



# MEDALLION

WEALTH MANAGEMENT

## MARKET COMMENTARY – JUNE 2020



*In this world, if you read the papers, darling  
You know everybody's fighting ah with each other  
You got no one you can count on babe  
Not even your own brother  
So if someone comes along  
He gonna give you some love and affection  
I'd say get it while you can, yeah  
Honey, get it while you can, yeah  
Hey hey, get it while you can*

*Get It While You Can - Janis Joplin*

<https://www.youtube.com/watch?v=ju9yFA1S7K8>

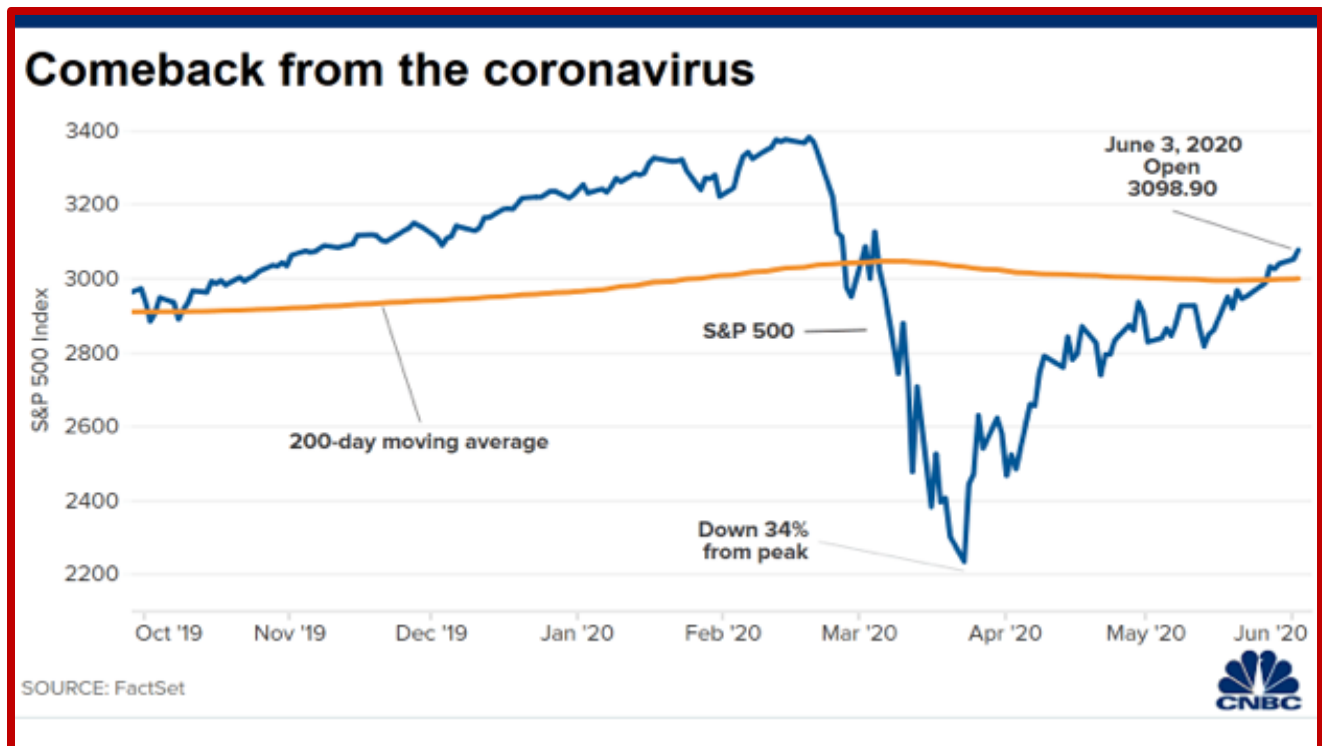
These are certainly troubling times for our species, from a global pandemic, to economic collapse, and now to mass race riots, we humans just can't seem to catch a break. And while things can often look pretty bleak I'm frequently reminded that we've been here before and made it out the other side. I was recently listening to some Janis Joplin and came across "*Get It While You Can*" and couldn't help but draw parallels to our present situation. The '60's were certainly troubling times, but they were also a decade of hope. We had Vietnam war

protests, race riots, women's liberation, and assassinations. Many conservatives saw an explosion of irresponsibility, sexual promiscuity, and rebelliousness. For liberals (many young Baby Boomers), the period drew much needed attention to America's injustices and started us down a path toward greater fairness, equality, and hope.

There are also some interesting parallels to our current stock market. The '60's stock market started out on the rough side with President John F. Kennedy confronting the steel industry over price hikes and increasing tensions in some far away country called Vietnam. The S&P 500 fell 12% in 1962. But even with the President's assassination and increasing tensions both domestically and internationally the market posted double digit gains in 1963, 1964, & 1965.

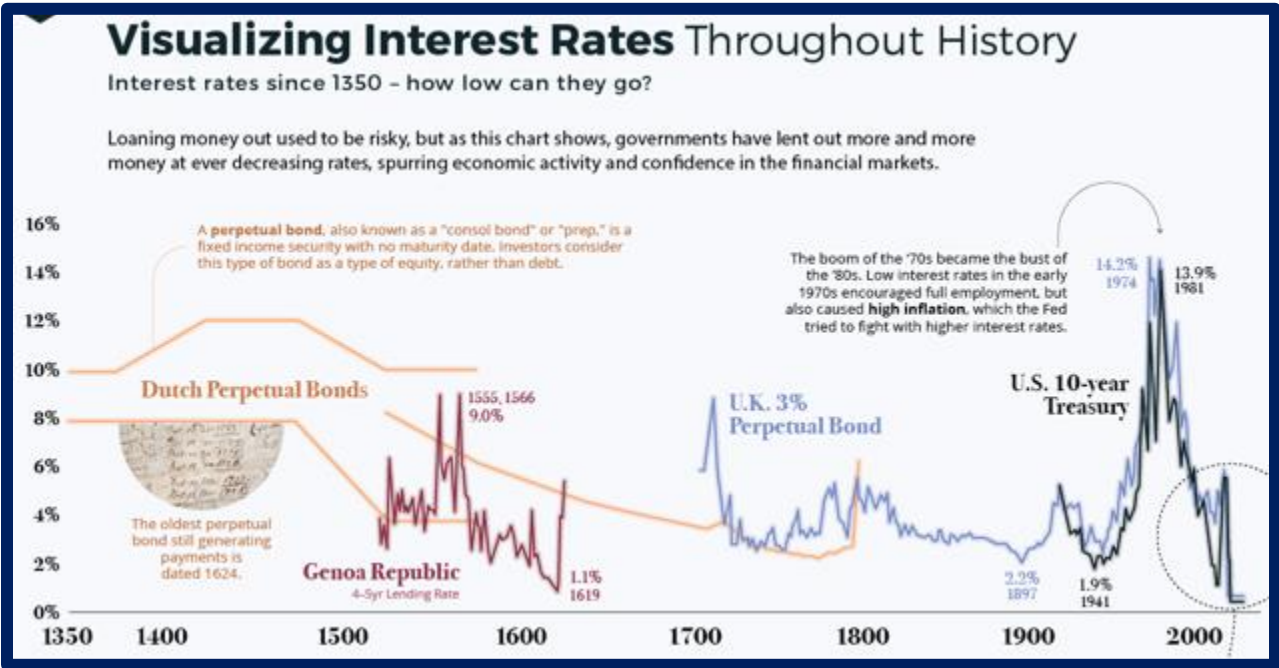
Just like today there seemed to be a dichotomy between what was happening in the world (mostly negative), and what was happening in the markets (mostly positive). Kennedy ushered in significant corporate tax cuts and when the Boomers weren't protesting they were working. Even in these turbulent times there was a sense of hope and a strong desire to "keep up with the Joneses." That's what we called FOMO back in the day. Today's fear of missing out is summed up by Janis' "Get It While You Can".

With the NASDAQ 100 near a new record high and the broader S&P 500 only a few percentage points away, the question I get the most is ***"How can the markets be up when everything is so horrible?"***

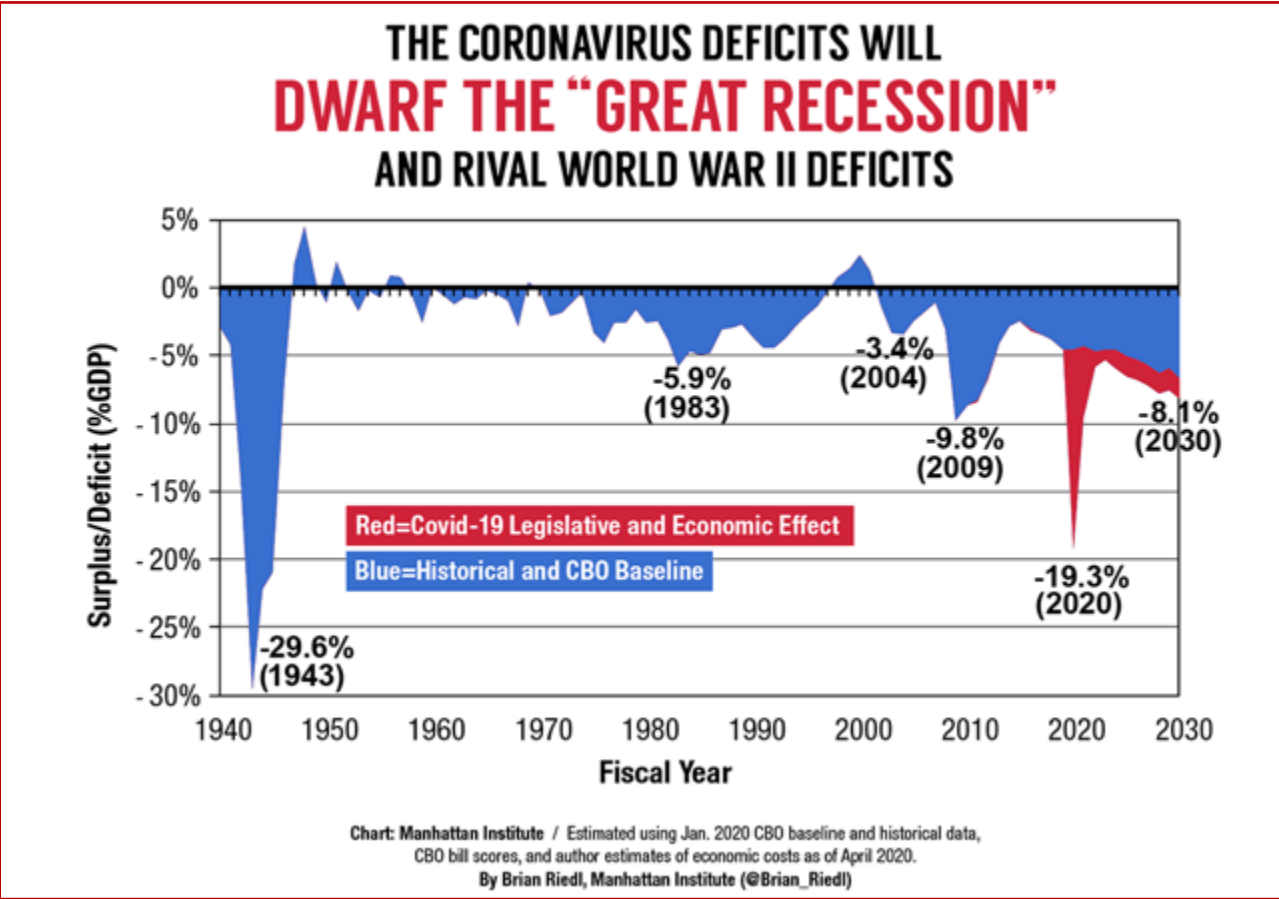


The answer is complicated and no one really knows, but here are some thoughtful explanations. First and foremost the Fed and other central banks massive liquidity injections as well as zero interest rate policy have certainly put a bid under risk assets. It's hard to stay negative on stocks when the yield on the 10-year Treasury is 0.65%, and the yield on cash is 0%. Add to that the world's major central banks stating (and doing) whatever it takes to prop up markets.

The chart below shows 670 years of interest rate history, and clearly we've never experienced a period where the cost of borrowing was so low. What multiple do you put on corporate earnings when rates approach zero and the Fed is willing to buy junk bonds to keep companies afloat?



To this central bank tsunami of liquidity we can also add trillions of fiscal stimulus meant to keep small companies and individuals afloat. We will now have the greatest Federal deficits to GDP since WWII.



And finally we have FOMO, the Fear of Missing Out, or as we Boomers used to say Keeping Up With The Joneses. It is hard to quantify how much of the most explosive rally off of a bear market we can attribute to FOMO but it is hard to ignore. People with time on their hands, with no sports to watch or bet on, and with a fresh \$1,200 stimulus check in their accounts are actually buying stocks. People earning between \$35,000 and \$75,000 increased stock trading by 90% more than the prior week after receiving their stimulus check. Schwab saw a record 609,000 new accounts opened in the 1st Q, and trading app Robinhood saw a 300% increase in daily trades in March.

The next most frequently asked question is, ***“How long will this rally last?”*** Again, unfortunately no body knows. If I’ve learned one thing in all my years it’s that the best investors try to adapt to change and go with the flow. I may be willing to swim with the current, but I’m also angling for the shoreline just in case there’s a waterfall somewhere downstream.

Or as Janis said so well...

*Don't you know when you're loving anybody, baby  
You're taking a gamble on a little sorrow  
But then who cares, baby  
'Cause we may not be here tomorrow, no*

Be careful out there,

Chris Wiles



*Where Trust is Earned*

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