REGISTERED INVESTMENT ADVISOR

DENEWILER

Capital Management Inc.
1600 Stout Street
Suite 1690
Denver, CO 80202

303.832.7475 / 888.808.7475
Fax 303.832.7484
greg@growmydollar.com
www.growmydollar.com

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OBSERVATIONS ON THE MARKET

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By Greg Denewiler, CFA

A few predictions:

One, a few months ago oil was free, or, if you had room to store a thousand barrels in your backyard, they paid you to take it. Now, it is $37 per barrel. The US rig count is down to 279. In 2014 it was 1,900. The number of rigs drilling for oil in the US has never been this low since 1970. According to Moody's Corp. and JP Morgan Chase, they are forecasting that lines of credit to oil companies will be cut by 30%. That means that if oil doubled tomorrow, there is not enough capital to return our oil production to pre 2020 levels. Regardless of your political perspective, the price of oil will be higher in the future. Many independent oil companies are going bankrupt, the survivors with capital will be the benefactors. If you hate oil, you want higher oil prices. It speeds up the economic viability of alternate sources. Sometime soon, oil will double in price.

A few weeks ago, the *New York Times* published an article entitled: "Bonds beat stocks over the past 20 years". The article suggests we should reevaluate how we invest. They question whether we should not have as much in the stock market going forward. Let us consider a few points. Interest rates are at 0, or close to it. This is a function of the Federal Reserve influencing the markets. It is to a point that it is pointless to draw any conclusions as to what the economy may or may not do going forward. In addition, the stock market has experienced three major declines in the last 20 years, and it still almost beat bonds. If you consider the total stock market index, it basically tied the bond market and beat Treasury markets. Investors always need to consider what they may need for liquidity needs, and how much volatility they can withstand, but the current state of the bond market tells us nothing, except that bonds may well be the riskiest asset class currently. Prediction number two, stocks will beat bonds in the next twenty years.

Retail sales jumped 17.7% in May. Expectations were for an increase of 7.7%. A few weeks ago, economists also missed the unemployment number by a wide margin. Some parts of the economy continue to be disastrous, which is probably why it seems the stock market is disconnected from the real economy. Many technology stocks are at all time highs. Their businesses have benefited from a world that has become more connected in the last two months. What is clearly impossible to do is to predict whether the strong parts of the economy will pick up the slack for the weaker parts, or whether it will eventually be the other way around. Will the economy be a V recovery, U, or L? Prediction number three, the economy will recover.

Day trading is back in style. Robinhood (not exactly a capitalist name) an online trading firm that has grown by three million accounts in 2020, is the new Las Vegas. The average age of their account holders is 31. There average holding period appears to be about two minutes. One of the popular stocks in Robinhood's accounts has been Hertz. Hertz filed for bankruptcy in May. Most companies file for bankruptcy to restructure their liabilities (there are exceptions). They have too many. It has been said that investors get wiped out before the company goes bankrupt, the bankruptcy just finishes the story. About 99% of the time, bond holders, creditors, and vendors receive the new equity, and the old equity holders end up with about 1% of the new company. Apparently, Robinhood investors are not aware of this fact. Hertz stock price was $.83 on June 3rd. By June 8th it was $5.50. Currently, it is $1.83, must likely on its way to $.00. There are many other examples like Hertz. Prediction number four, this is usually a sign the market is nearing a temporary top.

Cash in money market funds has reached $4.62 trillion. Last year cash levels were at $3.54 trillion. In 2008 cash in money market funds reached $3.76 trillion. Higher cash levels usually implies that investors are cautious, markets like to climb walls of worry. Cash also becomes the source of buying power, and the Fed is doing everything in its power to get you to buy something. There is an old Wall Street saying that says; do not fight the Fed. Prediction number five, the market is not near a short-term top.

Prediction number six: Buy a stock with a decent dividend that will grow over time. Do not pay too much for it. Hold it, and forget all the above.