



MEDALLION
WEALTH MANAGEMENT

July 2020 Market Commentary

Day Drinking



Why don't we do a little day drinking?

Blame it on the work day

Blame it on the heatwave

Blame it on the tick-tock moving too slow

Blame it on any old thing you want to

Ready get set, baby here we go.

<https://www.youtube.com/watch?v=-NPqM3vPDg8>

How else can you explain this markets unprecedented rise during these unprecedented times? Is everybody day drinking? Probably not, but there is something going on that is akin to day drinking, day trading.

Humans are fascinating creatures, through thousands of years of evolution we have developed a very sophisticated coping mechanism. When times are tough and the pressure to survive is just too great for our conscious brains to process we have developed the ability to allow ourselves to mentally escape.

There are millions of examples of how this works, from Prisoners of War, to people in abusive relationships, to people toiling in dead-end jobs, to those who are simply bored with their lives. The trait they all have in common is escapism, the ability to give our brain something else to focus on, to give it a break, to allow us to relax and recharge. Escapism can also take many forms, from watching a movie or sporting event, to going shopping, to exercising, to eating or yes, even drinking.

One classic form of escapism is gambling. People often gamble to escape problems, depression or boredom. Gambling provides stimulation and excitement, but can also evolve into a bigger problem of addiction. In the last several years there has been an explosion of sports gambling and fantasy leagues. This form of escapism has spawned an entire multi-billion dollar industry, from ESPN, to Barstool Sports, and our States tax coffers.

Until Covid-19.

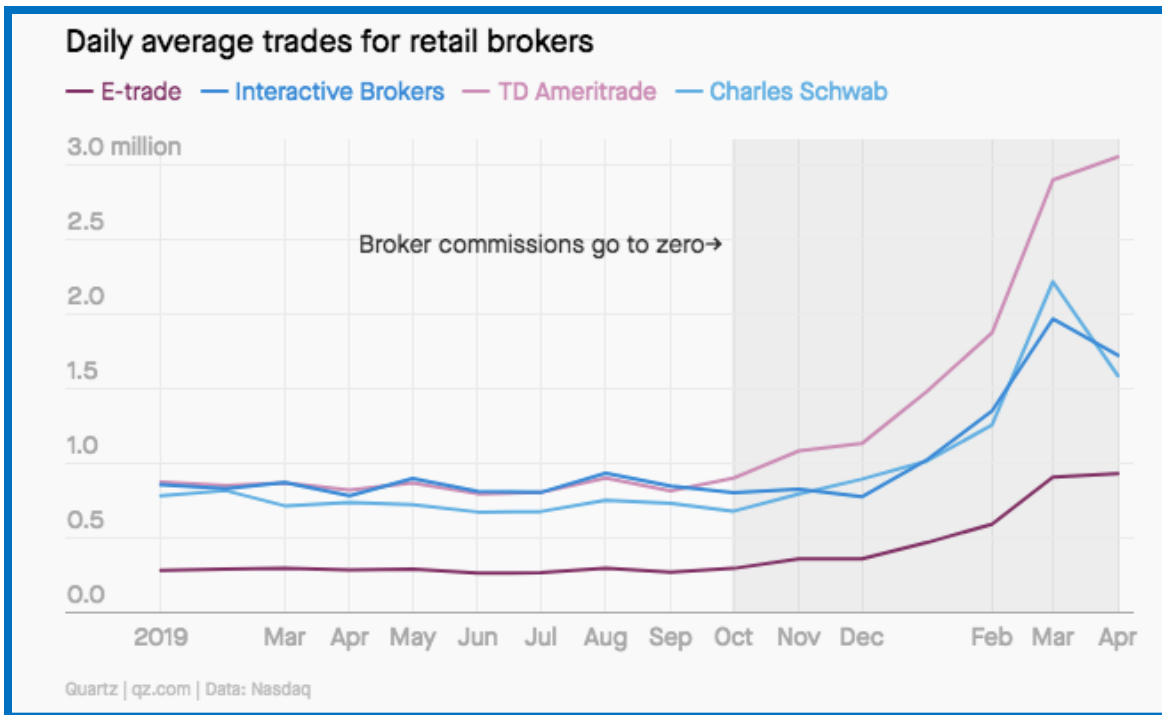
A Bull Market in Stocks. A Bear Market in Happiness.

Everyone wants to be happy, and nothing makes us happier than enjoying experiences with our friends and loved ones. We love planning a trip, going to a concert or sporting event, or just simply enjoying a special night out on the town. Sometimes the only thing better than these events is the anticipation of these events.

Covid-19 has been a serious happiness killer. Nearly all of the social aspects of being a happy human have been canceled. No vacations, no sports, no movies, no restaurants, no bars, no gym, no school, etc, etc. Many (most) of our forms of escapism have been taken away from us, so what do we do? Day drinking or day trading (or maybe a little of both)?

While Covid-19 may have slammed the door shut on many of our forms of escapism it surprisingly opened others. For the last decade brokerage houses have been making it easier for customers to open accounts and trade. With just a couple of clicks we can now trade for free on our phones. And if a stocks price is too high for us to buy a share, no problem since we can now buy fractional shares.

In March of this year the markets stunning collapse coincided perfectly with millions of people with plenty of free time searching for a new form of escapism. This combined with the new free easy to use brokerage apps lead to an explosion in new account openings and online trading. Throw in a few thousand in stimulus checks as well as a Federal Reserve making sure that everyone clearly understood that they would do whatever it took to stop the near-term bleeding and you have the makings for one of the most explosive rallies in history.



But not all stocks have gone up equally. It appears that many of these newer traders prefer to buy what has worked recently in the hopes that it will continue to work in the future. Remember, it feels better to own winners.

And nothing is winning like the biggest, most expensive stocks. While the market-cap weighted S&P 500 is down only 2% year-to-date, the median S&P 500 stock is down 11%.

S&P 500 Median Results Through July 3, 2020

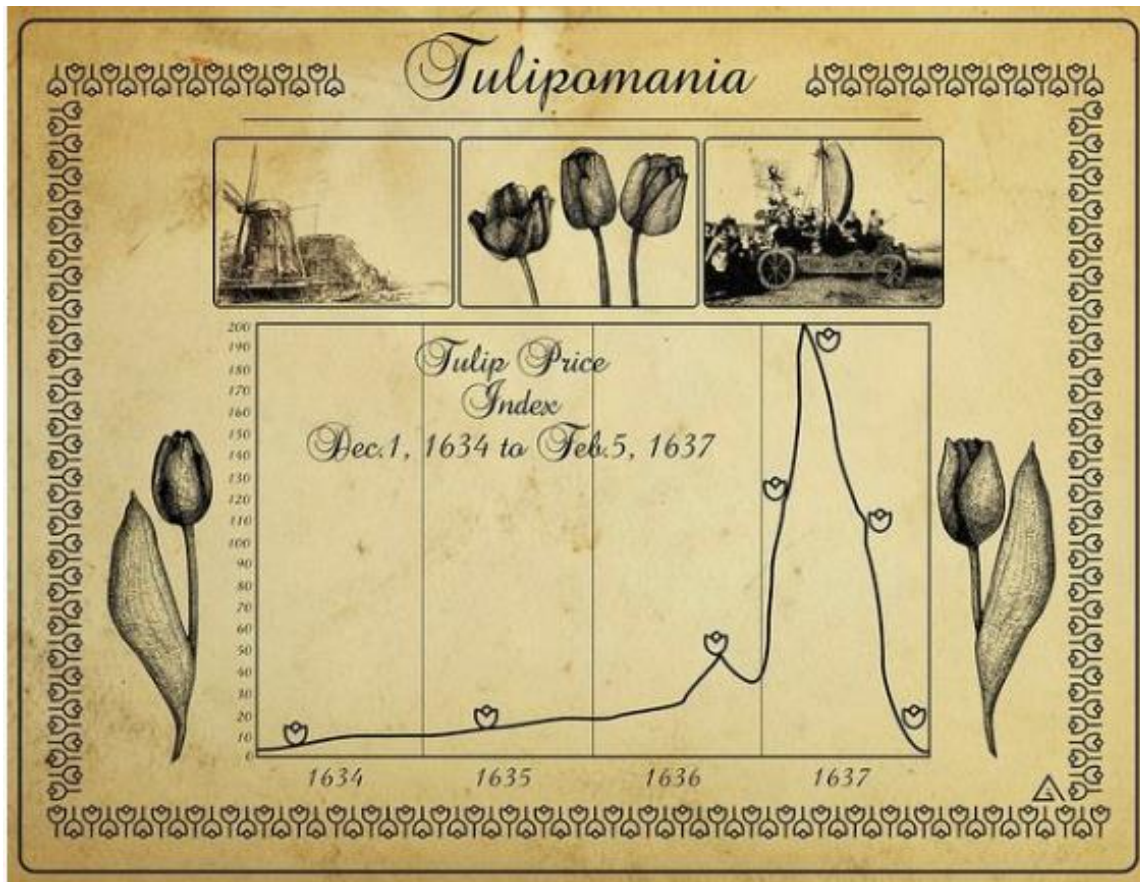
Company Size	Market Cap	P/E	P/S	P/FCF	P/B	YTD Returns
Top 10	\$848.5 billion	31.4	6.3	33.2	6.3	9.6%
Top 50	\$198.7 billion	28.7	4.6	23.3	5.5	2.4%
51-100	\$77.6 billion	26.0	3.8	25.0	5.3	-5.7%
101-150	\$49.5 billion	22.9	3.9	23.6	4.1	-1.9%
151-200	\$30.5 billion	26.4	3.0	23.5	4.1	-6.7%
201-250	\$24.6 billion	24.4	2.6	20.0	3.2	-9.3%
251-300	\$20.2 billion	23.2	2.6	21.8	3.3	-5.5%
301-350	\$14.9 billion	23.9	2.8	22.8	2.5	-8.5%
351-400	\$11.8 billion	22.1	1.8	18.4	3.0	-17.6%
401-450	\$8.9 billion	13.3	1.4	12.8	1.9	-22.6%
451-505	\$5.1 billion	13.9	0.8	10.0	1.2	-38.5%
S&P 500	\$21.8 billion	22.8	2.4	20.4	3.0	-11.0%

Source: Ycharts

But that's only half the story. The top 10 stocks by market-cap are also the most expensive stocks and they are also up nearly 10% year-to-date. These stocks have gotten absolutely enormous. The two largest stocks, Apple and Microsoft, have a combined market capitalization that is now larger than the entire small-cap Russell 2000.

Here's another interesting example, Tesla, which is up 228% year-to-date. Tesla isn't even in the S&P 500 yet (some pesky rule about having to be profitable for 12 months), but its market-cap of \$254 billion would rank it in the top 20 of all stocks.

Stocks are being bought because they are popular, they're popular because they're going up, and they're going up because they are being bought. Remind you of anything?



What's an investor to do in this type of environment, just what any experienced day trader will tell you to do; everything in moderation, stay hydrated, apply plenty of sunscreen, and absolutely no operating heavy machinery. For us that means staying pretty fully invested so we can participate in the upside, but avoiding the frothiest areas of the market so we can mitigate the eventual downside.

Believe me, I love escapism as much as anyone, but just like a casino the stock market can be a very dangerous place to escape to. Who am I to begrudge them of their newfound distraction, everyone deserves some happiness in these trying times. But since I work in the markets, I'll probably just grab a fishing pole and a small cooler and find my escape elsewhere.

Be careful out there.

Chris Wiles

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