



August 2020

The Economy Bounced, Is It Enough ?

Bill Connors

BC@valuefin.com

Last quarter's letter asked ' Will the Economy Bounce ? '. Here's an update.

Retail Sales 5 /20 v 4/20 05/20 v 05/19

Clothing	+ 188 %	- 63 %
Furniture	+ 90 %	- 22 %
Electronics	+ 51 %	- 30 %
Restaurants & Bars	+ 29 %	- 39 %

The takeaway is obvious; as businesses re-opened their sales rose nicely, but remain Way Below last year. Also obvious is, if revenue doesn't rise to at least ' near ' 2019 levels a large number of businesses will fail, particularly small, privately owned.

Living organisms are dead if their blood stops circulating. Economies are similar, money needs to move. Even more important now as our total debt (Government, corporate and consumer) is higher than ever. An easy but illuminating economics read is Henry Hazlett's " Economics In One Lesson " (even palatable to people who hate the subject). He elaborates on this circulatory example (also scolds politicians who think they can spend our money without disrupting other segments).

By printing and distributing \$ Trillions of ' invented dollars ' (more accurate than saying printed) our government hopes for two main outcomes: 1. Keep unemployed citizens fed, sheltered, etc. 2. Keep the \$ circulating so the economy, or a significant portion, doesn't die.

Remember: one person's spending is another's income.

Now COVID is surging again and segments of the economy are re-closing. I expect the government to create more \$ Trillions and put them in consumer's hands. One problem is that when feeling financially insecure (39 % missed June house payments) the savings rate goes up. People will spend what they must and put the rest away for later. This is already happening, U.S savings is up four-fold from February. Note: Money saved isn't circulating, that happens when its spend.

And then what? Well, my crystal ball is foggier than usual. It's easy for our Government to create and mail money. In the short-term it's stimulative and painless. I feel strongly that will continue. What isn't clear is the longer-term. How many dollars can be invented without serious negative consequences ? Does our dollar get pressured lower, moving inflation higher, making us all less wealthy ? Do public company profits slow or go negative ? If so are current P / E's too high ? Or Way too high ?

Late news: 2nd Quarter GDP fell - 33 %, an all-time record !

Lots of questions, few solid answers. Call if you want to talk about this and its possible effects on you.

Buying the Dip.. I Mean the FED

Phillip Connors

Phillip@valuefin.com

Before the COVID crisis hit our lives, we still very much had our doubts regarding this year for the stock market. Long time value investors like Warren Buffet were talking down the stock market being overpriced and stockpiling cash for better opportunities to buy later, an impeachment proceeding was on every news channel, a presidential election was on the horizon, the longest running bull market in history was entering its 12th year, etc. Yep, we expected this year to be volatile to say the least for stocks, and that was before the chaos really hit.

As I write this, the S&P 500 is slightly up for the year. You read that right. Bail-outs, bankruptcies, 20 straight weeks of over 1 million first time unemployment claims, GDP down almost 33% in the 2nd quarter, unknown stimulus totals (in the trillions), helicopter money, etc. The market is up for every reason it should be down. We truly live in Bizarro world.

The article I wrote in January was titled 'Thank the FED Now (or Slap Them Later). If you were in the camp that slapping the FED was warranted back then based on their economic policies, I can only imagine how concerned you are now with the current fiscal issues facing this

country. My January article was more of a observation of how impactful the FED policy had been on the stock market in general; eschewing earnings and company fundamentals for the thought that the FED would do whatever was necessary to keep this bull market running. The ends have not justified the means though because of the amount of long term financial distress created for the anemic growth it has generated. Now the FED has really lost control, and passed the point of no return.

It seems investors have completely forgotten about evaluating companies for long term success, instead strictly relying on the FED shoving money into the market and the pockets of consumers to go spend it. Add in the FED behavior of keeping interest rates at their lowest possible levels without going negative to encourage debt and push stock prices higher. Savers are punished, and those living outside their means are having a party.

The market now belongs to the FED. How long can they hold it though? Reckless spending will have consequences. The money printers will run day and night, eventually damaging the value of our currency in order to keep blood flowing through the hypothetical body of the economy.

If you share the belief that this is not good policy, and are concerned your money will lose value as this behavior continues, feel free to give us a call. We have been implementing strategies to protect against this scenario for some time now, and would be happy to help you evaluate ways to protect your purchasing power without playing roulette with overpriced stocks.

Value Financial Advisers Quarterly



VALUE FINANCIAL ADVISERS, INC.

9185 E. Kenyon Ave., Suite 250
Denver, Colorado 80237
303.770.3030 Fax 303.773.9122

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