Monday *Money* Briefing, by Kim Adams, Finance Director

The Monday *Money* Briefing includes articles on money matters, because… *Money Matters*. Articles are edited to fit available space. Always evaluate options before making large financial decisions.

The Wall Street Journal, The Intelligent Investor, Cabin Fever Can Wreck Investment Plans
By Jason Zweig, May 12, 2020

Now that I'm back after a few days off, it's even more obvious that my work days aren't structured the way they used to be. Meetings are whenever; exercise and meal times move around as if they had minds of their own. Maybe you're finding the same. So it's worth reminding ourselves that chaotic schedules and cabin fever aren't conducive to good investment decision-making.

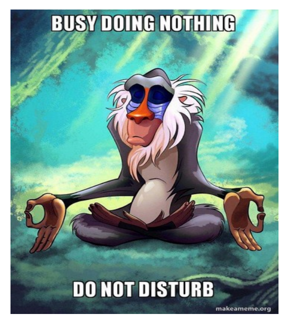
As I've warned in the past, boredom is dangerous for investors. Now, cut off from normal contact with family and friends, we're all itching to do something, anything. Even taking potentially harmful investing actions, like day trading, can feel more satisfying than sitting around in isolation.

That may be especially true amid the strange quiet that has come in the wake of the wild volatility we had in February and March. As the French mathematician and philosopher Blaise Pascal warned, "All of human unhappiness comes from one single thing: not knowing how to remain at rest in a room."

Below are some thoughts that have helped me remain at rest in my room. (My office is about 60 sq. ft.)

I hope they help you keep events and markets in longer-term perspective. Invest well and be well.

Editorial note: Doing nothing is hard, especially in the USA. Doing nothing has become synonymous with laziness, so most of us feel guilty or less valuable if we do nothing. If you ask someone how they're doing, you're likely to hear: I've been really busy.



Channeling the late, great Andy Rooney from 60 Minutes for just 15 seconds, "Can someone really 'do' nothing? Isn't 'doing' nothing an oxymoron? If you're 'doing' nothing, aren't you doing something, so you really can't do nothing, can you?

Being perpetually busy has become a red badge of courage, which keeps people from getting enough sleep and encourages people to make too make changes in their investment portfolios. It's a good time to remember that doing nothing with an investment portfolio is actually doing something, and almost everyone should do more of it; nothing, that is.

Of course, doing nothing now is based on having done something earlier, like selecting the right asset allocation based on your risk tolerance. It's also based on the fact nothing significant has changed in your life that would require you to do something different. Lastly, re-balancing is always appropriate if your asset allocation is off-target. Otherwise, doing nothing may be the best thing to do.

The Wall Street Journal, Why Is the Stock Market Rallying When the Economy Is So Bad?
Five reasons the stock market is soaring as the economy is floundering
By Gunjan Banerji, May 8, 2020

The latest jobs report revealing record U.S. unemployment highlights a growing rift investors are struggling to reconcile: a rallying stock market and a stumbling economy.

Gains in U.S. stocks accelerated Friday. It was the latest head-scratching development for observers, who have been parsing a stream of abysmal data while watching the U.S. stock market stage a recovery.

In a matter of weeks, a decade of job gains has been erased, consumer spending has plummeted and manufacturing activity has contracted at the sharpest pace since the last recession.

The disconnect between the economy and stock market grew more stark this week.

The technology-heavy Nasdaq Composite Index entered positive territory for the year, erasing much of its losses from the coronavirus-fueled rout. Other major U.S. indexes also notched strong gains. The S&P 500 rose 3.5%, while the Dow Jones Industrial Average advanced 2.6%. The Nasdaq Composite added 6% for the week. All three indexes have rallied more than 30% from their March 23 lows.

What is driving this? One common thought: Current economic data is terrible, but is bound to improve.

Here are five reasons the stock market is soaring as the economy is floundering:

1. Bets on a "V-Shaped" Recovery – Many analysts are looking past the grim economic data and are forecasting a speedy recovery as states open-up. New York, which has been the hardest hit, is developing a plan to restart. Other states are farther ahead, with more than 20 allowing some businesses to reopen.

Those moves have encouraged investors that the economy is poised for a rapid rebound by early 2021.

Additionally, the number of new Covid-19 cases has moderated in the U.S. And stocks have surged on signs of progress toward a vaccine. "People are making the bets… that this is the bottom," said R.J. Grant, director at KBW. Still, "The market is really divorced from economic reality right now," he said.

[**Editorial note:** Notice the words, "bet" and "divorced from reality."

Betting is different than investing. Anyone buying stocks because they are betting they will go up is a gambler, not an investor. Most people should be investors.

And when the stock market is divorced from reality, it's a casino, not a stock market. So, be careful out there. As Dirty Harry once said...]

***WSJ* –** Plus, many investors said Friday's unemployment numbers and other disappointing data came as no surprise after data in recent weeks showed a flood of people applying for unemployment benefits.

Still, analysts are watching for any minute signs that the bottom of the economic downturn is near. "There are some small, early signs that life is resuming some form of normalcy," the analysts said in a research note Thursday. "We expect these small signs of recovery to continue as the country gradually reopens and consumers resume their daily activities."

2. Market Leaders Keep Rising - The stock market is increasingly divided between the haves and have-nots, and the recent rally reflects the out-performance of a handful of stocks.

Big technology companies, which are heavily weighted in the indexes, have driven much of the rebound, continuing a trend that was prevalent during the nearly 11-year bull market. "The whole market is not up," said Giorgio Caputo, a manager at J O Hambro Capital Management, who said his firm has added to stock holdings in recent months. "It's the best of times for some firms. It's the worst of times for other firms."

Five big tech stocks— Microsoft, Apple, Alphabet and Facebook—together make up about 20% of the S&P 500. Those companies have benefited as Americans around the country have been sheltering from the pandemic at home, spending time on social media and ordering home essentials such as groceries online.

That means the companies that have suffered the most have little sway over the market's direction.

Another way to gauge the outsize influence of the biggest stocks: The S&P 500 is down 9.3% this year, while a broad stock market index that gives every company an equal weighting has fallen 16.8%.

The growing divergence between the market's winners and losers reintroduces another risk: A sudden exodus from the tech darlings could easily drag the market lower. Analysts have high expectations for their growth, so any perceived disappointment would heavily weigh on the broader market.

(**Editorial note:** Five stocks influence 20% of the S&P 500's value. So when the S&P 500 rises or falls, it may be due to one or two of the Big 5, rather than the other 495 companies. Most indexes do not represent the whole market, so all stocks may not be going up or down when an index rises or falls.)

3. Earnings Expectations Remain High – Corporate earnings have been abysmal and companies from J.Crew to Neiman Marcus have been pushed into bankruptcy. But investors are counting on a rebound.

Earnings are expected to register a decline of 14% in the nearly completed first-quarter, which would mark the biggest decline since 2009, before falling further later in the year. Analysts are projecting earnings to bottom in the current quarter with a 41% drop—and rise 13% in the first quarter of next year.

"While the earnings outlook will remain challenged at least through the first half of 2020, investors are increasingly turning their gaze to a 2021 recovery," JPMorgan Chase & Co. analysts wrote recently. They added that they are bullish on stocks and are forecasting a return to previous highs by the first half of 2021.

4. Old Habits Die Hard - Another fear among some investors is missing out on a quick recovery.

(**Editorial note:** Investors with FOMO are thinking short-term. They should be focused on the long-term.)

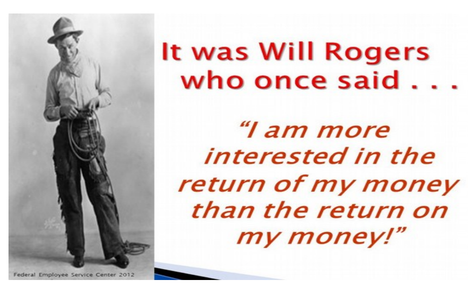
The Federal Reserve's and U.S. government's moves to buoy the economy have elicited confidence among investors. If the stock-market bulls end-up being right about a speedy recovery and the economy stages a strong rebound, that would leave other investors left behind a stock rally, missing out on gains.

And as has often been the case, investors find themselves faced with few alternatives if they opt out of stocks. The problem is so familiar it has an acronym: TINA (There Is No Alternative to stocks).

"This creates a two-sided risk for investors," said Jim Paulsen, chief investment strategist at the Leuthold Group. "It may be the virus continues to burn hot. There's also a risk on the other side."

Treasury yields are near record lows and the corporate bond market has recovered since the Fed introduced its stimulus plan. That means returns on high-grade corporate bonds remain thin. Some investors have even started betting on negative interest rates.

"Where are you going to earn a return?" asked Mr. Grant. "People are scratching their heads." The 10-year Treasury note was 0.68% Friday and the S&P 500's dividend yield is about 2%.



(**Editorial note:** Two things are worse than low returns: No returns and negative returns. When people search for returns by taking on "too much risk", it's called, "chasing return". The actor and humorist Will Rogers had a famous quote about this.

5. Fed Backing - Actions by the Fed have underpinned the recent rally and the Fed made it clear it was willing to buoy the economy. Why bet against the market when the central bank is willing to do that?

"When the people find that they can vote themselves money, that will herald the end of the republic." *Benjamin Franklin*