July 8, 2020

Dear Investor,

Our Q4 2019 letter released in January began with the quote "***This is Nuts***!" which we quoted from one of the fellow advisors we follow. It was a prescient quote as several completely out-of-touch stock indices dropped as much as -40% soon after, albeit from a far worse than anticipated reaction to the Coronavirus that was circulating in China at the time.

After a Q2 that saw the best market performance since 1987, with many correlations once again stretched beyond comprehension (most notably the -37% reduction in Q2 Earnings estimates), we have to select the article "***Markets Have Jumped the Shark***" for the prize in Q2. The title is a reference of course to the late days of the long-running 'Happy Days' series of the 1970's where they ran out of plots to the point they made middle-aged Fonzi resorted to jump a shark on water skis!

The wild ***mismatch*** between the real world economy and central bank manipulated stock markets is in shark-jump territory for certain. While we investors can celebrate the re-inflation of stocks that were pounded down by -30% to -40% in Q1, to largely recover YTD (and Nasdaq even gain) we need to be very clear that only wild central bank actions matter now. Aside from the wild lunacy of our Federal Reserve, Chinese officials, through their state-owned 'Chinese Securities Journal' just encouraged their citizens to pile into stocks suggesting it was their patriotic duty to support their post-pandemic economy! Of note, they are likely doing this as a means to attract direly needed US Dollars into China, and last did that in 2005 … just before the market tanked.

In the U.S. investors need to know what just happened in March: President Trump effectively nationalized the Federal Reserve. The CARES Act that was uncorked in response to the 'COVID19 Pandemic' included a side-game where the Fed was placed under supervision of the Treasury.

> ***"This action essentially merges the Fed and Treasury into one organization. So, meet your new Fed chairman, Donald J. Trump."*** *- Bloomberg, March 27, 2020*

So, after adding $2.5 Trillion in newly invented money to its own balance sheet, the Fed is now in effect violating its charter by directly buying 'junk' bonds in the open markets. This is of course being done under the premise of 'saving' us … by saving companies that borrowed so much money they could not weather a two month shut-down without bankrupting, collapsing the entire economy. Instead, it has reinforced a 'stocks only go up', 'buy-the-dip' mentality the Fed has created.

While we are pleased that investors have recovered some of the losses rapidly experienced in February and March, this market action truly borders on insanity. A quick look at state-mandated rules for sparsely tabled restaurants to full lock-downs tells you just about all you need to know.

Any high-percentage equity allocation here *must* be accompanied by full faith in the central banks. This means you must believe that the same people orchestrating non-stop hysteria now manifesting in riots in the streets do in fact have your best interest in mind *in the stock markets*, and riots and closed businesses don't really matter. If you don't believe that, you should not be in a full-risk position in our view. Call us at (614)734-9584 if we can help you think through your allocation.

Best Regards,

Mike Sullivan, President, Certified Financial Planner Professional ®

Perspective & Outlook:

Every quarter we write about Fed money printing. If it is in place, promised to continue, and constantly increased in amount without threat of reduction, markets rise. Q2 was no exception:

INDEX	TYPE	2020 Q2	YTD
Standard & Poor's 500	US Based Large Stocks (500)	**20.5%**	**-3.1%**
Dow Jones Industrials	US Based Large Stocks (30)	**18.5%**	**-9.6%**
Nasdaq Composite	US Based Large Stocks	**30.5%**	**15.8%**
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	**24.0%**	**-12.8%**
Russell 2000	US Based Small-Cap Stocks (2000	**25.4%**	**-13.0%**
Dow Jones Transports	US Based Transportation Stocks	**19.2%**	**-15.9%**
Dow Jones Utilities	US Based Utility Stocks	**2.3%**	**-12.7%**
EAFE International Index	International Large Cap	**15.1%**	**-10.1%**
MSCI Emerging Markets	Diversified Emerging Markets	**18.1%**	**-15.1%**
Barclay Aggregate Bond	Intermediate Bond	**2.9%**	**5.9%**
3 Month T-Bill	Cash Equivalent	**0.1%**	**0.2%**

Sources: *Bloomberg, vanguard.com, yahoo.com*

The rise in asset prices came not only from the Fed but from other central banks who not only print, but actually *buy stocks directly* with that new money; and they bought ***everything***. Even the Fed bought bonds, including '*junk*' bonds … violating their own charter. Their constituents (and owners) on Wall Street bought stocks with the 'liquidity' the Fed handed to them. That is welcome to investors enjoying at least temporarily the reflation in retirement account values.

Of course, wealth inequality surges even further past its historical record in Fed world. The Fed this quarter actually deemed that this wealth inequality is acceptable to them, on the record for the first time ever! Astoundingly, they also disavow any responsibility for other problems their disparities cause, including the civil unrest exploding across the country now. Instead, they attribute *that* to other factors, accepting zero blame. (This situation is eerily comparable to the Bubble foisted in the late 1700s by the first paper-money abusing central bank run by John Law in France … which soon caused the French Revolution. See any similarity?)

The 'markets' have also turned into a day-trader's paradise, now led by social media heroes like Dave Portney, a co-founder of BarStool Sports. Portnoy, who recently sold Barstool to Penn Gaming for $400 Million, took his $100 million share and his idle time (since live sports and thus sports-betting are on lock-down) and he now engages in online day-trading of stocks. He even selects them now using a Scrabble board! Portnoy is more than just entertaining (if you can handle profanity and rants) … he is accompanied by millions of followers who have joined him in day-trading, putting their $1,200 stimulus checks in play via the Robin Hood app.

Meanwhile, large sophisticated investors like Warren Buffet are sitting this rally out. Buffett is too old-school for these Fed-pumped markets according to Portnoy who deems Buffett 'washed up'. Poor old Warren, he actually thought visibility of future sales and earnings was important! Without such visibility, Buffet declared that this rally a mania rather than an investment.

Non-Scrabble-board stocks that Portnoy trades include the high-fliers in the tech indices, most notably the FAAMG group of Facebook, Apple, Amazon, Microsoft and Google. Collectively, the distortion of market indices by those five stocks continues and the S&P 500 index is now more concentrated in five stocks than ever before as they represent 23% of the overall index value!

Source: BankAmerica

These same stocks give us a look at how the Fed's insta-money has distorted markets. Just look at the difference in the stock performance of four of them during the 2008 and 2020 recessions:

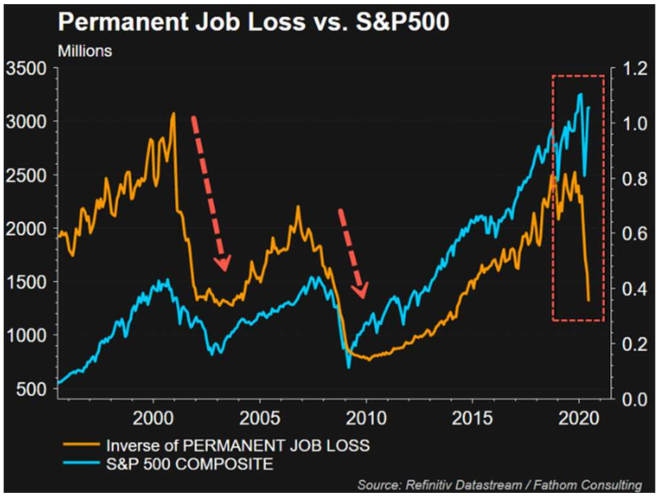
Company / Stock / ETF	2020 Performance	2008 Performance
Apple	+ 28%	- 57%
Amazon	+ 65%	- 45%
Microsoft	+ 34%	- 44%
Google	+ 12%	- 56%
QQQ (Nasdaq ETF)	+ 22%	- 42%

So, this Fed-induced distortion is of course a boost for major stock indices. Simultaneously, it puts the job of holding up the indices squarely on their five backs. And while smaller investors like retirement plan participants enjoy the rise in the stocks held by funds they own and the impact on the equity indices, most gains go of course to those who already own the assets.

As we go to print, the Nasdaq 100 has lifted 22% above its 200 day moving average, a technical feat rarely accomplished … in fact in February, when "this was nuts" it only reached +20%!

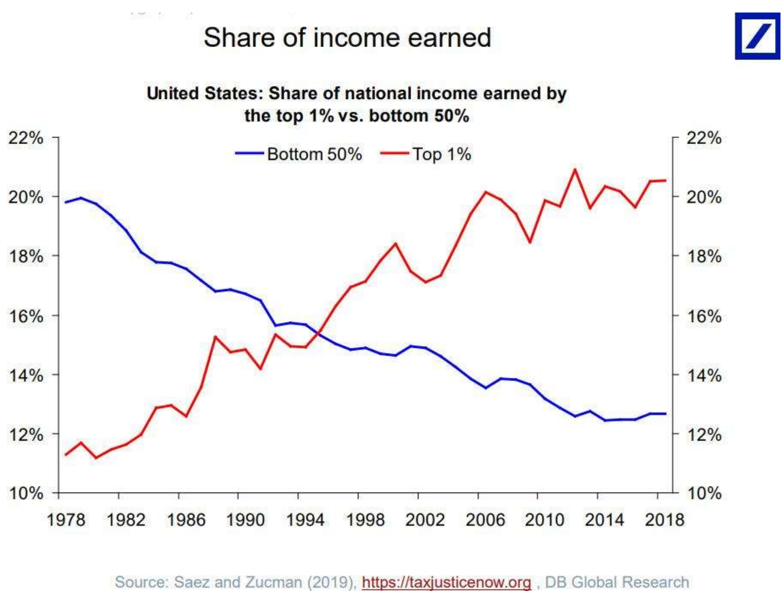
Source: MarketEar

To most people, weekly income from paychecks determines their quality of life. We easily see that the disconnect between the S&P 500 and the American worker is real. Below we can see the overlay of the S&P 500's advance in the face of millions losing their jobs … permanently.



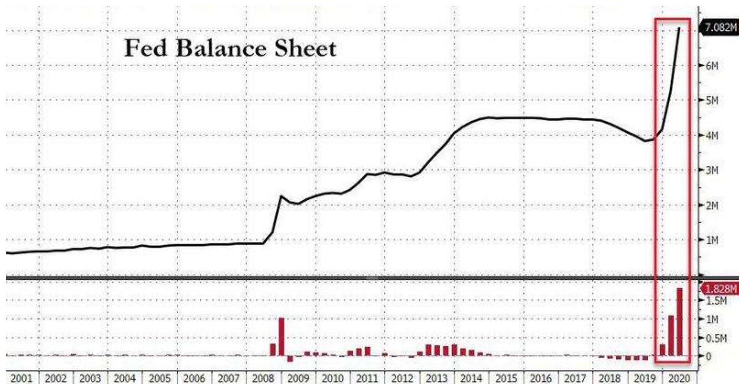
Source: MarketEar

The flip side for those fortunate enough to still be working is that new money invested will now pay higher and higher prices to buy stocks. The American worker's income does not keep up with the big boost from the market pump which goes to the top 1% of income earners who own more stocks and thus collect more income in the form of the dividends those stocks pay out:



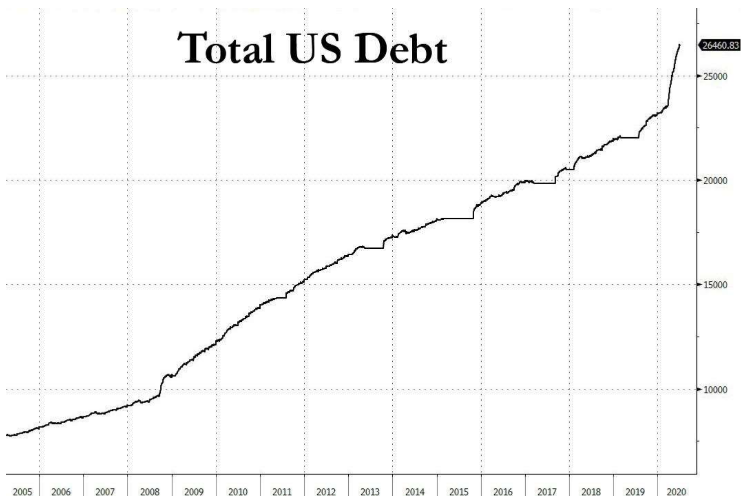
Source: taxjusticenow.org

The wealth disparity at play across the country, directly resulting from the Fed's "rescues", is easy to see. Nonetheless, as the Fed continues to 'save us' by printing money at stunning paces, exploding wealth and income disparity, it pretends it has no role in the unrest of the day. In the following chart, we see the $2.5 Trillion the Fed added to its balance sheet (driven by Trump) which has subsequently been used to buy junk bonds and make 'liquidity' available to its Wall Street owners who are pumping stocks and other assets … no doubt with a big smile.



Source: Zerohedge

Not to be outdone, with the Fed's $2.5Trillion not enough, the US exploded its own debt level as it cut $1,200 stimulus checks, cranked out small business loans that included 'forgivable' loans under the Payroll Protection Act, and threw money everywhere it could.   In June, government spent $1.1Trillion by itself, an increase of more than $763 Billion over June 2019.[i]



Source: Zerohedge

If that sounds insane to you, it is. Meanwhile, in violation of their own charter, the Fed is now buying 'junk bonds' outright. Below is a list of the top bond funds, notably including the 'junk bond' funds, which the Fed has bought directly. The Fed now stands as a top 5 holder of each:

		Current		
Ticker	Security	MV↓	MV Δ vs Prev Filing	MV Δ vs Prev Qtr
11) LQD US	ISHARES IBOXX INVESTMENT GRA	1.8B	1.4B	1.8B
12) VCSH US	VANGUARD S/T CORP BOND ETF	1.3B	1.1B	1.3B
13) VCIT US	VANGUARD INT-TERM CORPORATI	1.0B	798.7M	1.0B
14) IGSB US	ISHARES SHORT-TERM CORPORAT	608.9M	519.2M	608.9M
15) SPIB US	SPDR PORTFOLIO INTERMEDIATE	404.9M	334.1M	404.9M
16) JNK US	SPDR BBG BARC HIGH YIELD BND	399.7M	309.0M	399.7M
17) IGIB US	ISHARES INTERMEDIATE-TERM CO	397.1M	337.1M	397.1M
18) HYG US	ISHARES IBOXX HIGH YLD CORP	239.0M	137.5M	239.0M
19) SPSB US	SPDR PORT SHRT TRM CORP BND	237.3M	195.4M	237.3M
20) USIG US	ISHARES BROAD USD INVESTMEN	150.6M	113.5M	150.6M
21) HYLB US	XTRACKERS USD HIGH YIELD COR	54.7M	43.5M	54.7M
22) USHY US	ISHARES BROAD USD HIGH YIELD	47.7M	43.7M	47.7M
23) SLQD US	ISHARES 0-5 YR INV GRD CORP	43.9M	33.5M	43.9M
24) ANGL US	VANECK FALLEN ANGEL HIGH YLD	28.2M	16.6M	28.2M
25) SHYG US	ISHARES 0-5 YR HY CORP BOND	22.9M	15.6M	22.9M
26) SJNK US	SPDR BBG BARC ST HIGH YIELD	20.3M	20.3M	20.3M

Source: Bloomberg

Behind the scenes, of course, President Trump knows full well how important retirement account balances are to his election chances in November. So, while he wrestles with Covid-19(84) and civil unrest, he effectively co-opted the Fed by putting it alongside the Treasury that reports to him directly. Trump is nothing if not the master of bankruptcy. In effect, by prompting the Fed to buy bonds, including junk bonds, he may have just bankrupted them.

Should Trump win re-election in November, he could easily make the case that the Fed's tactics has bankrupted both itself and the monetary system, then replace the Fed outright. That would place the creation and management of U.S. currency back into the hands of the country and take it away from a private cabal owned by Wall Street banks and foreign bankers.

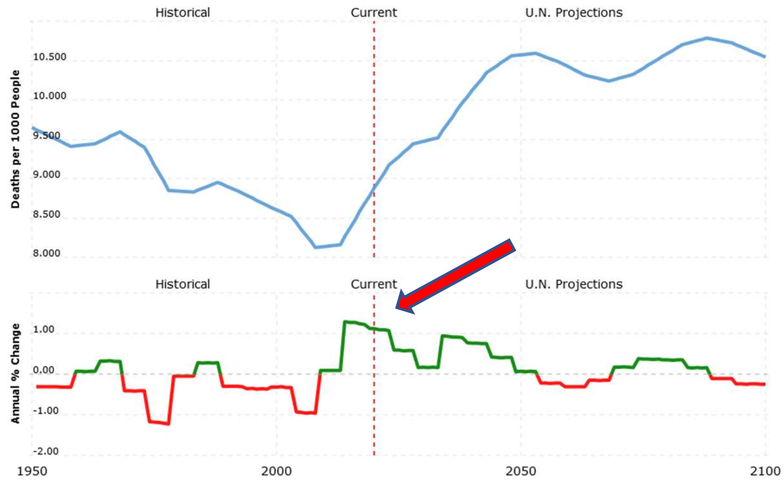
The history of the Fed, and the war between American patriots versus global bankers who control the fate and wealth of citizens across the world, is a fascinating one. We hold periodic webinars on the topic, so if you are interested in learning about real history as opposed to what is taught in American schools, drop us a note and we'll invite you to the next one.

Meanwhile, we suggest investors familiarize themselves with such history. If Trump is indeed embarking on a mission to ride into term two and cancel the Fed, it should prove to be a very wild ride in the months that follow. The last two presidents who wanted to cancel the central bankers were JFK and Abraham Lincoln … and we know how those episodes ended, don't we?

Nobody is looking forward to the 2020 election season. Most people have been exhausted the past few years by the non-stop hysteria that has abounded since 2016. If one considers the record-low level of approval for Congress (below 15% approval rating), and analyzes the number of congressional people that are multi-millionaires, it is easy to see the level of corruption in Washington. With that in view, and the acknowledgement that those in Congress on both sides of the imaginary aisle who have been purchased by the relentless stream of Bernanke-bucks the Fed pumps out (and other unsavory tactics that capture them), it is also easy to see why such a large movement to remove Trump would be constantly in play.

A lot of people in Washington have ***a lot*** to lose if it comes to light they sold out the country for decades. At stake is not just wealth they have accumulated by granting foreign aid that ends up in contracts with their family businesses, but perhaps their personal freedom for doing so. The word 'treason' is flying around Washington loosely these days, but we view it as on the mark and rampant across party lines.

Regarding the virus, there is much data that has been accumulated, and data can be presented in various ways depending on the objectives of the presenter. What is clear, however, is that the goal posts are constantly being moved. The recent hysteria surrounding 'surges' in cases identified is noteworthy because it is counting ***cases***. Testing has exploded, so naturally more cases will be identified … very simple logic. It is hospitalizations and deaths that matter however. Surprising to most Americans (because of misleading news coverage), is the fact that U.S. deaths are in line, actually declining, relative to the past several years[ii]:



Source:
macrotrend.net

The classification of 'COVID19 death' has been expanded to include people that might have the virus, or had symptoms of the virus. It is ***not*** narrowly identified to deaths actually ***caused*** by the virus. Many of the deaths reported actually were of people with other underlying problems, as evidenced by the percentage of total COVID classified deaths, which came from nursing home tenants who had many other problems … 43% of the total. There are many decisions that were made in February in March by both the Trump administration and many made by the governors of individual states. State decisions included pushing COVID diagnosed people into nursing homes where the most vulnerable population resided and deaths subsequently surged.

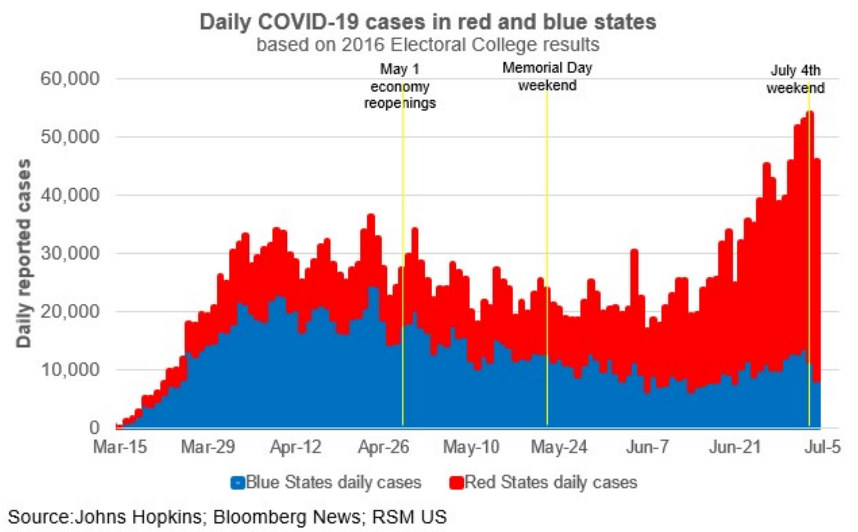
More data follows below from macrotrends.net shows the comparatively respectable rate of U.S. deaths versus countries around the globe:

Source: macrotrend.net

Similar Countries Ranked by Death Rate	
Country Name	2020 Death Rate
Latvia	14.740
Lithuania	13.910
Croatia	13.206
Hungary	12.697
Estonia	11.835
Germany	11.392
Greece	11.035
Japan	10.865
Portugal	10.813
Italy	10.658
Poland	10.314
Slovenia	10.148
Austria	9.919
Finland	9.862
Denmark	9.848
Belgium	9.784

United States - Historical Death Rate Data		
Year	Death Rate	Growth Rate
2020	8.880	1.120%
2019	8.782	1.120%
2018	8.685	1.220%
2017	8.580	1.240%
2016	8.475	1.270%
2015	8.369	1.270%
2014	8.264	1.290%
2013	8.159	0.090%
2012	8.152	0.090%
2011	8.145	0.090%

So, it would appear to the statistician, that like so many things in these days of hysteria, the coronavirus may sadly be being argued about from a politicized point of view. Below we can find the chart being pushed by the mainstream media categorized by blue state / red state:



'Cases' is a term that is being subject to various definitions, but Johns Hopkins University's data, which is relied upon by many media sources, also includes 'probable' cases which within that definition includes "no confirmatory laboratory testing performed for COVID-19". So it is easy to deduce that first, the data being recorded can be quite subjective as determined by the healthcare provider, and second, it can thereafter be framed to fit a particular narrative.

'Coronavirus' is a common virus that has been around for decades in various forms, COVID-19 is a modified strain of the coronavirus that was not tracked in prior years. When COVID-19 is isolated from other causes of death, those other causes which formerly and regularly had deaths attributed to them have dropped precipitously … most notably influenza and pneumonia.

There is no ability to argue against the virus, which definitely is real, but beyond that everything is nebulous and ripe for argument: Are the numbers even legit? Are deaths, which are very sad regardless of any cause, but have been steadily declining since May 6th, low *because* of the lock-down? Or because COVID is just a virus? Where did the flu go? Are the existing numbers worth locking down the globe and destroying small businesses and household incomes … and generating a host of related new problems? Or are declining deaths proof that the lock-down worked? See what I mean? Debate can go in any direction. And so it undoubtedly will. Just when you thought an election season could not get any more unpleasant … there it is.

Relative to the economy, the economy is unquestionably damaged, but repairing itself now. There is hope that we will recover quickly, and the central banks have goosed the markets to perpetuate that hope (and enrich their friends, and retain power). But, in the real world there is little visibility (Warren Buffett was right, even though David Portnoy is somewhat amusing).

Nobody can predict whether another national shutdown is on the way, and nobody can argue that shutdowns damage the economy, particularly small businesses and the American worker. The Washington swamp will sadly determine what comes next based on their own objectives, not based on what is best for America. It is very doubtful that everyone will work together to improve things overall until the fight to obtain power is resolved in November.

We again recommend vigilance and caution in the 'markets' depending on your faith in the Fed and your answers to the four simple questions we posed last quarter:

1. Have your long-term needs changed?
2. What are your immediate needs for liquidity?
3. Do you believe your risk-tolerance has changed?
4. Does your current strategy suit your needs today?

In closing, we'll end on a positive note, particularly for fans of the Federal Reserve. Here is a glance at what 'markets' might do if the Fed's money-printing omnipotence continues, and stocks follow the path the S&P 500 did following the 2009 debacle:

Source: MarketEar

2020 is the orange line of the S&P 500 and the purple line is 2009. So … if the all-powerful Fed can print money without constraint once more … it is true we can keep on rocking and rolling. If that looks crazy to you … consider dialing down the risk exposure!

Thank you for the opportunity to be of service. Please call us at (614) 734-WLTH (9584) if we can help you think through the questions above!

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[i] https://www.zerohedge.com/markets/us-budget-deficit-hits-record-863-billion-june-100x-increase
[ii] https://www.macrotrends.net/countries/USA/united-states/death-rate