



MEDALLION
WEALTH MANAGEMENT

February 2021 Market Commentary

What Could Possibly Go Wrong?



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

Recently, my brother reminded me of an eventful night we shared in Cleveland back in 1974. We were visiting my mother who was at Cleveland Clinic for surgery when we saw our first stalker jumping from the hood of one car to another. Little did we know this was just one of many participants in the Cleveland Indians 10 cent beer night.

The Indians were only averaging about 5,000 fans per game, so to increase attendance they decided to try 10 cent beer night on Tuesday, June, 1974 when they were scheduled to play the Texas Rangers. One week earlier the Indians played the Rangers in Texas and the game got chippy and ended with a bench clearing brawl and the Rangers winning 3-0. After the game, a Cleveland reporter asked Rangers manager Billy Martin "Are you going to take your armor to Cleveland?" to which Martin replied, "Naw, they won't have enough fans there to worry about."

Well the 10 cent beer promotion did the trick with over 25,000 fans showing up for the game, and the beer. Fans were limited to six beers per purchase but no limit to how many purchases

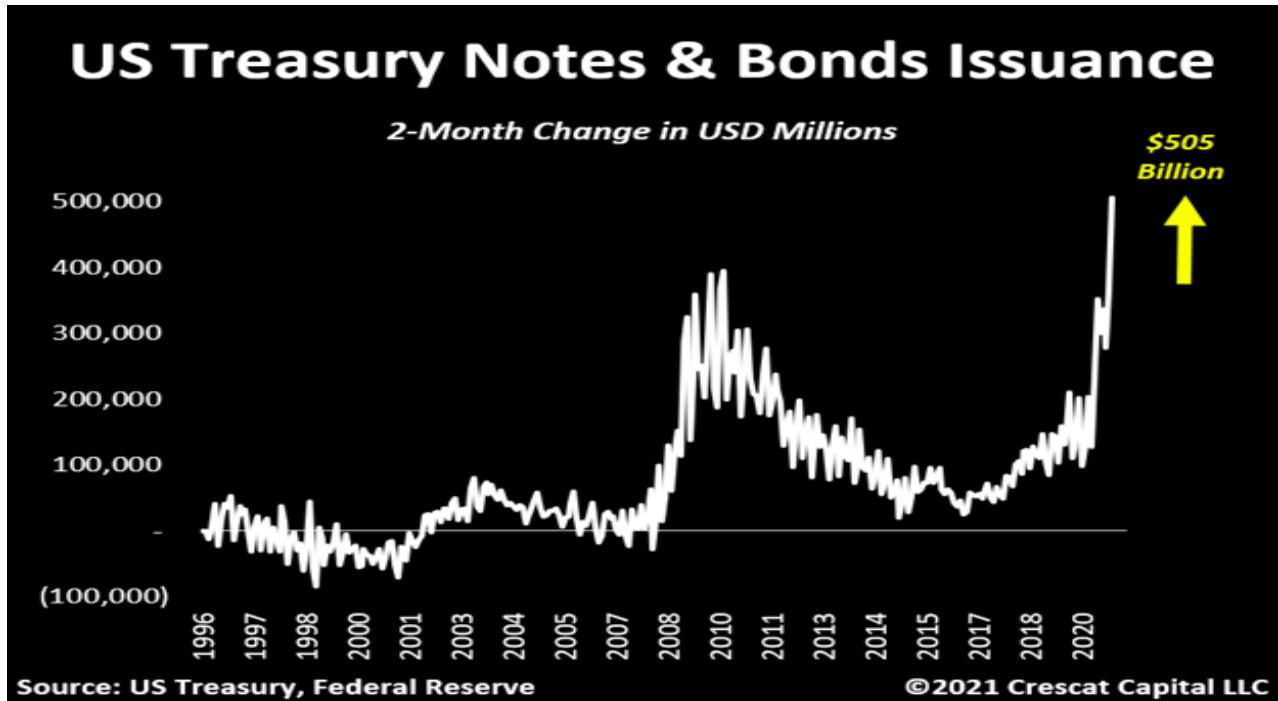
you could make. By the 2nd inning a woman ran out to the umpire, flashed the crowd and tried to kiss the umpire. In the 3rd inning when a Ranger hit a home run a male streaker slid into second base, and one inning later a father-son tandem ran into the outfield and mooned the crowd. The Rangers took a 5-1 lead, and the beer flowed.

As the game progressed the fans got progressively rowdy, throwing food at the Rangers, throwing firecrackers into their dugout, and running onto the field in increasing numbers. By the bottom of the 9th inning the Indians managed to rally to a 5-5 tie with the potential winning run on second base. However, at that time a Tribe fan decided he wanted a Rangers hat as a souvenir and ran out onto the field to take Texas outfielder Jeff Burroughs hat. Burroughs fell down, and the Rangers had had enough. Texas manager Billy Martin grabbed a bat and charged the field with his players behind him. The fans then rushed the field and a full-fledged riot ensued.

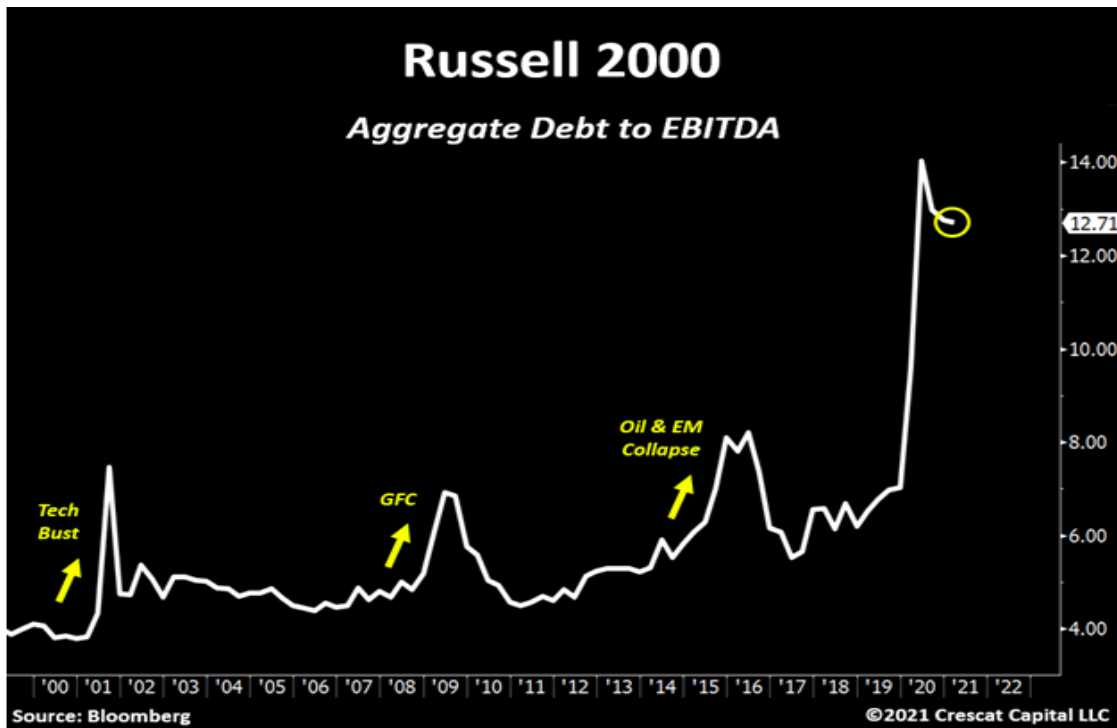
The Indians 50 security guards were overwhelmed and eventually called the SWAT team. After about 20 minutes of rioting, 9 people were arrested, the Indians forfeited the game, and the Rangers were escorted to their busses.

In the annals of **What Could Possibly Go Wrong**, 10 cent beer night is up there pretty high, but our current financial markets are close behind.

The great financial 10 cent beer night experiment started in 2008-2009 with the advent of quantitative easing, zero interest rates in the U.S., and even negative interest rates overseas. It was also joined with the arbitrary government bailouts of banks, insurers, and auto companies. This created "moral hazard" where market participants were emboldened to increase risk knowing that the Fed would bail them out. Of course all of this government largess takes money as the following graphic illustrates the explosion in Treasury bond issuance.

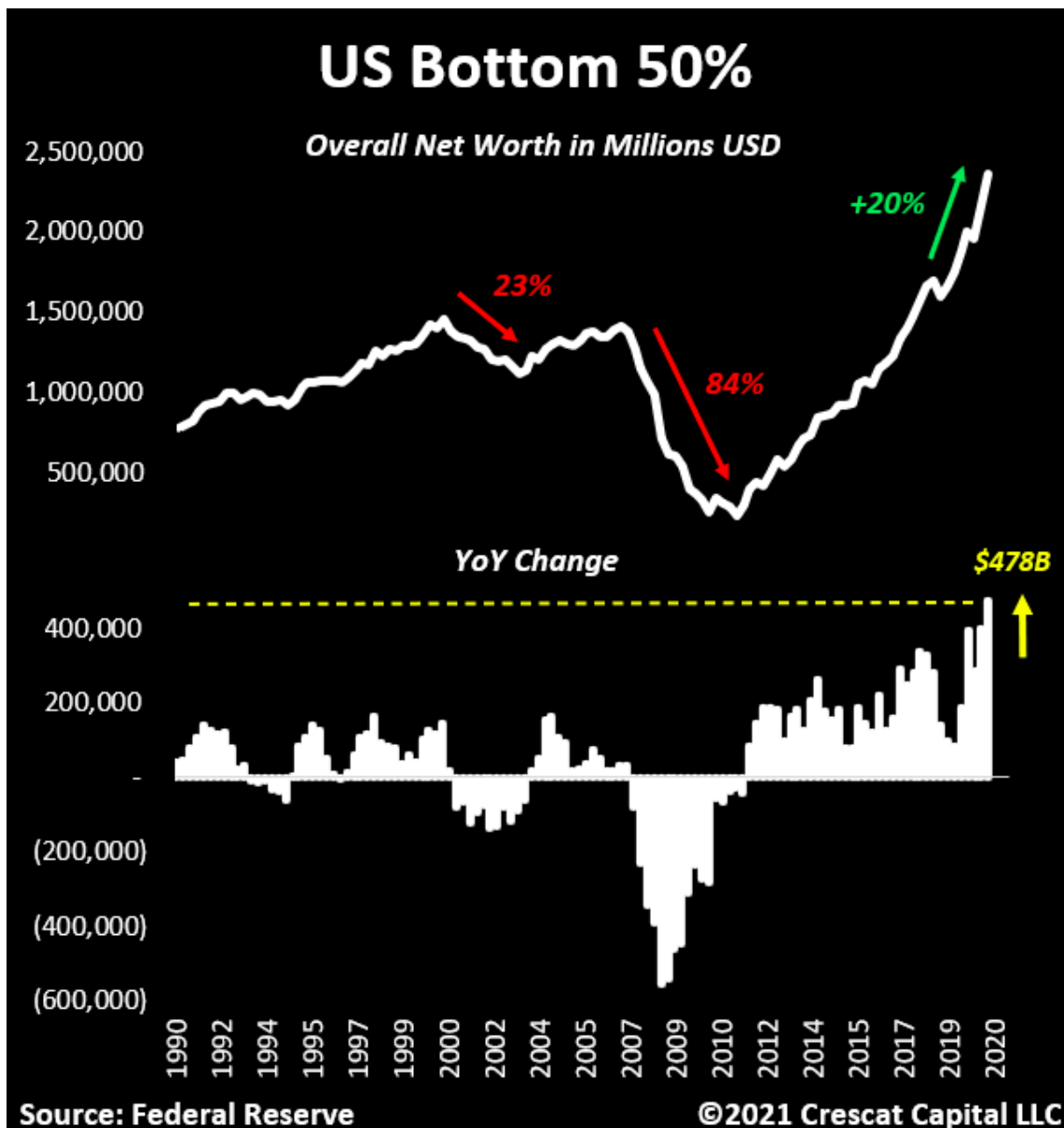


Not to be outdone by the government, corporate America also took advantage of record low interest rates to issue record amounts of debt.

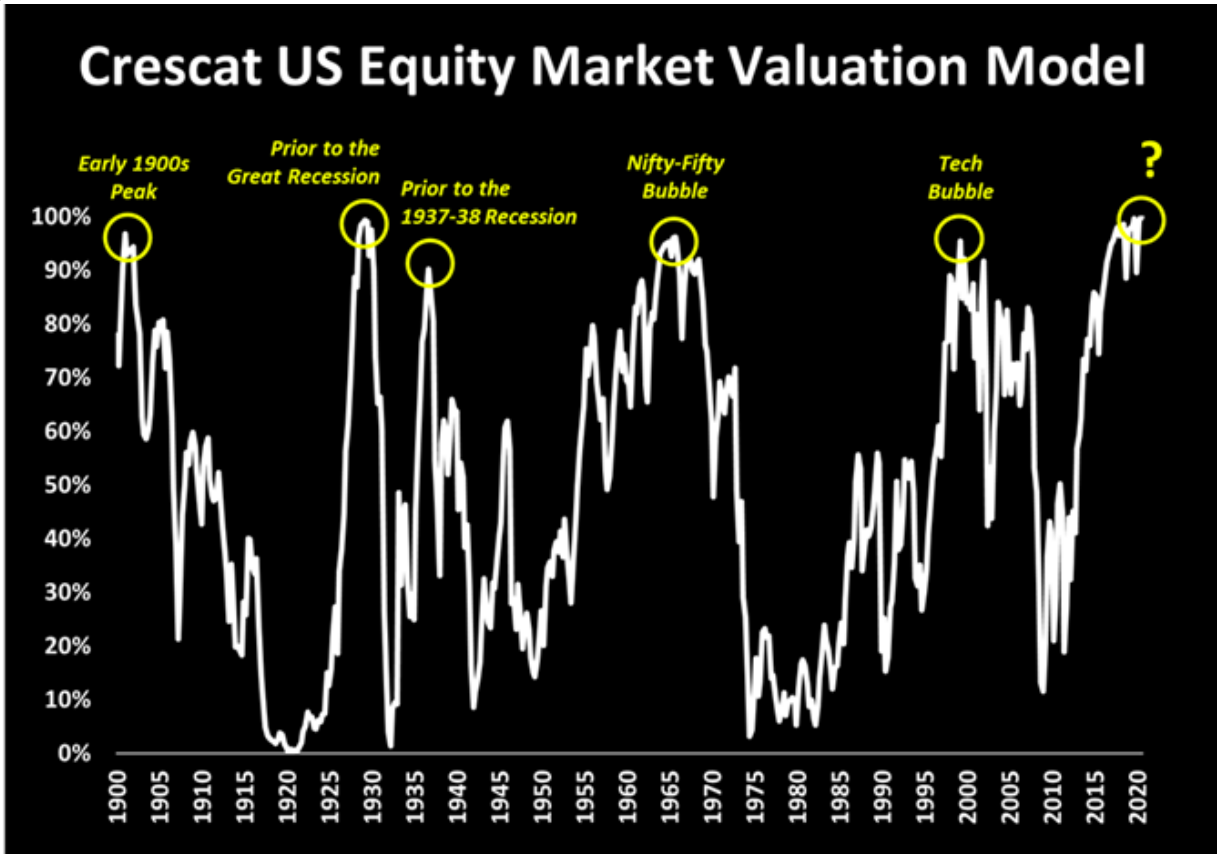


Obviously this free money experiment has led to increased risk taking and inflation in financial assets. The rich have gotten richer, the super-rich have gotten super-duper rich, and as of lately even the bottom 50% have seen their wealth soar.

Unlike the deflationary Great Recession, our current Covid-19 recession has been very inflationary. For those in the bottom 50% of wealth, their biggest financial assets are their homes and their savings accounts. With housing inflation and government checks the bottom 50% have seen their net worth grow 77% higher than the 2006 peak.



When interest rates are set at zero, the Fed is buying corporate bonds, and our politicians have proven again and again that they will bail out corporate America as well as write checks to average citizens, you would expect to see appreciation in the equity markets. And what appreciation we have seen. By nearly any measure equity markets are sitting at record high valuations.



Model Factors	Most Recent Value	Historical Percentile
Median EV to Sales (Ex-Financials)	4.0	100%
US Total Market Cap to GDP	170%	100%
EV to Free Cash Flow Margin-Adjusted (Ex-Financials)	48.8	100%
Median Price to Sales	2.8	100%
Median Price to Book	3.9	100%
Median EV to EBITDA (Ex-Financials)	15.0	100%
Aggregate EV To Sales	3.0	100%
Aggregate EV to Trailing 12M EBITDA	17.5	100%
Aggregate EV to 2021 EBITDA Estimate	15.9	100%
Aggregate Price to 2021 Book Value Estimate	3.8	100%
Aggregate Price to Tangible Book Value	12.8	100%
Aggregate Price to Earnings	27.9	98%
Cyclically Adjusted P/E (CAPE)	32.9	97%
Aggregate Price to 2021 Earnings Estimate	25.6	97%
Aggregate Price to Book	3.9	91%

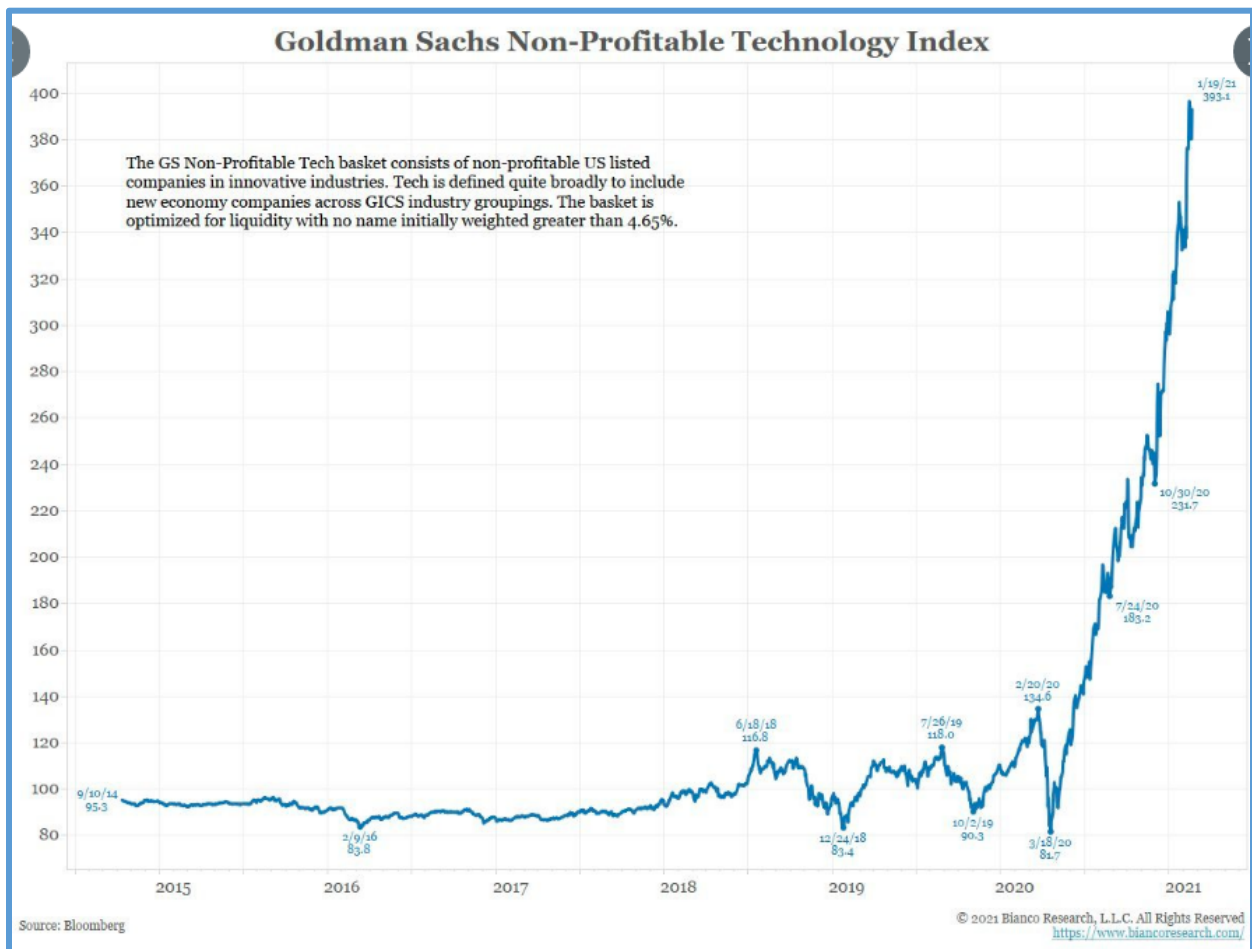
Source: Bloomberg, Yale/Robert Shiller, John Hussman

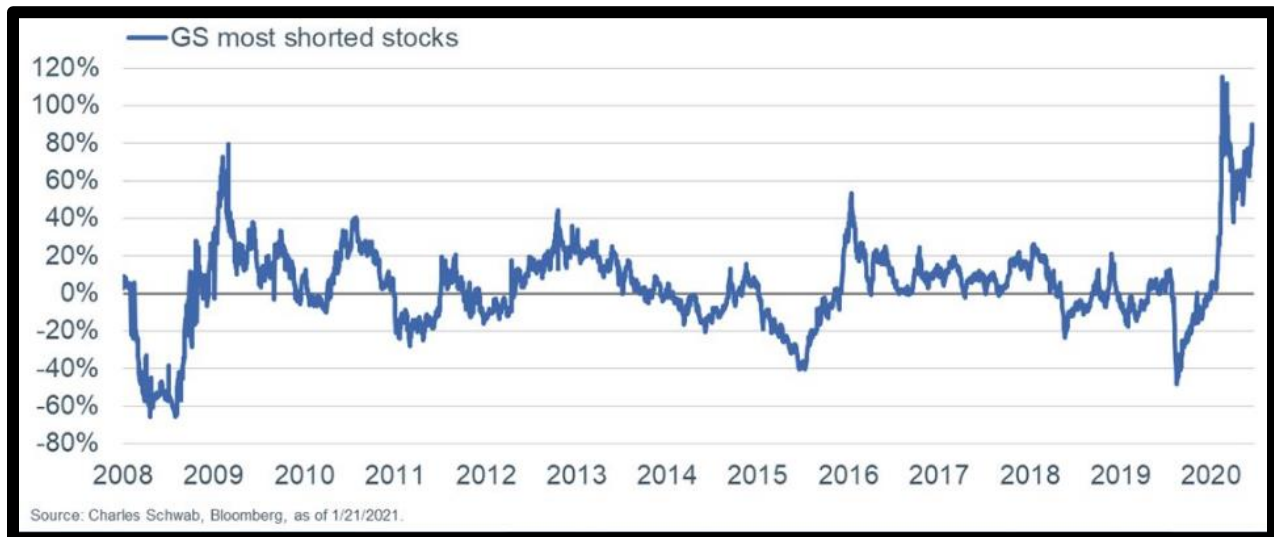
*Numbers as of December of 2020

©2021 Crescat Capital LLC

What could possibly go wrong? Today we have the financial internet version of streakers, flashers, and rioters armed with social message boards, zero trading costs, and literally free money from the government going after any interesting story that they can find.

The Robinhood/Reddit gangs have chased after story stocks, such as non-profitable technology companies, as well as those stocks with the greatest short interest. Bidding them up to absurdly high valuations.





Unlike a 9 inning baseball game that the umpires can call, I have no idea when or how this crazy experiment/promotion in our financial markets will end. I'm not even sure there will be an ending, maybe just an ever rotating emergence of things we've never seen before. Here are some of the data points that lead me to believe the game is not over yet.

- The Democratic sweep keeps the door open for increased spending and government handouts.
- The appointment of the dovish Janet Yellen as Secretary of the Treasury also means that the Fed and the Treasury will act more in concert.
- The appointment of democratic socialist Bernie Sanders as the Chairman of the Senate Budget Committee means that fiscal spending probably won't be shrinking anytime soon.
- Fed Chairman Jerome Powell "welcomes" inflation and is "not even thinking about thinking about raising rates".

This has been a tough time for old school fundamental investors who believe that if you loan someone money you should get paid interest commensurate with the risk taken. Or who believe that a company's valuation should approximate the projected future cash flows that a company may generate. Such quaint ideas during 10 cent beer night.

The S&P 500 started January up 3%, but finished the month down about 1%, while the most speculative segments of the market soared. The yield on the 10-year Treasury rose from 0.92% to a high of 1.14% before retreating to 1.06%.

I'm not sure "what could possibly go wrong", but I'll continue to watch the craziness while staying conservatively invested, and hopefully not consume too much beer.

Be careful out there,

Chris Wiles, CFA



Where Trust is Earned

Securities offered through Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Advisor services offered through Cambridge Investment Research Advisors, Inc., a Registered Investment Adviser. Cambridge and Medallion Wealth Management, Inc., are not affiliated. Asset allocation and diversification strategies cannot assure profit or protect against loss in a generally declining market, and past performance does not guarantee future results. Material discussed herewith is meant for general illustration and/or informational purposes only, and should not be construed or acted upon as individualized investment advice. Indices mentioned are unmanaged and cannot be invested into directly. These are the opinion of the author and not necessarily those of Cambridge Investment Research, Inc.