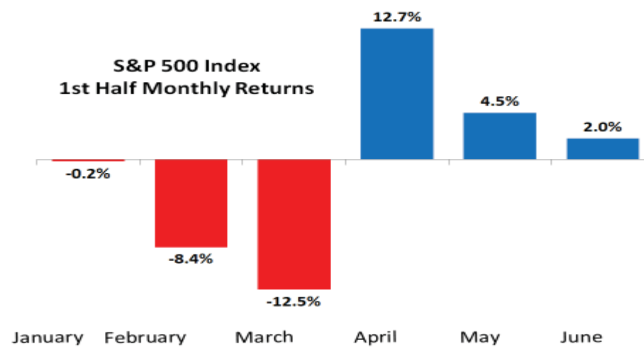
Forward Focus
July 2020

Quarterly Market Review

The implementation of historic Congressional action and aggressive measures by the Federal Reserve provided trillions of dollars of economic stimulus in the second quarter. The size ($2.4+ trillion) was greater than ALL the stimulus packages during the 2008 Financial Crisis and more will need to be done in the coming months.

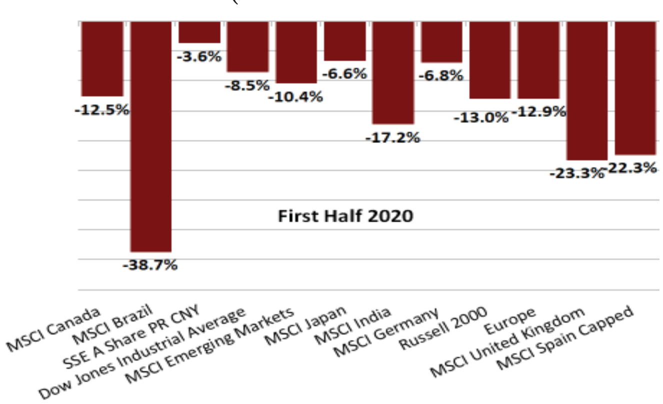
The bending of the Coronavirus curve and the gradual reopening of the economy helped boost confidence and drove risk assets and stock markets higher. The S&P 500 Index is now almost flat for the year and the tech-heavy Nasdaq Composite Index is up double-digits. The Dow Jones Industrial Average is still down 11% year to date.

The chart on the right shows the S&P 500 monthly returns so far this year. While the second quarter was incredibly strong, 80% of the gains occurred within the first few weeks. The last 7 ½ weeks the S&P 500 only gained 6%. In fact, since the peak on June 8th, the market is down 4%. This differs from people's perception of a market roaring back to life based upon a strong economic recovery.



The peak in the major U.S. stock market indexes coincided with the peak in the balance sheet of the Federal Reserve and the peak of M2 money supply (amount of money in circulation). Thus, the strong bounce off the March 23rd bottom has been significantly (**Forward** would say primarily) aided by government intervention. This concerns us as the traditional metrics of evaluating markets are being distorted. We anticipate markets to become more volatile as the backstop is removed and the release of quarterly earnings reports reveal how companies are truly performing.

The bar chart below shows the first half performance of various world stock markets. We see opportunities for additional investment in international markets in the second half of 2020 due to attractive valuations, fewer political headwinds (U.S. Presidential election in November) and better upside potential.



In the bond market, emerging market bonds and high yield "junk" bonds outperformed the relative safety of U.S. government bonds.

In the stock market, growth outperformed value, yet again, and small cap stocks outperformed large cap stocks.

During the second quarter, the best performing sectors were Technology and Consumer Discretionary and the worst performing sectors were Utilities and Consumer Staples.

First Half 2020

Dow Jones Industrial Average -9.6% ● S&P 500 -4.0% ● MSCI EAFE (International) -11.1%
Russell 2000 (Small Cap) -13.6% ● MSCI EMI (Emerging) -10.4% ● Barclays Capital Aggregate Bond 6.3%

The “Super 6”

The past decade has been the golden age of Superhero movies. Iron Man, Captain America, Thor, Avengers, Batman, Superman, Spiderman, Wonder Woman, Fantastic Four, X-Men, Transformers, Captain Marvel... to name a few. It has also been the golden age for FAANGM. That stands for Facebook, Amazon, Apple, Netflix, Google, and Microsoft. Those 6 stocks have dominated. Their combined market cap is $6.4 Trillion (market capitalization is the value of a company’s outstanding shares. Market Cap = share price X # of shares outstanding).

This is important because the S&P 500 Index is a “cap” weighted index. That means that the greater the market cap the greater the weight/impact a stock will have on the index. Example: Stock A with a market cap of $1 trillion will have 10 times the impact on the index than Stock B would have with a market cap of $100 billion. Thus, a $10 move in Stock A would be equal to a $100 move in Stock B.

The total market cap of the “Super 6” is 25% of the S&P 500 Index. That’s right. Just 6 stocks! In fact, the bottom 300 stocks equate to only 15% of the market cap weight. In other words, the Super 6 have superpowers and the remaining 494 stocks are mere mortals. Unfortunately, this has been true for years.

Research by Minack Advisors shows that by stripping out the FAANGM stocks, the S&P 500’s return over the past 5 years is only about 12% and earnings growth has been non-existent. This explains why passive investing (just blindly buying the S&P 500) has worked so well the past several years, the sharp rebound in the S&P 500 in spite of Coronavirus concerns, and why international investing looks more attractive right now.

Zoom Meetings

We miss your smiling face. Truly. So, if we haven’t seen you in a while, please schedule a video or phone meeting by going to **https://go.oncehub.com/MeetingSchedule** or simply give us a call at **(608) 833-9400**.

Back to Basics: An Emergency Fund

According to the Federal Reserve, 40% of Americans are living paycheck to paycheck. Many surveys state a number much, much higher. That is why the government provided $1,200 per adult and $500 per child for those in a certain income range in the second quarter. Cost: $293 billion. It is also why they boosted unemployment benefits by an additional $600/week and extended it by 13 weeks. Cost: $268 billion. It is also why everyone is confident more government spending (another stimulus package) will be approved by the end of July.

Since it is a national issue, I wanted to address this clearly. If you do NOT have an emergency fund (3-6 months of living expenses), get one. I’m serious. Call me and we can talk it through. This is crucial for financial success. It is vital to have a buffer between long-term investing and daily living expenses.

If the pandemic taught us anything, it is that anything can happen and can happen quickly. A few months ago unemployment was at a 50-year low of 3.5%, just 8 weeks later it was 17%, an 80-year high. According to the National Multifamily Housing Council and the Mortgage Bankers Association, 31% of American Households did not pay their <u>rent</u> in April and over 3.8 million did not pay their <u>mortgage</u>.

An Emergency Fund should be 3-6 months of living expenses. It should be in a separate account (savings, CD, Money Market) separate from your checking account used for daily living expenses. It should be easily accessible and liquid. Last thing. Um, it is to be used only in...wait for it...an emergency.