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Vice President

"By The Way"

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"The trouble with the world is that the stupid are cocksure and the intelligent are full of doubt".

The investing world is awash in skeptics (including yours truly) but that has not stopped and probably helped stock markets shrug off bad news and continue to move higher. For most of the run from the March lows the market has exhibited internal strength in support of the strong rise in prices. In particular a majority of stocks and sectors participated in the rally. That has more recently not been the case as a limited number of technology and companies built upon technology have been the source of a lion's share of higher prices. A narrowing in leadership has traditionally led to lower markets. It must be said that tradition and it's cousin experience have been less than useful factors in analyzing stock values during this crazy year. The newly-minted millennial investor with a simple notion that electric cars and in particular Tesla is a worthy purchase no matter the price has had a more successful past few months than deep thinking market analysts. As one of those grey beards I remain convinced that a return to more reasoned values is in the cards. Much as the extreme fears of this March proved to be overstated, the current euphoria in my opinion is also inappropriate. Depending on ones economic and earnings outlook valuations are either high or extreme. Given this is a market that measures as overbought and bullish sentiment is at a high level a period of at least consolidation if not significant decline is likely. This is not a sell everything the end is near outlook and I remain of the belief that this too shall pass, but the road will be bumpier than currently forecast by the market. It seems wise at this time to make portfolios less risky. As someone said it is impossible to accurately predict the future, but one can be prepared.

So far economic releases have been encouraging in many cases surprisingly so. The question is, will the good news be sustainable or short-lived? With the spike in new virus cases there is a reasonable chance the numbers will regress. Nevertheless, the U.S. jobs release reported there were 4.8 million net new jobs created in June after an equally stunning 2.5 million in May, and the unemployment rate dropped almost 2% to 11.1%. Admittedly that is coming off a very low base and still represents less than half the jobs lost in March and April, but it is still very impressive. Of concern, continuing and new jobless claims remain extremely high and are an indication we are not nearly out of the woods. Also on the positive front the Institute for Supply Management reported record increases in its June indices: the Non- manufacturing Index came in at 57.1 up from 45.4 in May; the Purchasing Managers Index was 52.6 versus 43.1; and perhaps most encouragingly and certainly most shocking new orders showed an increase to 56.4 from 24.6. At this stage it would appear we have experienced the steepest and shortest decline in US economic history. Will this V shaped recovery continue? It seems unlikely, particularly with the virus numbers rising rapidly and re-closings mounting, but we are at least in a better place than two months ago and hopefully we will continue to see improvement though at a reduced and a more stop/go pace.

Much has been written about the quick reaction of the Fed to provide liquidity and the U.S. Federal Government to support those who lost jobs and their income during the lockdown. While Chairman Powell of the Fed continues to provide comfort that the Board will do what is necessary if the economy does worsen, the response from Washington is less certain given the upcoming election and great divide between the two political parties. I believe that if necessary, the funds will be provided but nothing is certain in this hostile political environment.

Due to the weak economy, the handling of the pandemic and his general unpleasantness, the Trump candidacy has dropped to new lows and now Joe Biden is being touted as a shoo-in. As an aside I would not be surprised if the President dropped out of the race. He won't suffer the coming defeat lightly if he feels assured it will happen and he could use his seemingly deteriorating health as an excuse. If the momentum for Biden also translates into a sweep of both houses of Congress, we will almost surely see an increase in corporate taxes and regulations which will not be positive for stocks.

For the past decade geopolitical news has been consistent negative but only occasionally had a serious impact on markets. The China/U.S. trade negotiations was one such event and could well be a factor again as the overall relationship between the two nations has worsened once more. Add to that a litany of other potential adverse issues such as Mideast hostilities, worldwide protests and populism, European Union uncertainties and a downward shift in how the world views the U.S. All still have the chance to affect financial markets, and the risk is elevated given the current health crisis and economic uncertainties.

I hope this letter is not too bleak since I remain positive for the longer term but very concerned in the short term that market risk is not being fully appreciated. Thus, I remain conflicted, like the two-handed economist, but I take some consolation in the following Bertrand Russell quote; "The trouble with the world is that the stupid are cocksure and the intelligent are full of doubt".

unrest and with the President attacking other countries including supposed friends the famed "safe haven" reputation of the U.S. is being called into question in certain circles. If there is an impact on the U.S. dollar it may well have an effect on financial markets.

Stay well.

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