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The Five Trillion Dollar Problem

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Dear Clients and Friends,

I hope everyone is enjoying the Fall, especially after the smoke has cleared from the fires. While most investors can't fathom the market's run from the March lows (up about 50%) in light of the COVID cases increasing, the economy changed and shifted at a rapid pace. The good news; due to advances in the medical community learning more about the virus, fewer cases of the virus develop to be life threating. Still, there are fatalities and major disruptions to our normal daily lives that exist and will probably persist for some time.

Today's headlines focus on the President contracting COVID, the election, virus cases, unemployment (8%) and banning Chinese firms from US mergers. There is another problem; nearly five trillion ($4.6 Trillion) dollars sitting in money markets, checking and savings accounts earning zero interest. There is an old adage on Wall Street, "you can't fight the Fed." In March the Fed aggressively and quickly lowered interest rates to zero to stave off a more severe recession. Hence, savings and bonds pay little to no interest, which leaves the major investable alternative, the stock market. The market has been pushed higher by large tech stocks, the S&P 500 is a market cap weighted index, so larger companies have a bigger impact on the index's accent. Recently we have seen some of the undervalued value stocks (non-tech) rebound while tech corrected (fell) in September.

After being in this profession for over twenty years, some things never change; fear and greed still impact investor's behavior and decisions. There is a very healthy skepticism about this recovery in the markets with individual investor bearish (negative) sentiment over 43% vs a long term average of 30%. This is good contrarian indicator. I saw this extreme skepticism from investors coming out of the 2008-2009 correction and 2000 to 2001 market fall. Investors could not fathom the market would recover amidst the current dismal environments. However, we know the market looks forward, not at lagging indicators. Markets have taken a breather and dipped about -5% from the September 2nd peak. While markets do not like change, the best case regarding the elections is a balance between power of Democratic and Republican parties. There is already a lot of discussion of delayed election results stretching into December. It is most surprising over the last few days, the market is rallying even in light of the President and First Lady contracting the virus. Investors seemed to have normalized to the bad news regarding the Virus as the new normal.

As always, please call with questions or concerns. We appreciate your trust.

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