

Market Watch with RMH – Reflections from the Beach

This week before last we got away for our first official holiday of 2020. Went to Puerto Penasco (Rocky Point/Sandy Beach) and had a really quiet time, no TV, we did watch some movies, and read. Last RMH Market Watch was called “**What Me Worry**”, as you would expect, I couldn’t totally shut off my thinking.

One of the conclusions I came up with, is that we are in for another 4 years of political gridlock. Came to this conclusion as follows:

- Record low interest rates, generally not a good sign in my opinion
- Record political discord, there is no middle ground
- Record partisan reporting on everything
- Record negative political spending (in my opinion) by all involved in the upcoming election, \$11B/2020 vs. \$7B/2016.
- This is just a sample

Meanwhile the market has gone up from the April lows, and has continued to stay up off these lows despite a small pull back or two. **Conclusion**, markets do not like uncertainty, and they do not see uncertainty after the election. Quite simply, one party will not be in control of the Presidency, Senate, and Congress at the same time. We have had political gridlock for decades, and the markets survived just fine.

Caught up with a friend over breakfast who works at Pima County (they have had in excess of 90% of their employees working at head office during covid). The link below is with respect to your ballot and its departure to your home and receipt back at Pima County. I put in my information, saw the dates, noted my ballot has been received back at Pima County, and accepted. I am in group E4 whatever that means. If I was in group C4, I could be thought of as explosive! In the last election in 2016, around 310,000 ballots were received; currently the total is 360,000 and counting.

<https://www.recorder.pima.gov/VoterStats/BallotInfo>

A tale of two markets comes from Lis Ann Sonders who is the Chief Investment Strategist of Charles Schwab. Lately the activities of individual traders/investors have been pushing the market around as they have been representing 20% or so of the market volume. This is significant as the retail investors have been buying call options on stocks (leverage), **and in turn this has been forcing the market makers to buy the underlying stocks.** One of the problems lies in the fact they have been buying the five largest stocks, Apple, Microsoft, Amazon, Google and Facebook. Since covid-19 began (March 2020), these five stocks are up 33%, while the remaining 495 stocks in the S&P 500 are down almost 1% since the close on Friday October 16th. Another problem lies in the fact there are large institutions/individual investors who have the S&P 500 as part of a benchmark (**which is based on a stock market capitalization basis, meaning the 5 largest stocks mentioned above play an outsized role in portfolio performance**), and therefore not owning these stocks is a peril to performance (job security). What is interesting are the comparisons to 2000. The same 5 largest stocks (then) had a forward price/earnings ratio (a measure of

valuation) that was approaching 60, today that valuation is around 30. Are we overvalued, time will tell, however, in a very low interest rate environment, I do not think so. If the following were to rise, then it would be time to examine the portfolio for potential weakness looking forward:

- interest rates
- corporate and personal income taxes
- energy prices

In Puerto Penasco we saw friends who live there (Sandy Beach), and we got the scoop on how covid-19 was handled. **First**, they took a backhoe, and dug a trench (2 feet wide, 4 feet deep) separating Puerto Penasco from Sandy Beach. **Second**, 1 person per car (**had to be the same person, could not be a spouse**) was allowed to drive with 1 person **ONLY** in the car, per household. This created difficulties for my friend as his wife looked after her brother who is blind in Rocky Point and could not cross the manned checkpoints. Good thing for a niece. **Third**, checkpoints were manned, and the trench patrolled by ultralights (from the air) to see if any spots were filled in. Occasionally locals, not affiliated with the government or police were given shovels to re-dig the trench where unauthorized filling in had occurred. Not sure if they were compensated or not. **Finally**, full strength bleach was very liberally sprayed inside cars to where at least several shirts were ruined by the excess bleach on the car seats.

All in all, a good quiet trip, all of our favorite restaurants were open, weather and water were perfect, beaches accessible, and with a new moon, very large tides (second largest tidal flat in the world behind the Bay of Fundy in Nova Scotia, Canada). Eero, our dog had a wide open beach to play Frisbee.

I am thinking we have seen the worst of covid-19, how do I know, the jokes/humor are starting, and there are some really good ones, this is just a sample.

1. The dumbest thing I ever bought was a 2020 planner.
2. I was so bored I called Jake from State Farm just to talk to someone. He asked *me* what I was wearing.
3. 2019: Stay away from negative people. 2020: Stay away from positive people.
4. The world has turned upside down. Old folks are sneaking out of the house & their kids are yelling at them to stay indoors!
5. This morning I saw a neighbor talking to her dog. It was obvious she thought her dog understood her. I came into my house & told my cat. We laughed a lot.
6. Every few days try your jeans on just to make sure they fit. Pajamas will have you believe all is well in the kingdom.
7. Does anyone know if we can take showers yet or should we just keep washing our hands?
8. This virus has done what no woman has been able to do. Cancel sports, shut down all bars & keep men at home!
9. I never thought the comment, "I wouldn't touch him/her with a 6-foot pole" would become a national policy, but here we are!
10. I need to practice social-distancing from the refrigerator.

11. I hope the weather is good tomorrow for my trip to the Backyard. I'm getting tired of the Living Room.

12. Appropriate analogy. "The curve is flattening so we can start lifting restrictions now" is like saying "The parachute has slowed our rate of descent, so we can take it off now."

13. Never in a million years could I have imagined I would go up to a bank teller wearing a mask & asking for money.

14. The spread of COVID-19 is based on 2 things:

1. How dense the population is.
2. How dense the population is

What steps are we taking at RMH?

- We have raised cash in all accounts with respect to the upcoming election
- We are looking at the portfolios and rebalancing where necessary.
- We are taking advantage of tax loss selling to lower future capital gains.
- We are looking at what insiders are doing with some of the stocks we have purchased.
- We are talking with portfolio managers on a one to one basis and participating in conference calls.

If there are ever any topics you wish us to explore, please let us know. *We are here to help and guide you through these times.*

We thank you all for taking the time and reading "Market Watch." It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us.

On a personal note, RMH is now in the position to bring on new clients so please be sure to share this informational letter with whomever you wish. RMH's focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires

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Sources

Lis Ann Sonders, Chief Investment Strategist, Charles Schwab, October 19, 2020, "Sentiment Telling Divergent Stories"