Subcommittee for working so hard to provide the entire club such a great outline of Joe Biden's policies and possible economic impact if he becomes President of the United States.

Looking forward

We are eager to see the Investment Club grow next year and are excited to announce next year's club leaders and voting members:

Club leaders: Christian Lalin '21 and Garrett Larson '21

Voting members: Matt Holleran '21, Pierce Munsey '21, Rayyan Ahmed '22, Braden Lalin '22, Robbie Maffucci '22

Thank you to the 2019-2020 Investment Club members

Mr. Tom Brady - Moderator

Mr. Rob Failla '89, P'20, P'22 -

Investment Committee Liaison

Mr. Michael Szymanski P'18, P'21 -

Investment Committee Liaison

Theo Coughlin '20 - Club Leader

Pierce Lutz '20 - Club Leader

Mac Clark '20 - Voting Member

Tyler Mayes '20 - Voting Member

Arthur Metzler '20

Conall Nugent '20

Dean Smith '20

Jason Strollo '20 - Voting Member

Ather Williams '20 - Political Risk
Subcommittee Leader

Ethan Barrows '21

Rohin Bobba '21

Andrew Gaston '21

Matt Holleran '21

Christian Lalin '21 - Voting Member

Garrett Larson '21 - Voting Member

Pierce Munsey '21

Nico Nardone '21

Samuel Walsh '21

Rayyan Ahmed '22

Christian Carbeau '22

Jake Checchio '22

Ethan Kelly '22

Braden Lalin '22

Alexander Loschert '22

Robbie Maffucci '22

Will Robinson '22

Yash Bhandari '23

Brian Boler '23

Gerard Buono '23

Jack Fidacaro '23

Macallan Kraft '23

Jack Amato '24

Abhinav Naidu '24

Maximilian Orosz '24

John Cuzzocrea Jr. '25

Ezekiel Ehrenberg '25

William Kramer '25