Consider This Program

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On This Show:

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Show Notes:

Topics Include:

- Relief Rally with Andrew Thrasher
- Oil Prices
- Changes to Expect in the Future
- Funding for the States

Relief Rally with Andrew Thrasher

We've had an incredible rally. Markets rallied 30% back higher, catching a lot of people off guard. Traditionally, this kind of fits what history shows us. Whatever the momentum down is often shown on the way back up. If you were to bounce a ball on the ground and throw it hard enough, it's gonna bounce really high. If you drop it with just a little bit of strength, it's not going to bounce that much higher from that point. We're seeing that with stocks as they bounce back.

When you lift the hood, what can you tell underneath it about this relief rally? Whenever we have the market move in either direction, I want to see how much participation the individual stocks are doing and what the index is. Do we always talk about the Dow or the NASDAQ or the SMP? All these are just representations of individual stocks. As we record this, the S&P 500 is down about 9.5%. Looking at the individual stocks that make up that index, 103 of them are positive for the year, but 407 of them are down. We're seeing a lot of the mega caps. The big companies are really driving things higher. As investors are choosing to invest and put their money in some of the biggest companies, it can weather this economic storm.

What are you seeing from the sector strength that is different than what we've seen in the past? As we kind of have a nationwide lockdown there, there's not a lot of places for people to spend their money. They can't go to restaurants. They're not really traveling. We definitely know they're not flying or taking cruises right now. The parts of the market that we're seeing the most focus is where people can spend their money like Zoom. Everyone's doing video calls. We start seeing a lot of those cloud-based companies. A lot of tech companies are doing really well. Netflix, Amazon, etc. Where are you buying your products? You're probably buying them online. Walmart's doing well. Some healthcare stocks are doing well.

What type of things control the way the market reacts? Greed and fear cycles over and over. We had a lot of fear on the way down, where we just didn't know where it was going to find that bottom, how much more selling we were going to have. Now we have fear on the way up, that FOMO, fear of missing out, where we're pushing stocks higher because we don't want to be left behind. That's traditional when you're kind of in the middle of a storm like we're seeing with this virus. Industrial behavior really starts to get whipsawed around where we start seeing big updates and big down days. It's trying to hold onto a process or a strategy and not to let emotions take control. That's something that we practice with our firm. Sentiments very heavily control where the market goes each day.

If we were to get big news or updated news about the virus, could that turn everything around again? Yeah. If we were to plot the infection chart and plot it along the market, it almost moves in lock step as we start seeing these infection numbers trend lower. It's causing the market to go higher. We haven't, from an economic standpoint, evaluated or started to look at the damage done from the virus. We haven't seen it's going to impact companies' stock prices. We're just celebrating the fact that the fires are under control. I think this is going to be probably a long drawn out process. Maybe there'll be places that have done really well and they've been able to control their own balance sheets, and navigate through this. Unfortunately there's gonna be others that are going to be much more severely impacted.

Oil Prices

Did you ever in your life imagine that we would be able to put gasoline in our car this cheaply? I am not a fan of actively traded mutual funds. I am a fan of exchange traded funds. They're transparent, they're cheap. In terms of expense, they are more tax efficient than mutual funds. We started to watch oil begin to unwind. Oil is a commodity; it has to be used. You have the oil people who are drilling because that's what they do. It's hard to turn a well off. This is not like a spicket at your sink. It's expensive to turn them off and on. The wells are running, the pipelines are full, the barges are full, the refiners have all of the gas they're using and you're not spending any money at the pump. This creates a problem. The people who need the oil, airlines who didn't end up being able to take it, semi truck companies, places like that, bought this oil ahead of time, so that they know what their costs are. You know what your budget is for your house. You have an idea of your budget for your groceries. Does the grocery price change from time to time, season to season? That's what happens with all commodities. We woke up one morning with oil all the way down to $3 or $4 a barrel. People started calling, saying, "it's time to buy oil." How do you buy oil was a direct question that came from somebody in the media? The only way you can buy it in our world without having futures contracts is an exchange traded fund called USO.

People went out and bought USO and they thought, “$3 a barrel on oil, I'm going to get rich.” It didn't work so well folks. The oil was actually -$34 a barrel that day by the end of the day. That's because it was cheaper to pay you to take it away than it was to try to store it. People had to take constructive receipt, but there is a huge difference. Constructive receipt just means they had to take ownership of the oil. There's a huge difference between a futures contract and an exchange traded fund. The ETF got down so low that they literally owned like 75% of all of the front month contract, which is a future term.

You don't need to understand. But the only way out of this, the SEC let them reorganize. They did a reverse split. Every seven shares that you had, you got one share. There were thousands of people that had less than a thousand dollars left inside of the USO when the thing collapsed because they didn't understand the tool they were using and what was happening. We have owned USO. Three years ago was the last time we used it. Adam and Andrew were doing their research and figured out the threat that was there. We want to know anytime we buy anything, what could possibly go wrong.

Some of the producers are starting to shut down operations. The whole energy complex is under a great deal of strain and pressure right now. Other than utilities, they are probably the most in debt, the most leveraged industry that's out there. On one hand, you've got low interest rates. On another hand, they don't have any income that's coming in because of the price of oil. Even with the huge rebound that we've seen in oil percentage wise, it's nothing near the loss. We're still less than half the price of a barrel of oil when we started the beginning of the year. The moral of the story is it's great to use an ETF, but you have to know what you own.

I keep seeing in the headlines these shale wells that the US has. We made the decision to start drilling those. What are they and how is it different than, or how does it affect the production of the bigger companies? When we talk about oil, the one thing is we wanted to be energy independent. We figured out how to get oil at different places than where we had before. What you see on TV is what's called WTI. It's West Texas Intermediate oil. This is a big driver. Oil does tend to lead an economy. It tells us what is happening. It's important that you understand not just to buy things because of the price that they've reached. The price fell down to something that was extraordinarily low and indeed it should have been lower. That's what the market proved out.

Changes to Expect in the Future

Eight things that are going to change in the world going forward:

1. Companies will start to think more about where stuff comes from, both in terms of consumption and supply chains. We just saw this this morning with semiconductors. President Trump is saying, “we've got to figure out a way to not be so dependent on Asian factories.” That could very much change.
2. Online consumption, such as groceries, education, retail. Is it convenient to pull right up outside the grocery and they bring it out to you?

3. Cash to credit will accelerate. The use of credit cards could grow as people are forced to shift from offline to online shopping, as many physical stores no longer accept cash for hygiene purposes.
4. Another thing is the rise of a green agenda. We might see a greater push for the green agenda and rising investment in things like renewable energy and electric vehicle interest structure.
5. Health and hygiene rules and regulations will step up and will change the way we work. It'll change some of our antibiotic risks or resistance.
6. How about the rise of moral capitalism? Companies have a fundamental reset and look more towards their purpose, like their impact on the environment, their customers, community, employees, and the supply chain.
7. Working from home becomes more accepted.
8. Tech and pharma are shifting. We've all relied heavily on technology platforms including social media during the isolation period. E-Trade has opened up more accounts this year than they have in any one year ever before. The spike in online training has been huge.

One of the things you need to understand in your portfolio is there are conditions that have changed. Things have adjusted and you need to look at your holdings. That is very tough to do in a mutual fund when you don't know what you own.

Funding for the States

We came up with this Paycheck Protection Program that people were encouraged to sign up for and then people were discouraged, and some people even paid it back. I talked with one of our favorite ministries today. They actually got their PPP loan. They're financially better off now than they were. I'm not hearing enough individuals talk about or what's really going to happen with cities and states. We know all states are not created equal. All states are allowed to have a rainy day fund.

What is a rainy day fund? It is a fund that can be accessed as a result of an economic emergency. Would you say that we are in a state of an economic emergency? Oh, you bet. As of July 1st of last year, California had $19.2 billion. Texas had $7.8 billion. Illinois had a whopping $4 million in their rainy day fund. We say that we're all entitled to firefighters and police. Those are provided by municipalities. When you don't have money, you cut things. That's what we're seeing happen in many different places. The CARES Act is the one that was passed March 27th that included $139 billion of relief for all 50 States. US governors have requested an additional $500 billion. Another three times more than what has already come out.