

Hello Everyone,

"Thought this be madness, yet there is method in 't."
william Shakespeare

Sometimes I think that when I see the stock market hitting an all-time high. Yes, I get the *"method in 't'"* of Microsoft, Apple, Google, Amazon, and Facebook ripping higher.

But the *"madness"* of the real world doesn't compute. And, yes, a pun was intended. :>)

Today's missive will look at the incongruities of the market as we head toward the traditional end of summer. My guess is the real trading fireworks will start after Labor Day ---- when Wall Street's A-Teams return from their Amalfi Coast vacations.

Signed, Your Was-Noah's-Flood-A-Mostly-Peaceful-Water-Event? Financial Advisor,

Greg

KKOB 08.31.2020 Covid, Tech, Health Care & Government

Bob: So, Greg, we have been doing the series on Covid and the markets and we got a little waylaid by the real estate sector--- since so many people have a stake in that world.

But, what I have learned over the past few weeks is the stock market is really lumpy. Yes, the overall market is up, but some sectors have been slammed by Covid, while others have done remarkably well.

Greg: Right. And here is where it starts to get kind of weird. If we go back to the pre-Covid February highs, only 38% of stocks have made gains since then. So, Bob, 62% are lower than they were 6 months ago.

Bob: So almost two thirds are lower---- but the overall market is hitting record highs?

Greg: Right. So, what this is telling you is the Covid winners have been *huge winners*. For example, ABIOMED is up 87%. PayPal is up 57%. Amazon has soared. And Apple and Facebook are up 55% & 31%.

So, Bob, do you notice something about those stocks?

Bob: Well, sure. You're talking health care and technology. And this makes total sense. When Covid hit, the money spigot turned on to the health care sector. And with people working from home, there was a shift in demand for better technology.

Greg: Right. So, let's go to the loser side. And remember 62% of stocks are losers since Covid. Occidental Petroleum down 67%. Norwegian and Carnival Cruise Lines down 71% and 67% respectively. Wells Fargo and Cigna Insurance down 50% and 18%.

OK, so right now, I can imagine your listeners talking to their radios and saying, *"Well duh, Greg, of course there are winners and losers in a pandemic. Travel, energy, and banking were sure to suffer. Healthcare and tech had the wind at their back. This isn't very deep analysis."* And I'd say to your listeners, *"You're right."*

And, yes, I talk to my radio, too.

So, let's go one step deeper. I am going to take five stocks out of the S & P 500 index and run the results of the remaining 495. The five I'm taking out are Microsoft, Apple, Google, Amazon, and Facebook. The 495 that are left are cumulatively down 5% since Covid hit.

what this tells me is we have only a handful of stocks pulling the overall stock market wagon. And, to me, it says our rally could be fragile.

In a perfect world, you would want all 500 stocks moving forward. If a few along the way then falter, that's OK; the others keep marching. Instead, what we have are 126 of the 500 down over 25%. That's a lot of casualties on the Covid battlefield.

Bob: Right. We have talked about this before. You guys call this breadth. In a healthy economy, there is breadth----many stocks across many sectors rising simultaneously.

Of course that would also mean jobs would be available to people with different skills. But, from what you're saying, that's not what is happening. Unless you are tech wiz or a health care pro, life since Covid hasn't been great.

Greg: Right. If you're a blue-collar guy, the industrial sector hasn't recovered yet. Same for materials (think glass, chemicals, construction) and utilities, and energy. Or, if you are in the services world.. think restaurants, hotels, travel, and so on..those people must be wondering what the future holds.

Bob: But you left out government. And to me, it looks like government is doing fine. They always find ways to take care of their own.

Greg: You're right. Despite what politicians say about caring for the nation,

what they really care about is government. And both parties are guilty of this. They conflate “government” with “the nation”. But you and I know those are not the same.

With that said, *state and local governments*—the ones who can’t print money—they’re struggling as tax revenues plummet. So, as an investor, you might want to be wary of stocks that depend on state & local contracts for their income.

Bob: I can totally see this. I think those who adapt fastest will be the winners. How do people reach you?

Greg: I totally agree with that sentiment. My number is 250-3754 or go to my website at zanettifinancial.com.

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