MARKET UPDATE & PERSPECTIVE

In my previous newsletter (April 16th) I made reference to a mismatch between economic news and the stock market. One could say that this mismatch applies even more now.

Since the March 23rd market low, the U.S. S&P 500 index has undergone its largest 50 day rally in recorded history. And according to LPL Financial Senior Market Strategist Ryan Detrick: "*Big 50 day rallies in the past have taken place near the start of new bull markets, and the returns going out a year were quite bullish*". In other words, at the end of strong 50 day rallies, the next 12 months offer good returns on average (about 17%, according to Mr Detrick).

This is not to say that good returns are steady returns. One should expect periods of consolidation - which we have experienced since June 8th. If one argued that the stock market was racing way too far ahead of the economy during April and May then one could now also argue that the stock market has taken a pause after June 8th in order to let the economy catch up to the market.

This newsletter is shorter than my rather lengthy previous one, mainly because the markets have now been seemingly moving past their moment of maximum uncertainty but also partly because summer is here and health experts tell us going outside is good for us!

Here are the main thoughts/tidbits of information I wanted to share with you today:

- The stock market is not the economy. The stock market, in the long run, reflects corporate profits. And the expectations of those future corporate profits can also have a significant short term impact on stock prices.
- Major indices such as the U.S. S&P 500 Index and the Dow Jones Industrial Average are 'market' weighted. This means that the stocks of Apple and Microsoft have a much greater impact on the stock market index than the stock of, say, H&R Block. Please keep this in mind when you see a major index climb mainly as a result of the stock performance of a few very large companies.
- FANGMAN is an acronym that stands for the following mega capitalization stocks: Facebook, Amazon, Netflix, Google, Microsoft, Apple, and NVIDIA. These stocks have had a disproportionally large impact on stock market indices. In fact, there are many stocks that still have a long way to go before recovering from their February-March losses.
- Over the past two months, there has been an ongoing debate amongst market experts about whether to invest in the 'Stay at Home' stocks (e.g. Netflix, Zoom, Wayfair, etc.) or in the 'Recovery' stocks (e.g. companies in the travel, financial, industrial, or energy industries)
- Many experts have actually characterized the preceding debate as boiling down to a choice between 'growth' (many of the 'Stay at Home' stocks are considered growth stocks) versus 'value'.
- In the preceding debates, I personally continue to preach diversification and consequently favour what is called a 'barbell' strategy, i.e. own some quality growth stocks and own some quality value stocks.
- The upcoming U.S. elections will begin to have more and more of an impact on the markets. Overall, I have the impression the stock market does not relish the prospect of the Democrats sweeping the White House, the Senate and the House of Representatives.

- I am an optimist on the vaccine front. Large scale vaccine trials are set to begin in July. Some company executives think they could even have a vaccine ready for mass distribution by October, if everything goes well. In the meantime, I do think government health officials are doing their best to temper these optimistic predictions.
- Every day there is no discovery of a vaccine or a cure brings us closer to the day when there will be a vaccine or a cure.

I would like to pass on two interesting quotes from two very experienced investment experts.

"*There have been 4 great stock market buying opportunities in my lifetime. The coronavirus has given us the 5th…. Listening to the financial commentators on CNBC and elsewhere, I hear many, if not most, of them advising investors to use the decline to "upgrade" their portfolios. They say to "buy quality names on sale," but avoid or reduce exposure to names that are riskier. Typical issues in the quality bucket include companies such as Alphabet, Disney, Nike, Amazon, Facebook, Procter & Gamble, and Clorox. Now these are all very fine companies and we own several of them…. In big market declines…. we try to use these opportunities to "upgrade" our portfolios as well, by which we mean replace names that have held up reasonably well with those whose price declines now offer much greater long-term upside when the economy comes back.*

Bill Miller, CFA, Miller Value Partners
April 13, 2020

<u>My comment</u>: Bill Miller has an unbeaten 15 year record of outperforming the S&P 500 Index from 1991 to 2005 each calendar year. From his April newsletter, it looks like he is advocating owning some beaten down names with plenty of upside potential. Other strategists that I greatly admire, such as Thomas Lee at Fundstrat (and former Chief Equity Strategist at JP Morgan) and Mike Wilson (Chief Investment Officer) at Morgan Stanley, have similar outlooks in that they are both currently recommending looking at 'cyclical' and 'value' stocks for the second half of 2020.

"Being prepared, on a few occasions in a lifetime, to act promptly in scale….will often dramatically improve the financial results of that life time"

Charlie Munger, Berkshire Hathaway

Should you have any questions or concerns, please feel free to reach out.

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