July 18, 2020

Over the quarter, market sentiment relating to the downside risks presented by the coronavirus shifted decidedly more positive. Good news about Covid-19 sent stocks soaring and bad news was simply just bad news. The market seemingly shrugged off any bad headline that otherwise would have sent the market plummeting in just a couple months prior. No negative coronavirus news was worthwhile enough to stop the steady stock market index increases seen throughout the quarter.

Indeed, the S&P 500 index was up nearly 20% over the quarter, which was the largest increase since 1998. And the quarter ended strong too, despite vast portions of the country experiencing record breaking, new daily coronavirus cases starting the end of June.

Although the bad news never materially changed the upward trajectory of the market over the course of the quarter, the good news could send the market soaring. An example being Pfizer's recent announcement about positive data coming from an early clinical trial for their vaccine. Prior to the announcement the pre-market was indicating the Dow to open at a minus 200-points. Then the headline hit the wires and, alas, the Dow swung to a positive 200-points. An immediate 400-point swing on positive data relating to a very small number of the trial participants, in a trial in its early stages, for a vaccine that is behind in timeline than some of the competitors. Market commentator Jim Cramer called it "kind of a saved-by-Pfizer market from where we were."

The news on the Pfizer vaccine was announced on July 1st, the first trading day of Q3 – a perfect book closure on Q2. The backdrop of steady, and in many cases record breaking, new daily coronavirus cases couldn't stop the market's rise ahead.

Unfortunately, it took the fund's investment approach longer than ideal to make a pivot and put to end the short positions in travel and leisure stocks that were described on these pages last quarter. This delay cost the fund performance, but I am still glad to announce the fund returned 22.67% over the previous quarter, and still outperformed the S&P 500 index by 2.72%(net of fees), over the same period. By the end of Q2 all the short positions were closed.

There are two contributing factors for why the fund stopped shorting the "reopen" stocks. One, any short position felt like a bet against science and human ingenuity. The other being the massive support by the Federal Reserve and government stimulus unleashed during the quarter. The Fed and government stimulus of this magnitude are forces you don't want to be on the other side of the trading ledger with.

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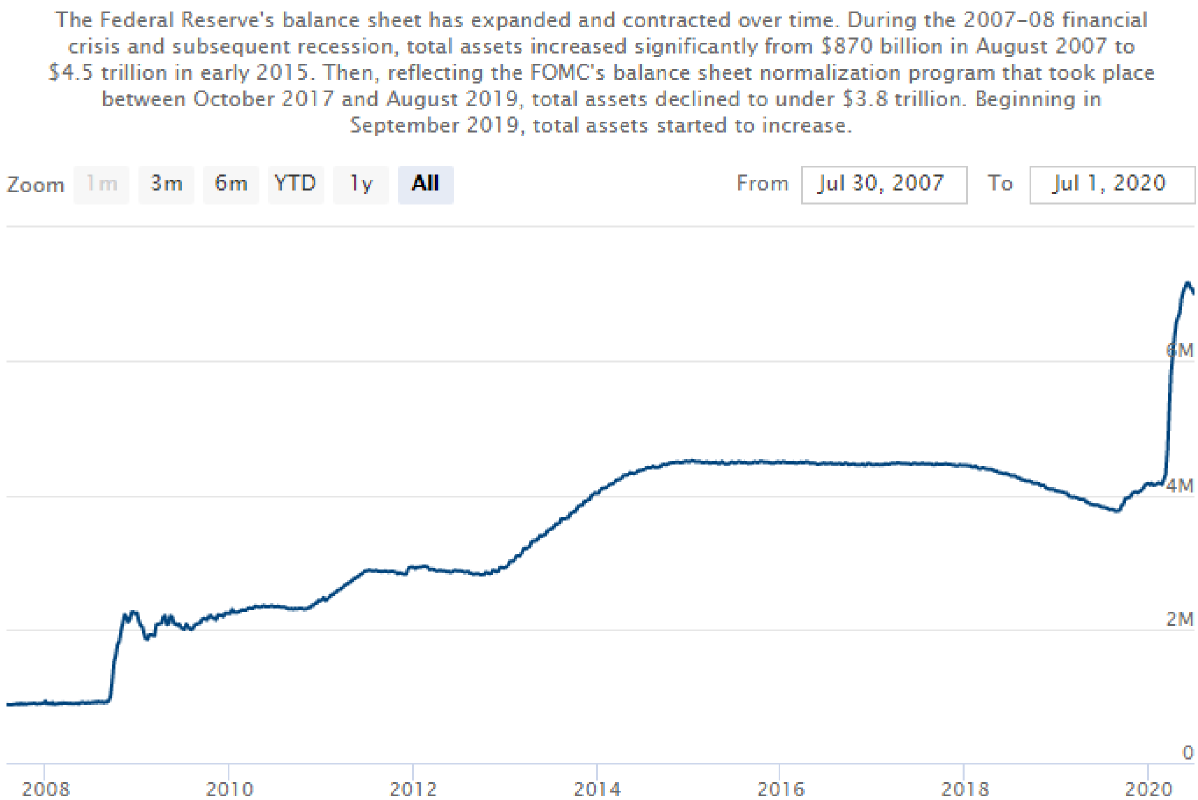
Chairman Powell said loud and clear, the Fed would have a do-whatever-it-takes approach to stabilize the economy, up to and including buying individually named corporate bonds! Take a look at the ballooning of the Fed's balance sheet over the quarter:

Don't mess with the Fed



Besides the overwhelming Fed support, the government was putting stimulus money straight into the consumer's pocket. The U.S. Bureau of Economic Analysis releases a report on the disposition of personal income. There is a line for 'Government social benefits to persons', whereby in all of the 6 months preceding April the annual amount for this benefit was 3.2 (something) trillion, then in April this number spikes to 6.3 trillion. An annual INCREASE of $3,028,000,000,00, in a single month! These extra dollars sometimes find their way into the stock market. Just see the most recent interest in retail, millennial trading app Robinhood. Let us invest alongside.

Until next time, Todd Shorb.