DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
27,781.70	11,167.51	3,363.00	1,507.69	8,063.32	40.22	1.1722	0.69	0.00-0.25	3.25

Money Manager Newsletter
September 30, 2020
Investment Consulting Group, Inc.

"There Is NO One Who Can Replace America. Without American Leadership, There Is NO Leadership. That Puts A Tremendous Burdon On The American People To Do Something Positive. You Cannot Be Tempted By The Usual Nationalism."

Lee Hong-Koo, South Korean Prime Minister (NY Times 2/25/2009

"The path forward for the economy is extraordinarily uncertain, and will depend in large part on keeping the virus in check." Federal Reserve Chairman Jerome Powell

Every year Charles Schwab conducts a survey asking people how much money it takes to be considered wealthy, a figure that has reliably been stuck at $2.4 million from 2017 to 2019. As recently as January of this year, the average amount was $2.6 million as the threshold of being truly wealthy. Then some stuff happened that I don't really want to get into right now, and for 2020 the amount has fallen 17 percent year over year to $2 million as the line at which one becomes rich.
Suzanne Woolley, Bloomberg

New Normal

The term itself is oxymoronic: can something that is new be normal? We are dealing with much that is new this year, none of it seems normal. Surveys indicate that in early May, 70% of the workforce was working from home some or all of the time. By late July, roughly half of the country was still working from home some or all of the time. We would have doubted that such conditions could exist for this long without seriously impairing the long-term health of the economy. School openings are the next challenge; some large districts will begin with remote learning. This will have economic implications as we can expect that family routines will be further disrupted during the coming school year. There has been little that is normal in the Trump presidency, so why should this be a normal election? Biden has done a good job staying out of Trump's way, but his potential weaknesses are readily apparent. Because of the cross currents of COVID-19 and societal upheaval, we find this election very difficult to handicap. The Dana Viewpoint—Dana Investment Advisors, Inc.

Savings Rate Still Gives Consumer Spending Room To Run

The resilience of the U.S. consumer, now we know where that resilience comes from, savings. Personal income and spending showed that incomes fell, consumption rose but at a slower rate, while the savings rate fell sharply. The household savings rate stood at 14.1% in August, down 3.6% from July and well below the April high of 33.6%. Pre-crisis, however, the household savings rate was closer to 7%. As households have faced increasing financial constraints, they have dug further into their stimulus saving to pay for outlays. The CARES Act, passed in late March, sent $1,200 checks to most U.S. households, while enhanced unemployment benefits offered an additional $600/week to those out of work through the end of July. A new bill now appears a very live possibility to come before the election. This injection of spending power would be a boost to the economy and the consumer into the holiday shopping season and an uncertain winter in the U.S.
Myles Udland; The Final Round

9/30/2020	Current P/E	VS	20 Year Avg. P/E
	Value	Blend	Growth
Large	17.2/13.7	21.5/15.4	30.5/18.6
Mid	18.0/14.3	22.2/16.2	38.0/20.3
Small	20.6/16.6	36.8/21.1	124.4/64.2

It appears many clients have shared with me financial concerns regarding the upcoming election. No matter political side, these Warren Buffett pieces of wisdom should be observed. His advice covers personal or trustee responsibilities. Donald Stanforth, President—Investment Consulting Group, Inc.

Here are his thoughts:

1. "Rule No. 1 is never lose money. Rule No. 2 is never forget Rule No. 1." When you eliminate decisions that expose your portfolio to loss, what's left is more likely to be a gain. Buffett's quote suggests that instead of looking for the highest upside, you should be looking to avoid loss first and only then look at gains.

2. "Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble." Buffett suggests that when you see an opportunity, you need to act quickly and decisively. Buffett often takes this approach when markets are down significantly. He amasses a ton of cash during good times and then invest aggressively when stocks plunge.

3. "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful." Buffett suggests that investing has much to do with the behavior of investors themselves. When investors are greedy and push the prices of stocks to the sky, Buffett becomes fearful. In contrast, when investors run away from the market or a specific stock, Buffett becomes more interested because prices are cheaper.

4. "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." Buffett suggests a better course of action is to buy "wonderful companies, those with better economics and competitive positions. A company with a good competitive advantage will likely continue to make money over time, and it can bail you out if you purchase at a too high price.

5. "The most important quality for an investor is temperament, not intellect. You need a temperament that neither derives great pleasure from being with a crowd or against the crowd." The value of temperament for a successful investor rather than intelligence. Investors should analyze what's going on in the market, regardless of who likes what stock. Focusing on the objective facts, investors can make decisions that are relatively free of emotion and make better choices.

6. "The stock market is a no called strike game. You don't have to swing at everything, you can wait for your pitch." You needn't invest until you find an opportunity that you find attractive, one that meets your standards of potential reward for the risk you're taking.

7. "If you like spending six to eight hours per week working on investments, do it. If you don't, then dollar cost average into index funds." Buffett has long advised most investors to use index funds to invest in the market rather than trying to pick individual stocks. By picking individual stocks, you're working against the pros. If you buy an index fund based on the Standard & Poor's 500 index, you'll own the market. If you enjoy investing, then do it. Investors are going to be well served by using an index fund and especially by avoiding trading in and out of stocks. Another advantage of using index funds, immediate diversification, which lessens your risk. (See Rule No. 1.)

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The Health Crisis

To deal with particularly serious diseases, doctors sometimes have to take extreme action to save the patient: they induce a coma to permit the administration of harsh remedies, maintain life support, treat the disease, and bring the patient back to consciousness. In the absence of a vaccine, the only way to deal with the outbreak was to prevent those who had contracted the disease from spreading it to others. In order to do so, the authorities decided it was necessary to put the patient into a coma. Thus the economy was shut down to minimize interpersonal contact. As we all know, the U.S. economy was largely frozen, causing 54 million Americans to file for unemployment benefits since March 21 and second-quarter GDP to shrink by an annualized 32.9%, three times the greatest quarterly decline in the 70 years of recorded quarterly history. The comatose patient, the economy, required life-support, and the Fed and Treasury supplied it. These are sometimes described as stimulus programs, but that's a misnomer. They were support payments designed to replace cash that normally would have circulated throughout the economy. When the number of new cases, hospitalizations and deaths declined, the economy began to reopen in May, supported by a near-zero base interest rate and the Fed's provision of abundant liquidity, and the initial response was positive. Retail sales moved up 17.7% in May (after a 22.3% decline in March/April), and the unemployment rate fell to 11.1% in June, from a peak suspected to have been near 20%. Case Closed.

If only it was that simple. The nations of Asia and Europe had the earliest outbreaks, but they took swift and stern action. Unfortunately, a number of elements combined to weaken the actions taken in the U.S. and permit a resurgence of the disease:

- The absence of uniform national policies on shutdowns.
- Inadequate support for the recommendations of health professionals and scientists.
- The foolhardiness of youth.
- Belief in American exceptionalism. As one of our elected leaders stated on March 11, "The virus will not have a chance against us."

Because much of America reopened before the disease was brought fully under control, the early lockdowns went to waste.

What Shape Are We In?

"What shape will the economic recovery take?" a W, an L, a U or maybe a Nike Swoosh. When I hear "V," it seems to me the two sides should be basically symmetrical. That is, the economy should come back at a rate similar to that at which it went down. The U.S. economy deteriorated in the second quarter at the highest annualized rate in history, almost 33%, and it's certainly not going to come back at the same rate (leaving aside the fact that it takes a 49% gain to offset a 33% decline). History will show that the decline took place over just a few months (perhaps only February, March, and April), the recovery may take 8 to 14 months. And the rate of unemployment is unlikely to return to its recent low of 3.5% for years. Fast down and slow up: to me, that's no V. I prefer to think of it as a checkmark. The U.S. stock market continues its ascent.

The Positives:

- The reduction of interest rates to near zero has increased the value of investment assets,
- The Fed has flooded the economy and the markets with liquidity and other forms of support for individuals, companies, and institutions.
- The Fed and the Treasury seem willing to provide support and stimulus well into the future.

The Negatives:

- The economy has suffered the greatest quarterly setback in history.
- Covid-19 still isn't under control.
- A second spike is complication efforts to re-open the economy.

In short, titanic forces are arrayed against each other: Fed and Treasury versus disease and recession. Which will win? Can the Fed keep it up forever? Are there any limits on its ability to create bank reserves, buy assets and expand its balance sheet? And are there limits on the Treasury's willingness to run deficits, now taken to $4 trillion and shown an inclination to go well beyond that?

There is no limit on the ability of a central bank to create reserves, as long as someone is willing, or through government edicts, forced to take them. The Fed has swollen its balance sheet by $3 trillion and the Treasury has added $3 trillion to the expected deficit, for a total increase of liquidity in the economy of $6 trillion probably with more to come. It's also normal to assume that monetary expansion like this can lead to a weaker dollar, downgrades of the U.S.'s creditworthiness by rating agencies, higher interest costs on national debt, and/or jeopardy to the dollar's status as the world's reserve currency.

The Bull Case

The first is that many investors have underestimated the impact of low rates on valuations. In short, what should the stock market yield? Treasury's yield less than 1% and you add in the traditional equity premium, perhaps the earnings yield should be 4%. That yield of 4/100 suggests a p/e ratio (the inverse of 100/4, or 25. Thus the S&P 500 shouldn't trade at its traditional 16 times earnings, but roughly 50% higher or 24 times. On that basis, stocks may have a long way to go.

The rest of the bulls' arguments mostly surround the exceptional nature of the market-leading tech companies:

- They grow much faster than the large companies of the past.
- They have scale, technological advantages and network effects that give them much greater protection against competition.

The S&P 500 is basically flat on the year, but without FAAMG (Facebook, Apple, Amazon, Microsoft and Google.) Bit of wisdom from Charlie Munger concerning the process of unlocking the mysteries of the markets: "It's not supposed to be easy. Anyone who finds it easy is stupid." Have you thought about what the reported 32.9% decline in second quarter GDP really means? So again, the 32.9% reported decline in Q2 is the difference between 1Q2020 GDP and projected 1Q2021 GDP, assuming quarterly GDP continues to fall at the 2Q2020 rate. But nobody expects that to happen. Which means the 32.9% is a highly misleading, exaggerated figure. Nothing went down by one-third, and nothing is likely to do so. Annualization is useful in normal times for comparing a quarter to the recent prior years, but not very useful for current circumstances. Most other major economies do not report annualized changes in GDP. So what I've learned is that annualize quarter over quarter changes are quite meaningless, including Q2's reported decline of 32.9%

Howard Marks—Oaktree Capital Management, L.P.

Treasury Market Yields	09/30/2020	12/31/2019	12/31/2018
2 Year	0.13%	1.58%	2.48%
5 Year	0.28%	1.69%	2.51%
10 Year	0.69%	1.92%	2.69%
30 Year	1.46%	2.39%	3.02%
SP 500	1.82%	1.82%	2.15%
Commodities			
Oil ($bal)	$40.22	$61.06	$45.41
Gold ($/oz.)	$1887.50	$1519.50	$1278.30
CRB Index	$148.51	$185.79	$169.80