Summer 2020 Newsletter

Diagnosis:

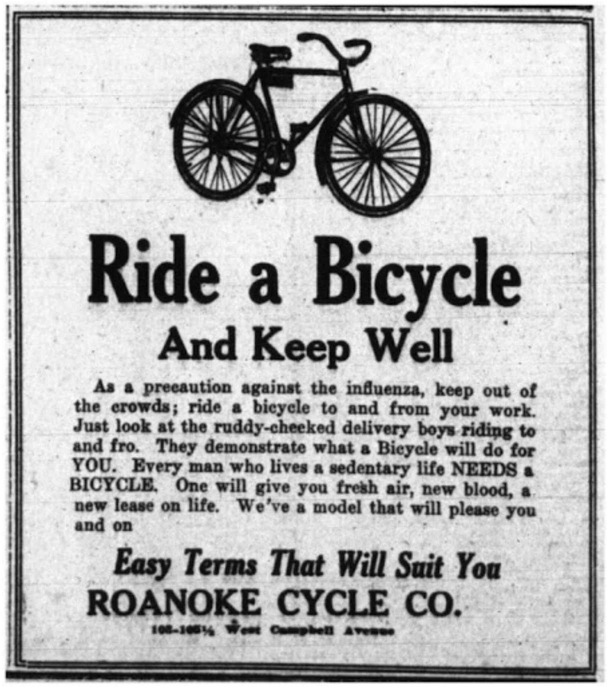
The ICU chart read:

1) Medical condition could be dire if overtaken by a “monster” virus that has been spreading across the world.
2) Flu symptoms resembled a gripping influenza in most cases but was asymptomatic in some cases. Early signs point to high contagiousness.
3) The Medical Fallout and Economic Trauma were severe and shocking. Revive and Survive at all costs.

As you know, the trauma caused emotional/distress too and major disruptions to daily life on many levels. Almost all activities of daily life were impacted. Some injuries and scars will remain to be treated…most will heal, some relapse and delayed spread is possible (the current worry/concern).

Overall Prognosis is definitely improving but we are not completely “out of the woods”. Caution prevails. We expect it will get better with time, with a vaccine and medicines….we are reminded it could have been a lot worse…but it could have been a remake of 1917-1918’s terrible Spanish Flu when almost 20 % of the world succumbed…that had been one eerie early forecast of Covid-19. However, at the moment, most techniques are working, the survival instinct is resilient, and revival is still flickering with hope and recoveries.

A sign of the times….



★ ***Let's step back in time for a moment:***

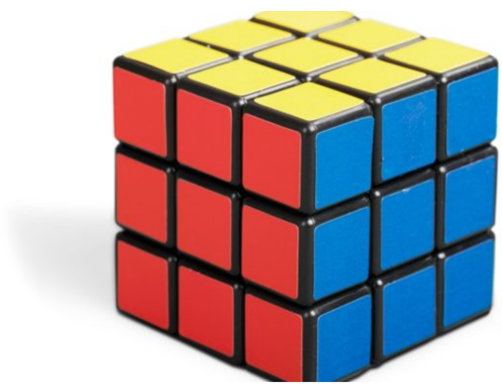
The 1917-1918 influenza pandemic is still regarded as the world's most severe in human history. Referred to as the Spanish Flu by most and an H1N1 virus with genes of Avian origin by the scientists and doctors, it was estimated that about 550 Million people or over 35% of the world's population caught the virus. Like today, not everyone was tested back then either. In terms of mortality, we are told that between 50-55 million people died (about 675,000 in the U.S.)…

There was no vaccine, but also no antibodies to treat viral or bacterial infection or raise white cell counts to fight this pandemic. In the U.S., it infected our Army soldiers first as WW 1 was still going on. Major cities, Army camps, Naval ships were the hardest hit. The high mortality in healthy people, especially in the 20-40-year age group and children was especially shocking. It had 3 phases; the phases were timed geographically to its spread around a globe that was a much slower world and it was a slower reaction time too. Most recently, the SAR's and Ebola flus were quite minuscule by comparison. Anyone interested in more history or timelines, please let me know…

Economically speaking, the US stock market corrected for 4-5 months at first and had a 2nd and 3rd pullback in 1918 that lasted about 2 months each, coincident with the further spread. Technically, it was a recession that lasted less than a year and then a rally ensued that endured 6 years and led to the Roaring 20's. We must also remember that about 480 families owned/controlled 85% of our US stock market back then. Gold became very popular as did commodities, land, and antiques.

Fast Forward:

Try to Unravel this Disconnect:



A shutdown of our world and a voluntary shutdown of our economy triggered trouble in the February 2020 timeframe. We know most of the human story, but a precipitous drop in our financial markets correlated exactly with a panic sentiment…stocks dropped fast and hard by 40%...bond and fixed income markets (including liquidity) were crazy wild and reminiscent of the weeks right after the 9-11 attacks and that shocker. The voluntary shutdown was stunning as it set in motion several cascading events…causing anxiety and uncertainty to hit levels never recorded before (the VIX or fear meter hit 85). The VIX has been a complacent 10-13 in January by comparison. This selloff caused depressed moods and financial worry in days and was steeper and faster than the start of the 1929 Depression.

It happens more often than you think. Disconnects happen more frequently than we sometimes recognize. However, this disconnect triggered a great deal of perplexity. Investors were puzzled that our stocks had the will to bounce back. Right now it's fairly obvious that the dire economic data wouldn't allow stocks to rebound with a 'V' rally but this anticipation signal was a catalyst factor that is telling us a rebound could happen in 6-9 months' time (a longer pause) if the transition period stalls. However, relief and stimulus packages from the Government, coupled with emergency loans/grants, secondary offerings, QE 1, unemployment benefits came to the rescue fast. Can't save everybody's day, but the "helicopter money" and programs did step in and save the day to some extent…especially in the face of the physical distancing, quarantines, and instant unemployment.

With further reflection then, some ask why we are so surprised we have been bouncing back. Why wouldn't we expect the unemployment numbers to be "sky high" ? Why would GDP be positive? We literally just shut everything down. So, in essence, we did it to ourselves because it was the right and most practical (and logical) reaction to take when the pandemic risk hit and then accelerated. Furthermore, we had no vaccines, no sure medicines to take and we were "short" on test kits, masks, ventilators, and sanitizers (for starters).

Economists and analysts remain ambivalent and mixed in their viewpoints, but the stock market's direction is the real pointer (until proven otherwise). And, let's face it, we have had other disconnects in the recent past.

2 Recent Disconnect Cases in Point

When ? 1) Fall/early Winter of 2018- a very powerful Recession Narrative (full of warnings) struck the stock market down. As the economic metrics and fundamentals didn't bear out the Recession story, stocks reversed themselves and rose in January (precipitated by a Fed rate cut at the same time that highlighted features of a recovery still in place). Disconnect solved and a relief rally set in.

When ? 2) Fall/Winter 2016…the day of Trump's surprise Election victory, stocks retreated 880 points (DJIA) and then rebounded. Some of the smartest pundits in the world had not only predicted a "Hillary" victory but also an immediate recession under Trump. This turned out to be another disconnect.

It's not quite that easy to diagnose the disconnection's outcome. However, the stock market's modern history is very, very telling almost all the time (not 100%) but with high frequency. History points to a V-shaped recovery following recessions (no matter if it's a real recession, induced, or sparked). For example, this current recession was induced, and the 9-11 recession was sparked.

My graphic below will point that out…however, the 'V' this time is bullish (for 6-9-12 months out)…but what's most important…**what happens after the 'V'**…stall, retreat, confusion, rally (little or big magnitude?)

So, check out the graph

This graph is humbly borrowed from the Federal Reserve's archives with the data coming from the Bureau of Economic Analysis.

It dates back to 1945 and includes 12 recessions that are vertically shaded light gray. I show you this graph because I want you to see that almost every recession ends with a sharp upward V. In using corporate profits and GDP as proxies for measuring rebounds out of the recessions ("bottoms" are marked by pointed arrows that show troughs that lead to upward recoveries).

In short, corporate profits almost always make V bottoms…and essentially all rebounds reflect the market perceptions of those future cash flows that are the true drivers of stock performance and valuations at that point in time. The **stock market behavior anticipates** the health of the economy that eventually follows and that will eventually determine the sustainability of profitability (hence recovery). It's why I emphasize it's what happens after the V bounce that matters most.

I point out a "head fake" in 1987 when we had a fast selloff in October (over-valued exuberance that reset itself and didn't lead to a recession). I also point out 3 double dip recessionary fears between 2011 and 2015/17 (no actual recession but choppy with flat, stagnant stock market results). Oddly, the 1990-91 Desert Storm Recession was delayed and perked up with a new President (Clinton) in 1992 (New Spirit) as a rebound followed. In the 1980's, President Reagan enjoyed an uphill stock market and favorable economy, but the graph shows declining "real" earnings at a time when pure earnings were "artificially" inflated…inflation hence affected net bottom line earnings and the inflation and high P/E's led to the '87 over-valuation and crash.

So, the V is there and hard to miss in 10 of 12 recessions. The other 2 were blinks.

Several hypotheticals exist and here's a hint to what the future holds. Our guide this time will be 3 economic indicators and 2 sentiment-driven ones.

1) Unemployment shrinks as jobs come back and we see the good labor market broaden and show underpinnings of strength.

2) GDP numbers grow/rebound and follow thru over the next 4 Quarters. This Q will be one of a transitional bridge between a very negative GDP and an improving one.

3) Consumer Confidence…rises and stabilizes… coincident with consumer spending and debt reduction. This will extend to businesses, municipalities, and charitable organizations.

4) Vaccine/Medicines for obvious reasons offer more peace of mind/confidence. Expect some reservations and hesitations about the treatments to play out as normal human nature.

5) World returns to balance and some order/harmony. Watch the VIX for this and the news in general.

So, although the above (5) indicators bear close watching, there are 75 other indicators and trend clues that I routinely watch, monitor, and analyze…ranging from "Insider" Buying, put/call option ratio's, CFO and CEO surveys, analyst revisions, global GDP metrics, manufacturing and industrial data trends…car sales/leasing and consumer spending by sectors, corporate balance sheets and reliability of dividends, geographical (across 13 Fed districts) indicators on home sales, bankruptcies, business mergers, spending and state fiscal conditions…so an assortment of micro and macro signs…when added up creates a basket of knowledge.

Let's get a handle, for example, on the GDP picture which is very grim right now…Look for this to unfold:

- 1st Q- 2020- GDP is -5 % or revised to -6 or -7% (negative growth as we'd expect).
- 2nd Q -2020- GDP-expect – 30%, -35 % even -40% as expenses and losses get written off and the shut-down effect is greatest.
- 3rd Q-2020- Transition and pivot back (depending on virus boomerang effect/return impact)…could be even or + 20%...
- 4th Q 2020- GDP shows + 20-25 % (maybe 30% if 3rd Q is sluggish and pent up).

With $3.7 to $3.9 trillion in "cash" sitting on the sidelines in the US (at banks and MM accounts)…there appears to be some reservation and hesitation about putting money to work…although I should add that a little over $1 trillion (a huge amount) has been put back to work in stocks in the last month. So, buying (of late) is outweighing selling and buying in stocks (for reasons of higher yield, intrinsic L-T value, or sheer capital appreciation) is outweighing the purchase of bonds, fixed income, REIT's and private equity.

So, with stocks stealing the spotlight…here is a listing of some of our favorites…and categorized in to key sectors of interest.

One thing we know for sure…the next few quarters will be challenging to gauge and predict. Reliability of results and sturdy, solid results/strong balance sheets will be rewarded. Some of these EPS ranges may seem wide and it reflects the variable economic landscape.

<u>**Blue Chip Favored Growth Stocks**</u>		**Next 12 Mo. Range EPS Growth**
Abbott Labs	ABT	+ 13-18
Amazon	AMXN	+ 23-28
American Tower	AMT	+ 16-21
American Water Works	AWK	+ 15-20
Anheuser Busch	BUD	+ 10-16
Apple	AAPL	+ 23-28
Astra Zeneca	AZN	+ 14-18
Berkshire B	BRK.B	+ 10-14
Biotech ETF	BBH	+ 23-29
Chegg Education	CHGG	+ 20-40
Cintas	CTAS	+ 18-30
Clorox	CLX	+ 17-22
Constellation Brands	STZ	+ 11-14
CostCo	COST	+ 16-20
Danaher	DHR	+ 11-14
Deere	DE	+ 8-36
Disney	DIS	+ 4-34
Domino's Pizza	DPZ	+ 18-26
Dunkin' Brands	DNK	+ 15-25
Fortinet	FTNT	+ 20-40
Gold ETF	GLD	+ 17-25
Hershey's	HSY	+ 12-16
Home Depot	HD	+ 12-17
Invesco QQQ (Top 100 Nasdaq)	QQQ	+ 18-26
Kimberly Clark	KMB	+ 10-23
Kraft Heinz	KHC	+ 11-15
LabCorp	LH	+ 13-20
Lowes	LOW	+ 13-19
Lululemon Athletica	LULU	+16-24

MasterCard	MA	+15-19
Merck	MRK	+ 8-11
Microsoft	MSFT	+ 16-21
Netflix	NFLX	+ 19-25
Nvidia	NVDA	+ 29-39
Post Cereal	POST	+ 10-16
Quest Diagnostics	DGX	+ 12-17
ROKU	ROKU	+ 20-25
Shopify	SHOP	+ 26-34
Teladoc	TDOC	+ 14-21
Trane Tech	TT	+ 9-16
United Healthcare	UNH	+ 13-25
United Parcel Service	UPS	+ 7-15
Vanguard Total Fd	VTI	+ 8-17
Veeva Systems	VEEV	+ 24-38
Visa	V	+ 17-25
Walmart	WMT	+ 10-15
Waste Management	WM	+ 13-22
Zoom	ZOOM	+ 10-30

Naturally, excuses will be allowed to some extent when it comes to results…The situation is too difficult to predict revenues, net earnings, P/E's and forward guidance. Therefore, some of the ranges are wider than normally seen or expected.

Aggressive Growth	Ticker	Earnings Wide Range + Hi Beta
American Airlines	AAL	-5 to + 50
B&G Foods Inc	BGS	+ 10 to 35
Beyond Meat	BYND	+ 20 to 30
Draft King	DKNG	+ 10 to 40
Hilton Worldwide Holdings	HLT	+ 6 to 36
Iron Mountain (yield 6.6)	IRM	+ 9 to 20
Marriott International	MAR	+ 7 to 40
Masonite International Corp	DOOR	+ 8 to 25
Novavax	NVAX	+ 0 to 40
Regeneron	REGN	+ 22 to 38
Southwest Airlines	LUV	-6 to + 40
Stag Industrials (Yield 5.5)	STAG	+ 7 to 29
Lemonade (under review as recent IPO)	LMND	-10 to + 30

NYS T-E Muni Bond Funds (solid quality)	Current	Rating
Nuveen NY (NAN)	4.70%	A+ 7/8 yr. Maturity
Blackrock Muni Yield (MYN)	4.40%	A+ 4/5 yr. Maturity
Nuveen NY AMT -Free	4.50%	A+ 5/6 yr. Maturity

Hi-Yield Stocks	Yield
Alliance Bernstein (AB)	9.9%
AT+T (T)	7.0%
Compass Diversified (CODI)	8.8%
John Hancock Income Fund (JHI)	7.9%
Super Dividend ETF (DIV)	11.0%
Verizon (VZ)	4.6%
Preferred Securities ETF (PFF)	5.9%

Utilities	Yield
Duke Energy Corp (DUK)	4.8%
National Grid (NGG)	5.2%
Pennsylvania Power & Light (PPL)	6.6%
Southern Company (SO)	5.1%
Utilities Sector ETF (XLU)	5.5%

Due Diligence Investigation	
Biotelemetry Inc	BEAT
Crowdstrike	CRWD
Intuit	INTU
Intuitive Surgical	ISRG
Mastec	MTZ
Match, Inc	MATCH
Novo Pharma	NVO
Park Hotels & Resorts	PK
Store Capital (5.9 yld. Warren Fave)	STOR
Thermofisher Scientific	TMO
Zynga, Inc	ZNGA
Novamax	NVAS
Regeneron	REGN
A vaccine company → coming soon	

Other Pharma/Biotech in the Limelight		
Johnson & Johnson	JNJ	+ 11-22
Pfizer	PFE	+ 7-17
Roche	RHH-BY	+ 10-22
Novartis	NVS	+ 8-22
Gilead Sciences	GILD	+ 10-30

Some new names under fresh review

Patience/Caution/Perseverance is being tested…Lessons learned and changes in the making. The "big elephant" in the room is the fast-approaching Presidential Election…about 4 months away…Wall Street will be making a statement soon and the Country will vote.

The next big test for the economy and our stock market is basically 2-fold:

1) The Covid situation…less bad or boomeranging… craving confirmation that things are better…stutter step is the concern/vaccine status?

2) Earnings season which is now upon us. Do the fundamentals seem to be moving in the right direction ? …consensus expectations are all over the place as you might imagine…obviously, a reflective time…bloated values or not?? Stay with winners, accept the transition.

As always, I'm here for you. If we look beyond the big headlines (always promoting something) there is something good on the other side. The caution as a theme may be right, but the numbers and valuations will arrive late. Let's go forward and not backward.

JC 07/09/2020