CASTLE ROCK WEALTH MANAGEMENT

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What could derail this market?

Jim Cramer is an American television personality and host of Mad Money on CNBC. He is a former hedge fund manager as well as a best-selling author and a co-founder of TheStreet.com. He recently wrote an article about how the stock market could be derailed. I think he is intuitive, so I captured the essence of the article.

What can make it so you have no choice but to sell? Isn't the fear that it could all collapse, because we went all in to the hot stocks? Is this a repeat of 2000?

Think this market will not fall over on its own accord, like 2000. Then, we had a tremendous overbuild of the internet without the ability to harness it correctly. But you couldn't tell at the time.

Look back at Pets.com, Infospace or CMGI and so many of the other blow ups from the dot-com period of wealth destruction. We had two markets back then, the dull S&P 500 and the go-go Nasdaq, only one was real.

A review of history may give us clues as to what could happen today. Many of the companies were not profitable, it was better to lose money now to dominate later. The thinking was the opportunity was too big for an online stock journal to care about losing money. That would keep you from being big down the road. Success was measured in stock price, not earnings or sales. That was the mantra for the 300 companies that came public during that period of time, only a handful survived.

Today, most of the winning companies are making fortunes. Some of the most profitable companies of all time are in the current era: Apple (AAPL), Facebook (FB), Alphabet (GOOG) and Microsoft (MSFT). Not a single company in the Top 20 companies in the Nasdaq back then looked anything like these companies and they are still innovating.

Second, some of the larger companies from that era turned out to be ethically challenged or outright fraudulent with made up financials. Nothing like that is happening now, too much scrutiny.

Third, after a short period of time, investors and executives of those companies back then were selling like mad. When growth sputtered, the largest companies back then knew their days were numbered. If the executives couldn't sell their companies, they sold all of their holdings. Most of the current companies are buying successful companies to make bigger and better companies.

Fourth and final is that there was a ready coalition among analysts, investment bankers, fast money clients and venture capitalists to bring anything public. That is not happening today.

So, what can stand in the way of the current big stocks from dominating?

One, if everything goes the way of the bulls, meaning more testing, more mask wearing and new stimulus with a pledge to keep it going until we get a vaccine, a lot of money will flow back into the 75% of the S&P 500 stocks that are down on the year. Sure, we may have a need to build up more stay-at-home offices, but with a vaccine, we will be heading back to the office. We will be going out, traveling and the money from today's winners will be distributed to the current losers. It's certain that will occur, but it is not certain that masks, testing and vaccines will happen in a timely fashion.

Two, the government is holding congressional hearings to testify about market concentration and anti-competitive behavior. First up are Apple, Amazon, Google and Facebook. Meanwhile Slack (WORK) is pursuing antitrust action against Microsoft. If governments shackle these companies, you will see some real declines as you won't be able to calculate the future gains of these companies.

Third is China. If we go into a cold war with China, we will lose lots of sales in China. The issue is the largest company, Apple. If the government presses too hard, then Apple's stock gets hammered and even the rest of the FAANG stocks that have little risk in China, will get hurt, too.

Fourth, inflation. No one is going to pay a lot for growth in the out years if we have raging inflation. The owners of non-index stocks know that inflation is the ultimate eroder of wealth.

Finally, consider what most Wall Streeters fear: higher taxes for capital gains. If you know that capital gains are, in future, going to be taxed as ordinary income, how can you not sell something to beat the change, unless, they make it retroactive.

I don't think this market will collapse on valuation, fraud, inflation (it's non-existent) or massive insider selling. It can be hurt by the government, whether it be through legislation, antitrust, taxes or cold war.

We can't say stocks never go down, so we never sell them. We can say that the odds of legislation, antitrust, taxes and cold war with China are all very real. Be vigilant.

If you need help understanding the current economic situation or any other financial questions, contact me at (707) 648-2024.

Q&A

Q: Is there a coin shortage?
A: The pandemic has led to a major shortage in the supply of coins in daily use. It's causing headaches for businesses large and small as the Fed rations coins. Some merchants, like 7-Eleven and Lowe's, are asking for exact change from those paying with cash. Among the causes: Increased online shopping and a desire to avoid touching cash, which led consumers to keep change at home. The problem will likely be short-lived according to Fed chair Jerome Powell. The US Mint may mint fresh batches of coins, its output was slowed this spring.

STAY THE COURSE

FED Watch

The FED at their July meeting left rates unchanged as expected, and had lots of comments on the economy and their predictions of a slow recovery despite seeing green shoots (signs of hope).

The FED had the following notes:
-Financial conditions are still improving.
-The pandemic represents the biggest shock to the economy in living history.
-Continued fiscal policy needs to help the economy.
-They will maintain the current range until confident of recovery.
-Rates near zero through 2022.
-The path of the economy will depend significantly on the course of the virus.
-The health crisis will weigh heavily on the economic activity, employment and inflation in the near-term and poses considerable risk to the economic outlook over the medium term.
-Keep rates near-zero until central bank is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.
–They will boost Treasury and mortgage purchases.
-For some businesses, direct financial support is needed.
-The slowdown induced sharp declines in activity.
-The economy to run above trend in 2021 and 2022.
-The economy will need support from Congress.
-Housing and auto sales have been strong.

Currently, there is very little chance of a rate increase for the rest of the year.

Next meeting:
September 15th and 16th.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. Bob's office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at:
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