TRANSITIONS

WHAT IS GOING ON IN THE MARKETS?

Over the past few months, we have been observing strange market behavior. The focus on central bank stimulus and reopening America has blotted out every consideration guiding equities.

A recent Twitter post touted the Rules on the market. Rule #1: Stocks only go up. Rule #2: When in doubt whether to buy or sell, see Rule #1. Really? Apparently, the writer forgot to include Rule #3: Never follow any investment advice on Twitter.

Perhaps the "only-go-up" mentality explains why Hertz recently surged in ten trading days from $0.40 to $5.59, before rapidly losing much of this gain. People were buying the stock because Hertz is a recognizable name. However, the reason this heavily debt laden stock was trading for pennies was because it had filed for bankruptcy.

Tesla, which primarily manufactures electric cars, recently traded over $1,000/share. What changed to propel this stock nearly 180% higher in two months? While Tesla just became profitable, its P/E (Price/Earnings) ratio is 6,353, extraordinarily high for any company. Even Elon Musk said his company was overvalued. Using the P/E valuation metric of similar businesses like Ford and General Motors suggest Tesla should be trading around $2/share.

Delta's advertising slogan "We're Ready When You Are" is not a secret message to buy the stock. This stock fell from $63.4 in July 2019 to $17.5 in May 2020, a 72% decline. Top management stated it will take three to five years to recover as they struggle with only 5% of passenger traffic.

Moderna, an unprofitable, clinical stage biotechnology company, announced success in a vaccine trial. On that day, the entire stock market staged a substantial 4% rally on the belief this COVID vaccine

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will return our economy to normalcy. Yet, only 8 patients were tested over just a two-week period. Given the numerous outcomes in the use of a vaccine among a large population, every medical professional I have spoken with looks for studies based on 5,000+ patients with six months of patient testing.

Perhaps what is most fascinating is the S&P 500 Index staging a 45% recovery within the last three months. It became clear the markets were saying the Pandemic is now behind us and the economy will shortly revert to the pre-COVID normalcy. Everyone wants this outcome, but Pandemics do not follow written narratives.

The facts are the government shutdown caused one of the worst labor markets in history. Many public companies have withdrawn their earnings guidance for the year. Businesses that have closed are not going to re-hire workers. These consumers will not be able to support their buying habits. For those with jobs, widespread testing at the workplaces is not available. Vaccines may not be widely available until mid-2021. No proven therapeutic treatment exists to cure COVID patients. There is a nationwide shortage of effective masks to reduce the spread of disease. And people are tired of maintaining social distancing. With these issues, there will be more waves of infection that will dampen economic growth.

Given the entrepreneurial spirit of our nation, I am certain these issues will be resolved. Meanwhile, market volatility will remain high, as the markets focus only on news headlines instead of company fundamentals. During these times, investing conservatively for capital preservation remains an important objective.

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