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***“Liberty means responsibility. That is why most men dread it.”***  
***-George Bernard Shaw***

Happy 244th Anniversary USA!

## - A Few Thoughts on Independence Day

The Fourth of July has been a federal holiday since 1941. It is noteworthy that on July 2<sup>nd</sup>, the Continental Congress voted unanimously in favor of independence and it was two days later delegates from the 13 colonies adopted the Declaration of Independence, drafted by Thomas Jefferson, who was 33 years old at the time.

## - The Markets

**Equities:** Reflect to last December. Does anyone recall any economist or investment professional whose forecast for the next six months called for stock market record highs then to plunge almost 40% and then to mostly recover? How about unemployment to collapse from almost-non-existent to Depression-level double digits? Or did anyone forecast the Federal Reserve move to effectively maintain near zero interest rates by buying ETFs and low-quality corporate bonds? As the Chinese proverb goes.... we do live in interesting times!

For U.S. stocks, the second quarter performance registered the best gain in more than 20 years. The S&P 500, of which the so-called tech sector now makes up 27% of this weighted index, rose 515 points or 20% to 3,100. The Dow Jones Industrial Average (DJIA) added 3,895 points or 18%, to 25,812, its best quarter since 1987! The NASDAQ Composite -heavily tech weighted – closed the quarter up 31% and positive 12% for the year so far. Please note the following table<sup>1</sup>:

Index	Closing Value 6/30/20	% Gain from March low	% off from 2020 high	% Year-to-Date Return
DJIA	25,812	41.7	12.70	-9.55
DJ Transportation	9,172	41.5	19.20	-15.86
DJ Utility	767	29.3	20.30	-12.70
DJ Total Stock Market	31,576	43.7	9.00	-4.42
S&P 500	3,100	41.4	8.60	-4.04
S&P MidCap 400	1,783	50.9	15.40	-13.56
NASDAQ Composite	10,058	51.6	1.50	12.11
Russell 2000	1,441	49.1	15.90	-13.61

For selected international equity markets, note the following returns best to worst <sup>2</sup>:

Country/Index	% Year-to-Date Return	Country/Index	% Year-to-Date Return
DJ Global ex U.S. (World)	-11.7	Hong Kong Hang Seng	-13.3
New Zealand S&P/NSX 50	-0.3	Mexico IPC	-13.3
China Shanghai Composite	-2.1	India S&P BSE Sensex	-15.3
S. Korea KOSPI	-4.0	Brazil Bovespa	-17.8
Japan Nikkei Stock Average	-5.7	Chile IPSA	-18.1
Argentina Merval	-7.1	U.K. FTSE 100	-18.2
Germany DAX	-7.1	Israel Mishtanim Tel Aviv	-20.3
Canada S&P/TSX Composite	-9.0		

<sup>1</sup> [www.wsj.com](http://www.wsj.com) U.S. Americas Stock Indexes 6/30/20

<sup>2</sup> [www.wsj.com](http://www.wsj.com) Asia Stock Indexes: U.S. Americas Stock Indexes; Track the Markets

As of June 30, Tesla, Microsoft, and Shopify – all on the NASDAQ Composite hit record new highs.<sup>3</sup> Despite record gains of indices in the second quarter, the DJIA booked its worst first six months of a calendar year since the 2008 financial crisis, while the S&P 500 notched its worst half of the year in a decade.<sup>4</sup>

**Fixed Income:** Safe-haven inflows into the bond-market have helped keep Treasury rates near the low end of their trading range as investors grappled with new COVID-19 spikes and reported cases rose in the southern and western states. Several governors have halted business reopening plans.

As of month-end, interest rates are as follows:

Bond/Index	% Yield
30-Year T Bond	1.41
10 Year T Note	0.65
5-Year T Note	0.28
1-Year T Bill	0.17
90-Day T Bill	0.01
Bloomberg Barclays U.S. Aggregate	1.26
Bloomberg Barclays U.S. Corporate	2.15

With the 10-Year T Note near its record low yield of 0.38%, and with a cloudy economic outlook going forward, the 30-year fixed rate mortgage averaged 3.07% for the week ending July 2<sup>nd</sup>.<sup>5</sup> The 15-year fixed-rate mortgage averaged 2.56%.<sup>6</sup> Mortgage rates are based on Treasury rates.

Major corporations have taken advantage of current low rates by issuing more debt, starting mid-March during the turmoil created by the coronavirus pandemic. Both Exxon and Verizon sold a combined \$12 billion of bonds in a single day.<sup>7</sup> As of the end of May, \$1 trillion worth of investment-grade corporate debt sales had been bought to market.<sup>8</sup> Normally, \$1 trillion in sales is reached in November, not by May. For companies with Federal Reserve support, the cash raised has been the lifeline for survival during the pandemic.

As of the end of June, U.S. national debt stood at \$26.33 trillion or \$211,974 per taxpayer.<sup>9</sup> With unfunded liabilities, U.S. total debt stands at \$79.83 trillion.<sup>10</sup> As of the beginning of the year, the figures were \$23.1 trillion and \$75.28 trillion respectively.<sup>11</sup> This comes after Congress has passed, and President Trump as signed, four coronavirus relief bills including the \$2.2 trillion CARES Act in late March. On May 15, the U.S. House of Representatives passed the HEROES Act, adding another \$3 trillion of deficit spending for coronavirus relief.

**Commodities:** Crude oil closed June 30 at \$39.54 per barrel, off 35.19% year-to-date, but up from \$20.10 per barrel on March 31<sup>st</sup>.<sup>12</sup> Gold closed at \$1,800.10 per troy ounce up from \$1,590.37 March end and 18.4% year-to-date.<sup>13</sup> Silver for the second quarter is now in positive territory closing at \$18.60 per ounce up 3.91% year-to-date. The March close was \$14.15, showing a 20.9% loss for 2020 at that point.<sup>14</sup>

## -Recent News Affecting the Markets

Global and U.S. stocks made strong gains over the last few days based on ADP and the U.S. Labor Department reports on employment. The latest report from the Labor Department said 4.8 million jobs were added in June, while the unemployment rate fell to 11.1%.<sup>15</sup> Economists were expecting a gain of 3 million jobs, building on an unexpected addition of 2.5 million jobs in May.<sup>16</sup> As it stands currently, the labor market recovery has recouped three out of every ten jobs lost, according to Oxford Economics.<sup>17</sup> The U.S. has a long way to go, with a net jobs loss of 14.7 million.

New applications for traditional jobless benefits show a steady descent – another positive. Initial jobless claims dropped to 1.43 million for the last seven days ending June 27 from 1.48 million the prior week and 3.18 million in the first week in May.<sup>18</sup>

<sup>3</sup> [www.barrons.com](http://www.barrons.com) The Dow Just Had Its Best Quarter Since 1987 6/30/20

<sup>4</sup> [www.marketwatch.com](http://www.marketwatch.com) Why Stock Market Strategies Have Never Been More Confused 6/30/20

<sup>5</sup> [www.marketwatch.com](http://www.marketwatch.com) Mortgage Rates Hit a Fresh Record Low 7/2/20

<sup>6</sup> *Ibid.*

<sup>7</sup> [www.advisorperspectives.com](http://www.advisorperspectives.com) U.S. Corporate Bond Sales Swap Record 6/2/20

<sup>8</sup> *Ibid.*

<sup>9</sup> [www.usdebtclock.org](http://www.usdebtclock.org) 7/1/20

<sup>10</sup> *Ibid.*

<sup>11</sup> [www.usdebtclock.org](http://www.usdebtclock.org) 1/1/20

<sup>12</sup> [www.marketwatch.com](http://www.marketwatch.com) Crude Oil 6/30/20

<sup>13</sup> [www.marketwatch.com](http://www.marketwatch.com) Gold 6/30/20

<sup>14</sup> [www.marketwatch.com](http://www.marketwatch.com) Silver 6/30/20

<sup>15</sup> [www.barrons.com](http://www.barrons.com) The Dow is Rising as Strong U.S. Jobs Data Land 7/2/20

<sup>16</sup> *Ibid.*

<sup>17</sup> [www.barrons.com](http://www.barrons.com) U.S. Added 4.8 Million Jobs 7/2/20

<sup>18</sup> [www.marketwatch.com](http://www.marketwatch.com) Jobless Claims Continue Slow but Steady 7/2/20

Both consumer confidence and spending made big jumps as the U.S. economy began to open. Spending, reflecting pent up demand, rose a record 8.2% in May to mark the first increase since the pandemic hit the markets.<sup>19</sup> Increases were led by spending on new cars, clothes, recreation, and eating out. Consumer confidence rose to a surprising 98.1 from 85.9 on the Conference Board's index.<sup>20</sup> The Conference Board credits the re-opening of the economy and the relative improvement in unemployment claims for the jump.

The Leading Economic Index for June will not be realized until mid-July but for May the increase was 2.8%.<sup>21</sup>

Global manufacturing as well as in the U.S. is growing as restrictions designed to contain the coronavirus were lifted. New orders for manufactured durable goods increased \$26.6 billion or 15.8% in May for the U.S..<sup>22</sup> Industrial production rose by 1.4% in May as many factories resumed operations after shutdowns.<sup>23</sup> Total industrial production is still 15.4% below its February pre-pandemic level. The initial ISM report for June shows its index climbed to 52.6% from 43.1% in May and an 11 year low of 41.5% in April. This was this index's first gain since February.<sup>24</sup>

On the real estate front, homebuilder sentiment rose 21 points in June to 58, according to the National Association of Home Builders.<sup>25</sup> Any reading above 50 indicates a positive market. For May, home sales jumped by the biggest amount recorded – up 44%.<sup>26</sup> We are seeing more listings appear as the economy reopens, allowing more inventory choices according to the National Association of Realtors.<sup>27</sup>

A lagging indicator but one that affects all aspects of the economy, including investors, consumers, manufacturers, and planners in our industry is inflation. Mid-June the CPI for May reported a drop in inflation of 0.1%.<sup>28</sup> The index fell 0.8% in April while for the trailing twelve months the index only increased 0.1%.<sup>29</sup>

## Going Forward –

There is no consensus on “Wall Street”. Professionals have estimates that vary widely and are adjusted every few weeks. Furthermore, numerous companies are not reporting guidance of revenues and earnings. History shows that when the S&P 500 has an outstanding quarterly return, this index is higher one year later – but does that apply with a recession caused by a pandemic? What happens if a coronavirus vaccine is never developed? CDC Director Robert Redfield recently stated that “Our best estimate right now is for every case that is reported, there actually are 10 other infections.”<sup>30</sup>

Gross Domestic Product (GDP), a lagging indicator, showed the U.S. economy shrank by 5% in the first quarter – reflecting only two weeks of business shutdowns.<sup>31</sup> For the second quarter, estimated earnings for the S&P 500 will be a decline of 43.8% according to FactSet.<sup>32</sup> Of all companies that comprise the S&P 500, 27 have issued negative earnings per share (EPS) guidance and 22 companies have issued positive EPS guidance.<sup>33</sup> The forward S&P 500 P/E ratio a year from now is estimated at 24.9 by Birinyi Associates.<sup>34</sup> The same estimate by FactSet is a P/E ratio of 21.8.<sup>35</sup> More wide discrepancies. History shows the average P/E ratio valuation for this index over 10 years is 15.2.<sup>36</sup> This implies that the equity markets are over-valued on the short-term at least.

The major industries of the economy that we are focusing on for short-term market direction – if that is possible – include:

- Airlines
- Oil
- Restaurants
- Retail
- Cruise-Ship Operators
- Hotel Occupancy
- And all the economic criteria discussed earlier in this letter

As always, investment management is an ongoing evolutionary enterprise, just as is the economy – neither one is static. This leads us to a few planning suggestions.

<sup>19</sup> [www.cnbc.com](http://www.cnbc.com) Consumer Spending Jumps Record 8.2% 6/20/20

<sup>20</sup> [www.cnbc.com](http://www.cnbc.com) U.S. Consumer Confidence for June Jumps 6/30/20

<sup>21</sup> [www.conferenceboard.org](http://www.conferenceboard.org) News Release 6/18/20

<sup>22</sup> [www.census.gov](http://www.census.gov) Monthly Advance Report on Durable Goods 6/25/20

<sup>23</sup> [www.marketwatch.com](http://www.marketwatch.com) Industrial Production Edges Up in May 6/16/20

<sup>24</sup> [www.marketwatch.com](http://www.marketwatch.com) Manufacturers Come Back Strong in June 7/1/20

<sup>25</sup> [www.cnbc.com](http://www.cnbc.com) Homebuilder Sentiment Posts Biggest Mortality Surge Ever 6/16/20

<sup>26</sup> [www.barrons.com](http://www.barrons.com) Pending Home Sales Rose 44% in May 6/29/20

<sup>27</sup> *Ibid.*

<sup>28</sup> [www.BLS.gov](http://www.BLS.gov) Consumer Price Index Summary

<sup>29</sup> *Ibid.*

<sup>30</sup> *Barrons Review* – He Said p.10 6/29/20

<sup>31</sup> [www.cnbc.com](http://www.cnbc.com) U.S. GDP fell at a 5% Rate 6/25/20

<sup>32</sup> [www.factset.com](http://www.factset.com) Key Metrics 7/2/20

<sup>33</sup> *Ibid.*

<sup>34</sup> [www.wsj.com](http://www.wsj.com) Market Data 7/3/20

<sup>35</sup> [www.FactSet.com](http://www.FactSet.com) Key Metrics 7/2/20

<sup>36</sup> *Ibid.*

## Financial Planning Thoughts –

The 10-year rate of return for the S&P 500 ending June 16, 2020 – which includes the index collapse of 38% is 11.17% per year and 13.3% per year with dividends reinvested.<sup>37</sup> The challenge is to fit a client's assets, goals, and psychology with an opportune diversified portfolio that reflects these aspects. The result is rarely, if ever, only the S&P 500 index. As quoted in a previous letter, Jason Zweig said, "Forget about what the stock market is going to do. Instead, focus on what you, as investor, ought to do."<sup>38</sup>

Accomplishing what Jason Zweig states construct a comprehensive financial plan. To start, in general terms, the client needs to project their specific goals; evaluate all assets; then analyze the gap between goals and assets; Develop and present planning process options. Implementation is then based on a sophisticated plan with an established investment policy statement. Perhaps the most important factor is monitoring the implementation of the plan with periodic evaluation. The key is acknowledging planning, investment opportunities, and goals that are all dynamic with changing economic and political developments.

A few quick questions ... are you familiar with life settlements as an uncorrelated investment option to equities, debt, and real estate? Another investment alternative signed into law December 2017 are investment opportunity zones. Are you familiar with this, powerful alternative administered by the U.S. Department of Commerce? Finally, due to the recent CARES Act, required mandatory distributions from retirement plans are waived for 2020. Would a "back door" ROTH IRA conversion be helpful? If yes, and if you have any questions about these possible options, give Stephanie a call. We are always here to help – even during a pandemic!

Yours,



George Gumbiner



Five Star Wealth Manager since 2009, without exception  
A+ rating with BBB Accredited Business Since 2002

***"Economic growth is a consequence of economic freedom."***

***- John Tamay, Editor Investor's Business Daily***

P.S. Reminder! Please access the Marathon website [www.MarathonInvestments.com](http://www.MarathonInvestments.com) for monthly commentaries, tools and timely statements on the markets. We have built numerous tools into our website to help you in answering many diverse financial issues.

<sup>37</sup> [www.S&P500ReturnCalculator.com](http://www.S&P500ReturnCalculator.com) 6/16/20

<sup>38</sup> [www.wsj.com](http://www.wsj.com) What Benjamin Graham Would Tell You 3/10/20