Prometheus Capital Management

Lighting your way, enriching your life.

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2020 2nd Quarter

What a six-month period! It seemed like an eternity. However, we are constantly reminded of the strengths of our families, friends, and our relationships with all of you. We remain grateful for your support and trust during these uncertain times. We are committed to helping you get through this and stay focused on helping achieve your long-term financial objectives. With significant short-term uncertainty, I am reminded constantly to continue to work with you to stay focused on your goals and how to best assist you in achieving them. Please continue to reach out to tell us how we can assist or just chat about things. It has been too long since I have seen any of you. We can schedule a Zoom session as well so never hesitate to call or email to say hello or if you have a question.

So, what is happening in the economy? In the US, as the economy slowly opens up it has been picking up steam. It appears that will continue to accelerate over time. The questions are how fast and how will the economy grow. Will the recovery look like a V like it did after 911, like a U after the 2008-2009 liquidity and financial recession; or will it be like a W where the economy opens up, and then pockets shut down for a while, and then open up again?

The answer to what type of recovery is that the economists and myself really don't know. What I know is that this is the longest economic expansion post WWII ending in an abrupt swift decline due to the pandemic closure. I have read that April was the biggest one-month decline since the great depression; and May, the biggest one-month economic increase in the US. Jeff Cox reported on July 2, 2020 at CNBC that the job growth in June, 2020 is easily the largest single-month gain in U.S. history (his word, not mine)(https://www.cnbc.com/2020/07/02/jobbs-report-june-2020.html). I could not find a single economist that accurately predicted the job and economic growth rates in May and April. Keep in mind, that this was after the huge decrease in economic activity and increase in unemployment in April.

Economists say that a recession consists of two quarters of economic downturn, so they might say we are not technically in a recession yet. With the level of economic downturn and unemployment we have experienced, I don't want to quibble with them, but this has been hard on all of us. Some people have had it much harder than most; especially if they have lost someone, lost their job or used up their savings. So, it feels like a recession to me.

So, what is the good news? The good news is that we always get out of recessions and this time will be no different. Also, recessions generally last less time than expansions.

American Funds shared some analysis with me that shows in the past 10 business cycles since 1950 recessions have lasted between 8 and 18 months with the average being 11 months. However, I might add that quick shock recessions such as 911 tend to be deeper and quicker than recessions of excess debt in the housing market in 2008, or asset bubble bursting of technology stocks in 2000. There were a number of trends in the economy in late 2019 that had started pointing towards a recession. However, my opinion is that (and past performance is no guarantee of future performance) the pandemic will make the recession much deeper but quicker and shorter. Indeed, if the trends of May and June continue (they may not due to continued Covid-9 related closings), then the recession may have already hit bottom and we are in recovery right now. If your business is still closed or struggling, or you don't have a job or struggling with bills that information may not help you feel better, but we will emerge from this recession.

The oil embargo shock in 1973-74 was the year I first started investing. In 1974, it took the Dow Jones 8 years to come back, not 8 weeks. That was a stock market decline! However, the US economy had many more structural changes that had to be straightened out which took better than a decade to do so.

I predict we will see more leveraged companies go bankrupt but unemployment will continue to decrease. However, it may take a while for the unemployment rates to get back to lows we experienced in Feb, 2020. Without the pandemic economic shutdown, many of those companies (and maybe some small operators) would have had to restructure or go out of business anyway. It just might have taken several years if our economy had continued to grow at a slower and slower pace rather than hit this Covid-19 deep recession. We are going to grow and change things at a much quicker pace and get through the restructuring more quickly. Companies that adapt to the changes in the economy will prosper and others will quickly or slowly decline. Some commercial space may be converted to residential, etc.

What is not so bad about this recession is that construction, residential real estate, and banks are in better shape than they were prior to the 2008 recession. Housing starts often lead in a rebound. The data is still not certain, but some indicates an increase in housing activity countrywide. However, certain areas are struggling and rents are falling in Manhattan. There was an article in the Wall Street Journal stating the Fed was ordering banks to cap dividends and suspend share buybacks in case the recession is worse than anticipated. That sounds bad, but think about it versus 2008 when banks needed government bailout funds in order to not go into bankrupt THAT DAY! Banks are central to economic recovery like in the Jimmy Stewart movie (It's a Wonderful Life); and it is my opinion that the banking system is intact. Big banks are not asking for government monies. Banks are well capitalized and can withstand many more non-performing loans than in 2008. While each recession is different, some things occur in each recession. Inefficient and debt laden companies slow to adapt will either cease or will restructure and prosper. Older companies with flexibility or new companies with new ways of doing business will grow and expand.

I believe the Federal Reserve has done a decent job through all of this. By making sure that the economy has the liquidity it needs, the Fed seems (so far) to have avoided the depression of the 1930's (that the Fed caused by contracting the money supply at the wrong time). I was equally worried about depression and inflation in March of 2020. My fears of depression have eased considerably. On the other hand, the massive, unprecedented increase in the M1 and M2 money supply by the Fed may have an inflationary result in the future. I have been reading and reflecting on the data since our last Zoom call and I try to gauge what is going to happen. My thoughts are the economy will continue to grow, possibly in fits and starts. Previous economic trends will accelerate; such as replacing coal with renewable energy, closing and/or restructuring inflexible debt-ridden companies, and accelerating growth in on-line and digital products and companies.

However, I believe that inflation may increase (and this is only a guess because that data does not support my guess yet) sometime in later 2021. Then, we may experience many years of increased but moderate inflation in the 3-6% range. If this happens (it may not), then a shift in investments may be needed for some investors, depending on their goals and objectives. In an inflation environment, dividend paying stocks, rental income real estate, and gold and precious metals often hold up better than long term bonds. Bonds still play a place in many portfolios, depending on one's own goals), but more caution in using them may be important. I am keeping an eye on this and will certainly be in touch with you personally if we need to make adjustments. Please call me if you have any questions.

So, what can someone do?
Without corporate earnings guidance, we don't know in the short if the stock market is under or over-priced. Stock markets generally drop before a recession, or in this case, at the shut-down. Markets may then become erratic as the data constantly changes and then generally turn upward prior to the economy. That seems to have happened in the last several months. However, the uncertainty of the pandemic has created a situation where companies are not even providing future earnings guidance while working on reopening and building cash reserves to weather this downturn. Make no mistake, some companies will be gone, some will be restructured, some will come out strongly and buy others, and many new companies will be created. I cannot give specific advice on what to do in a newsletter as everyone has different circumstances, goals, and objectives, but if you have questions, please call!

What you should do, is stick to your long-term goals and objectives. The recession will end, the economy will grow, and people will get back to work. However, if you lost your job, used up your savings, have a death or illness due to Covid-19; or changed your risk tolerance, then perhaps your long-term goals and objectives have changed. If that is the case, then please call and we can discuss to see any changes that need to be made.

What else can you do? The number one thing if you were thinking about it, refinance, refinance, refinance if that meets your goals. Rates are low now, they may increase if inflation occurs, which may lead the fed to raise interest rates.

Think hard before market timing (unless your financial goals and objectives have changed). A few very savvy leveraged investors made money in highly leveraged investments during the downturn of March and April. Many investors who pulled out all their money without a change in long term financial goals and objectives lost the opportunity for investments to rally since they are now in cash and waiting for certainty before or if they ever invest again. Things are never certain although I agree they are less certain now for the short run.

Have a plan and stick with it.
Have an adequate emergency fund or start building one.

Read a book such as the Automatic Millionaire by David Bach or my favorite-The Millionaire Next Door by Tom Stanley and Bill Danko. Bill has a newer book called Richer than a Millionaire.

If you have not spent all your cash flow due to the stay at home situation, then build up your emergency fund, pay down debt, or increase monthly contributions to your long-term investments or 401k or 403b.

Maintain a balance in your portfolio instead of trying to bet on one sector or type of investment. If your goals have changed, or your risk tolerance has changed then please give us a call and we can discuss and see if any changes should be made to your portfolio.

Now, some good news I think has gone underreported and I have scoured everything I can find out about the subjects. The first is the successful launch of a private company rocket ship with government financial help when Space X sent US astronauts to the space station several weeks ago. Even one of the astronauts marveled at the rocket's control panel saying it looked like a car's control panel. I am extremely heartened by the technological achievements this represents. The whole space industry is growing exponentially which will eventually filter out to the rest of the world as it has in the past. Most of the companies in this area are still privately held but watch this area in the future. An even less well-known feat that happened was a payload carried in a rocket the week before which contained a very interesting experiment. While I am not going to get all the details correct, the experiment had something to do with a solar panel collection unit that would transmit energy as a microwave. If this ever becomes economically feasible it would represent an enormous leap forward in clean energy production and solve so many issues. I have been following this area since 1976. The best book to explain how it could work is from Gerald O'Neill -a Princeton Physics professor who wrote a book about space colonies and solar energy production in space. He was a visionary and before his time, but many of the areas he talked about are slowly becoming more mainstream.

What you don't know is that I was 1 of 300 people chosen out of many of thousands by NASA and the FAA as a "regular person" that was tested in the flight simulator under numerous Gs of force to see if our bodies could handle the entry into space as the younger and fitter astronauts could. We all did despite being hooked up to numerous machines. I spent the time with some very interesting people including the head of space launch operations for Space X and I am excited for their success. I have a video of myself (Richard Branson did it as well but not in my group). I am only sharing it with my friends who really want it, as my face is pretty pushed in under gravity, but you are my friends! I am not sure what will happen with cruise lines in the near term but I remain very optimistic with the long-term prospects for space tourism and space manufacturing which can make such things as almost frictionless ball bearings. I compare space today to the automobile industry in 1900 or the internet in 2000. The technology is here to stay, but most of the companies in the industry will probably disappear. I DO Not recommend investing in the industry now and I don't really know how you could, but I am watching and enjoying the growth in it anyway.

Lastly, without discussing how to invest, I see another trend. That is, whether or not digital coins are legal or will survive I have no idea. However, I believe that block chain technology is in its infancy and will continue to grow in its uses and impact the economy like the car did in 1900 and the internet in 2000. Most companies in car and internet industries are long gone but the technology is with us and has helped us all considerably. A good book to read about this technology is “Life After Google” by George Guilder.

Good luck getting through the months ahead and I look forward to talking to all of you and seeing you again on the computer or better yet in person.

Sincerely Yours,

Stephen P. Wetzel

Steve Wetzel

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Sources: Wall Street Journal, Morningstar, American Funds, S &P Global Indices Division, CNBC and Various Federal Reserve Data sources.

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