Marathon Investment Management, Inc.
6565 South Dayton Street, Suite 1200
Greenwood Village, CO 80111
Phone: (303) 708-0667 Fax: (303) 708-1462
www.Marathoninvestments.com

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***"The idea of capitalism is not just success but also the failure that allows success to happen"***
***-P.J. O'Rourke***

# Good as Gold

**Commodities & Debt -** July was a good month for U.S. stocks as the S&P 500 extended its gains for a fourth consecutive month, led by the large tech sector. The big winners for July and for 2020 so far, are precious metals. Marathon tracks 50 equity and debt benchmarks through Morningstar. For July, precious metals mutual funds averaged 18.88% while for 2020, so far, the average return was 41.48% for this category.[1]

The two factors we feel that most affect this sector are developing a vaccine and the flooding of currency both here and abroad. With the uncertainty of a medical solution and with the extraordinary creation of currencies, gold is seen as a safety net and an alternative to both equity and debt.

There are costs associated with the acquisition of gold – it requires storage, minting, and insurance costs. ETFs allowing, for a small cost, can be bought and sold instantly on the exchanges and are based on the spot market value of gold. Historically, both stocks and bonds have outperformed the price increase in gold.

At the close of 2019, gold was priced at $1,523.10/troy ounce.[2] As of July 31, the price at market close has risen to $1,994.00/troy ounce or over 31%![3] Silver, through July, has a total gain of 37.69%, closing at $24.63/ounce.[4]

Regarding debt, as of August 2, U.S. national debt stood at $26.594 trillion, or $80,586 per citizen, or $213,899 per taxpayer.[5] If we include unfunded liabilities with debt, the current figure rises to $80.646 trillion.[6]

Precious metals are priced in U.S. dollars – the global reserve currency. Along with skyrocketing debt, and with unprecedented activism by the Federal Reserve, interest rates remain near their lows. As of July 31, the 30-year T bond yielded only 1.19%. Its all-time low of 0.69% was set March 9th, amongst world headlines of the new pandemic.[7] The 10-year T note, from which mortgage rates are based upon, closed the month with a 0.5% yield – not far from its all-time low of 0.38%.[8]

**Equities –** The S&P 500 closed out July with a 5.5% gain. This bellwether index is now in positive territory. For the last month, the DJIA rose 115 points or 0.4% to 26,428, making its fourth consecutive monthly gain. The tech-heavy NASDAQ Composite finished July at 10,745, up 157 points or 1.5% - led by the giant technology companies, namely Apple, Facebook, and Amazon.com.

Please note the following table:

| Index | Value 7/31/20 | % Gain March low | % Year-to-Date |
|---|---|---|---|
| DJIA | 26,428 | 45.1 | -7.39 |
| DJ Transportation Avg | 9,994 | 54.2 | -8.32 |
| DJ Utility Avg | 830 | 39.9 | -5.51 |
| DJ Total Stock Market | 33,323 | 51.7 | 0.87 |
| S&P 500 | 3,271 | 49.2 | 2.25 |
| | | | |
| S&P MidCap 400 | 1,863 | 57.7 | -9.65 |
| NASDAQ Composite | 10,745 | 62.0 | 19.76 |
| Russell 2000 | 1,480 | 53.2 | -11.27 |

And a few selected international indexes:

| Index | Value 7/31/20 | Year-to-Date % |
|---|---|---|
| DJ Global ex.U.S. | 241 | -8.2 |
| Argentina Merval | 49,253 | 18.2 |
| China Shanghai Composite | 3,310 | 8.5 |
| Canada S&P/TSX Composite | 16,169 | -5.2 |
| Germany DAX | 12,313 | -7.1 |
| Japan Nikkei 225 | 21,710 | -8.2 |
| India S&P BSE Sensex | 37,606 | -8.8 |
| Brazil Sau Paulo Bovespa | 102,912 | -11.0 |
| Hong Kong Hang Seng | 24,595 | -12.8 |
| Israel Tel Aviv | 1,380 | -18.0 |
| United Kingdom FTSE 100 | 5,897 | -21.8 |

[1] Morningstar Inc Benchmark Universe/Annualized Returns Monthly 8/2/20
[2] www.marketwatch.com Gold, Silver
[3] Ibid.
[4] Ibid.
[5] www.usdebtclock.org Red Time 8/2/20
[6] Ibid.
[7] www.wsj.com Bonds & Rates 7/31/20
[8] Ibid.

As previously mentioned for the U.S. due to weighting, the major tech stocks are "becoming" the major indices – namely the NASDAQ Composite and the S&P 500. The five big tech stocks on average are up over 50%, while the rest of the S&P 500 is about flat. The combined market capitalization of Alphabet (GOOGL), Amazon.com (AMZN), Apple (AAPL), Facebook (FB), and Microsoft (MSFT) are 22% of the S&P 500.[9] The combined market capitalizations of these companies are now 2.3 times the size of the entire small-cap Russell 2000[10], but their revenue and earnings growth could be a valid rationalization of their size. For last quarter, Apple reported more than $11 billion in profit – and announced a four-to-one split.

**Closing Thoughts –**

What you pay for, even for a great company such as Apple matters. Stock returns are driven by dividend growth – which is usually a factor of earnings. One needs to be cognizant of price-to-earnings, return on equity and other measures of value. Diversification matters – maybe not this year – but over time. High quality stocks, even small companies, will shine in a weak economy and the economy is currently very weak indeed.

Recently reported, the GDP shrank an annualized 32.9% in the second quarter. Most analysts are anticipating third and fourth quarters to moderate; therefore for 2020, a figure of an 8% -9% drop in GDP is likely. So far, with 63% of S&P 500 companies reporting, earnings decline for the second quarter is down -35.7%.[11] Earnings guidance for the third quarter is spotty but so far 7 S&P 500 companies have issued negative earnings per share guidance and 25 S&P 500 companies have issued positive guidance.[12]

Some suggestions:

1. Stay diversified – one analyst recently wrote the gap between the 20% of stocks worldwide with the best price-to-book ratios relative to the 20% with the lowest is at its widest point in over 45 years.[13] Many well-known quality companies are trading at 40% - 60% of their book value.
2. Stay disciplined – especially with periodic rebalancing. Some say, "markets go up and they go down", but when they rise, they usually rise much more and for longer periods. We have had wars, high inflation, high interest rates, cold war tensions, high unemployment, and this year a pandemic, along with election year uncertainty, and Middle East tensions. Yet over the last 30 years, the S&P 500 ending June 16, has returned 7.46% annualized or 767.0%. With dividends reinvested, the numbers jump to 9.67% and 1,494% respectively.[14]
3. Watch for market rotation. Leadership is dynamic and affected by sector, style, and geography. Every recession is different and how this one started and how it will end will be unique.

Stephanie, Denise, Genesis, and I are "here" and at your service. This year so far is most unprecedented, and you should have questions. Call us – we are here to help!

Yours,



A+ rating with BBB Accredited Business Since 20026

George Gumbiner

**"The pessimist complains about the wind; the optimist expects it to change; the realist adjust the sails."**
**- William Arthur Ward**

P.S. Reminder! Please access the Marathon website 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. Input www.MarathonInvestments.com .

[9] www.Barrons.com Yes, the Big 5 Tech Stocks Have Trounced the Market 7/28/20
[10] www.Barrons.com U.S. Stocks Rebound 7/31/20
[11] www.factset.com Key Metrics 7/31/20
[12] Ibid.
[13] www.Barrons.com 10 Cheap Stocks for Contrarians 7/28/20
[14] www.S&P500RateOfReturn.com S&P500 Re