

Hendershot Investments

MR. MARKET'S MASQUERADE PARTY

After stock markets plummeted in the first quarter due to the global COVID-19 pandemic, U.S. equity markets staged a remarkable rebound with the S&P 500 and NASDAQ reaching recent record levels. This marks the quickest recovery from a bear market in history amid a continuing healthcare crisis and double-digit unemployment. The sharp stock market rally from the March 23rd lows was due to massive monetary and fiscal stimulus, better than expected second quarter financial results as the economy reopened and optimism on COVID-19 treatments and potential vaccines.

To celebrate record stock market highs, Mr. Market is using his fiscal stimulus check to throw a masquerade party with everyone required to wear masks. Federal Reserve Chairman, Jerome Powell, agreed to preside over the punch bowl. With Powell saying the Fed is "not even thinking about thinking about raising rates," the party is expected to continue until the economy gets back on its feet to dance again.

Given that this is an election year, Mr. Market set up the head table for guests wearing Donald Trump and Joe Biden masks. Goodie bags include bottles of Pepto Bismol to deal with plenty of political rhetoric from both sides of the table. No matter who wins the election, the first priority will be addressing an economy still reeling from high unemployment and a boatload of bankruptcies due to the pandemic. Raising taxes and imposing new regulations will not be an immediate political prescription to restoring economic health.

The most raucous table at the party hosts technology company leaders from **Apple, Facebook, Microsoft, Alphabet** and Amazon toasting their dominance of the stock market. All these stocks appear fully valued. In fact, these five companies are valued more than the next 50 largest companies in the S&P 500 combined. Big tech gains mask weakness in many other sectors of the market. Envious cheers could be heard when Apple was the first U.S. company ever to surpass the \$2 trillion market capitalization milestone. A fellow in a Tim Cook mask cut

an apple pie into four big slices to commemorate the occasion and celebrate Apple's four for one stock split. Someone should ask Siri if four slices of pie are really worth more than the whole pie. A giddy Mr. Market thinks so.

Patriotic music played when Uncle Sam arrived with deflated dollar bills drooping from the brim of his hat. By contrast, a gold rush led many guests to join the party in glittering gold masks. Even Warren Buffett appeared sporting a bright gold tooth, although everyone whispered that it really was not Buffett behind that mask. Buffett has long disparaged gold as an investment even though **Berkshire Hathaway** recently acquired a stake in American Barrick, a gold miner. This was likely a purchase made by one of the other Berkshire investment managers.

Riding to the party in a convoy of tractors, many folks arrived at the party wearing bandanas for masks. As people move from crowded cities to green acres in the country to garden and raise chickens, **Tractor Supply** has seen its stock plow up a nearly 60% gain this year and now appears fully valued. A UPS driver showed up to the party in his unmistakable brown uniform. During the past three months, **UPS** has been one of the strongest stock market performers with the stock up 64% and also appearing fully valued.

The UPS driver quickly delivered bubble party favors to all the guests running around in Robinhood masks. If Mr. Market peeked behind the Robinhood masks, he would find signs of extreme speculation that have emerged with penny stocks and even the stocks of bankrupt companies rising exponentially on huge trading volume. This often is a sign that the party music may soon stop or at least pause until Dr. Fauci arrives with a coronavirus vaccine or Mr. Market passes out from too much punch. With few bargains to be found in the stock or bond market and valuations stretched even on **HI**-quality companies, we have become party poopers and net sellers of stocks. We don't mind patiently fanning ourselves in the corner with cash until Mr. Market sobers up.

This issue:

Stock Performance
Pages 2-3

Portfolio Review
Pages 4-5

Fundamentals
Pages 6-7

Portfolio HI-Lites
Pages 8-9

Under the Spotlight
Intel
Page 10

Walgreens
Page 11

Bank of Hawaii
Page 12