

Stocks and the Economy Diverge

As you can see in the table below, it was a great quarter for the stock market. However, it wasn't a great quarter for the economy with many businesses shut and consumers spending substantially less. There are many commentators trying to explain why the market is going up while the economy is going down. Possible explanations include: Federal stimulus money is not being spent on goods and services but on stocks; Investors are optimistic about a cure or vaccine; and interest rates are so low that stocks returns still look attractive. I don't find any of these explanations satisfying. One of the few truths of the stock market is that stocks prices reflect corporate earnings over the long term. There is no doubt that corporate earnings (as measured by the S&P 500) will decline substantially. There is also wide consensus among economists that the recovery will take years and not months. This, combined with high stock valuations prior to the covid-19 crisis leads me to a cautious view of the market. Therefore, I will continue to choose stocks that I consider to be a better value and less speculative than most.

<u>Market Sector</u>	<u>Return</u>	<u>Benchmark</u>
Total U.S. Stocks	20.2%	SPY (S&P 500)
Small U.S. Stocks	25.5%	IWM
U.S. Value Stocks	21.7%	IJJ
Foreign Stocks	16.7%	VEU
Bonds	3.1%	AGG

The Value Strategy outperformed the S&P 500, in spite of a defensive posture. The strategy benefited both by ownership of small stocks, which outperformed, and lack of ownership of financial stocks, which underperformed. The Select 25 Strategy trailed the S&P 500 and I am continuing to make changes in the strategy in an attempt to make it better match the returns of the S&P 500. The Foreign Value Strategy performed well with a slight outperformance of the benchmark.

Cash balances in many accounts are higher than normal. This is mostly due to the cash buyout of Tech Data Corporation, a holding in the Value Strategy, on June 30th. Most of the excess cash will be invested in the coming months.

Rob Haas July 8, 2020