Weekly Capital Market Comments

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Robin Hood: Robbing the Poor to Give to the Rich

Unlike the stories and drawings from Howard Pyle's novel, describing the altruistic adventures of Robin Hood, today's Robinhood is taking on a diametrically different role for young adults. We continue to hear anecdotal stories of investors "day-trading" windfalls in names like Kodak, Nikola, Tesla, Apple, or Amazon. Echoing in their ears are the talking heads on CNBC, Bloomberg Radio, or Wall Street Week uttering, "don't fight the Fed" or "there is no alternative." But most retail investors are still not familiar with how just how unforgiving institutional capital markets can be, or how ruthless institutional traders and money managers are.

Our point here is not to denigrate a business model that, in many ways, has disrupted and innovated an industry, and helped lower costs and increase transparency for investors. Nor is it to desecrate the heartbreaking tragedy of a young college student, but simply point out what should be straight-forward to most. Sometimes, things that seem too easy, or too good to be true, have hidden, and typically dire consequences.

We connected with a colleague this week, who also helps clients save for a child's education or assists in funding retirement goals. He is also contending with client's relentless pursuits to double or triple their savings in this "money for nothing" and near-zero interest rate environment. As we pointed out last week in our note, "Will Stocks Ever Go Down?" we suggested that as long as real interest rates remain negative, investors will have no problem opting for equities with even a modest dividend yield.

For example, take Apple, it has a similar dividend yield to the 10Yr Treasury, but also the potential capital appreciation associated with a global leader in smartphone, hardware, and software sales. We say this, even though AAPL is trading over 30x forward earnings, compared to its long-term average of 15x. But this too can be rationalized; given the fact that global economic stimulus has provided consumers with unexpected purchasing power, and thus may have already "pulled-forward" earnings and demand associated with unit sales and service growth.

We framed it this way to a few clients this week; it takes just a couple of enhanced unemployment benefit checks to buy a new iPhone. Then as long as COVID remains an overhang to the retailing economy, consumers will use their new iPhone to order, via Amazon, Clorox products, stream the latest NetFlix series, or connect with lost friends by circumventing the latest Facebook algorithm. Oh…almost forgot, they could also open up a trading account and bid-up these names with a minimum $0 deposit in their new Robinhood account.

So as the S&P 500 continues to grind higher, led by the like of Apple, Amazon, Microsoft, Facebook and Netflix, which amount to over 23% of the S&P's total market capitalization, it is easy to see how retail investors can get absorbed into the day-trading phenomenon. It is also understandable how these same consumers/investors may not be aware of how narrow-breadth could have such a negative consequence to markets, especially if many of these investors are seeing a market cycle for the first time. With such a disconnect between Main Street and Wall Street, we continue to question the durability of current equity market valuations.

We'd love to hear your thoughts.

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