RIVERSTONE
ADVISORS, LLC

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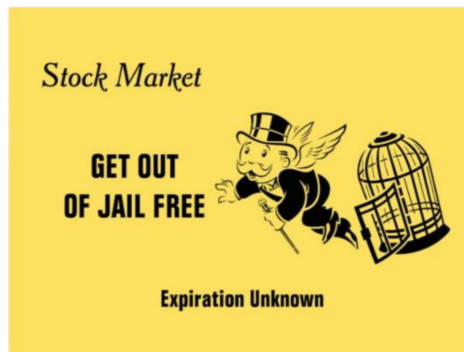
Stocks have gone up 20% since March 31st, how can that be? Investors simply acted on the Get Out of Jail Free card supplied by the Federal Reserve and Congress.

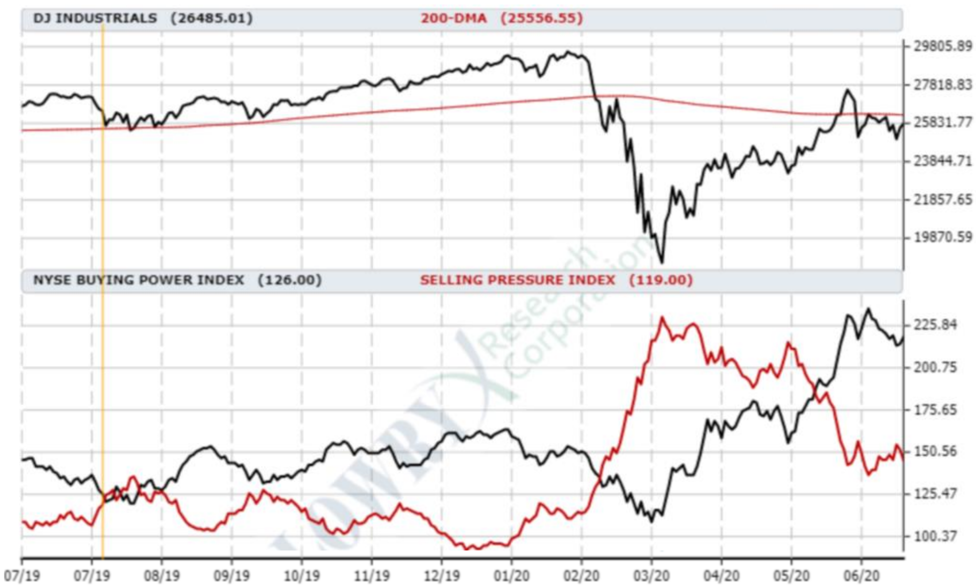
Just as we were all feeling like we were in jail and could not see clearly how or where to invest, the Federal Reserve and Congress gave us a Get Out Jail Free card in the form of **$7+ trillion** dollars in stimulus. Dropping this amount into our **$19+ trillion** economy created a colossal change in market sentiment. This was intentional and meant to show the strength of their commitment to provide support for consumers, the economy, and the markets. **We cannot stress enough the importance and positive impact of this stimulus.**



Historically the Federal Reserve has kept a tight rein on supplying the economy with money due to their long-held fear of inflation rising. COVID-19 has eliminated their shyness and they have gone whole hog loosening the reins to stimulate the economy. Note that this is not a normal recession. The Federal Reserve recognizes it as a product of COVID and views it as novel just as the virus is novel. Hence, their novel action.

The percentage by which the market rose shows us that buyers were plentiful and committed.

We can also see this via other measures such as buying power and selling pressure. The graph below shows the recent push-pull between buyers and sellers. The top chart shows the performance of the Dow Jones index. The bottom chart shows the relation between buying pressure (black line) and selling pressure (red line). You may find it fascinating to view how stock prices move in relation to the dynamic between buying power and selling pressure. We do.



Here we see the sellers in red taking control on February 26th. Just shy of three months later, buyers wrested control from sellers, and the market rose as you can see in the top graph. The demand is broad-based. The New York Stock Exchange advance-decline line reached its first new all-time high since the late February market peak. This is generally a harbinger of a continued market advance.

The stimulus is like a hot air balloon that may carry us over the chasm until a vaccine becomes available. It is providing us with a calm period in which we are investing normally. This comfortable period will end by the Fall unless we have major new stimulus.

Unlike stimulus in 2009, this round has gone into the pocket of consumers rather than onto bank balance sheets. The consumer savings rate is currently at 23%. If we have adequate stimulus going forward, the U.S. consumer will have excess capital after this horrendous experience.

<u>Beware the Press</u>

We want you to be aware that the U.S. is blessed with a more rewarding stock market than that of overseas markets. Overseas companies are not as bottom-line focused as U.S. companies are, hence, overseas returns are weaker. Earnings growth is lower overseas for reasons that we will not go into here. When you read the press, pay attention to whether they are writing about just the U.S. or the whole world. We often find that articles lump the U.S. in with the rest of the world. From an investment standpoint, you can ignore overseas markets unless we decide to invest there. We may in the future if there is fundamental support for doing so, but currently portfolios have limited exposure to international based companies.

We recently researched why the overseas markets have lagged the U.S. for at least the last five years. If you are interested in seeing this research, ask us. This has forced international segments in traditional asset allocations to drag down U.S. stock performance.

Most articles written about the current recession are not based on economic facts nor are attempting to analyze the current situation. **It is important as an intelligent investor to remember the market is always ahead of the press, and the goal is to not wait for the press to say things are rosy again because the window of opportunity will have closed.**

It is also entertaining to look up the background of the author. You can google them or go on the website of the company they are with and see if the company posts bios of their staff. You can also find them on linkedin.com. Generally, they have no working experience in the industry in which they are writing about.

Everything is Relative in Investing

Eventually, the stimulus will be gone, and the economy will have to stand on its own. Thinking about how this will play out; we want you to know that the market deals in relatives rather than absolutes. This is not the Einstein Theory of Relativity but rather our relativity awareness drawn from our many years of observing the markets. The most important relativity is seen in earnings and economic numbers where the market focuses on whether a number is better or worse than the last calendar number. Generally, numbers are compared to the same quarter one year ago. Since we are in recovery, the focus is on the short-term, that is, month to month.

COVID Migration

The increased infections in the South and West are a function of both mobility and policy. For states that reopened early in May and June, we have seen case counts rise due to the higher interaction of people. On top of this, in states where protective measures were not mandated and/or accepted by the citizens, we naturally have aggressive increases in case counts. This only makes sense given the characteristics of the virus. As people began to move about again, the virus noticed.

The market has seen this before. We have written in past letters that investors become immune to news stories that they hear again and again. While we will see new waves of cases, remember that the market will not react as the headline repeats.

The Future

While we wait for a vaccine to be available, the Federal Reserve and Congress stand ready to provide more stimulus, as needed. If the next stimulus package comes up short, we can expect to see the market stumble again. If the stimulus measure checks the box again of protecting the unemployed and helping capital markets function normally, the stock market will continue to operate normally.

Conclusion

When you feel nervous about the U.S. economic future, we want to draw you back to the words of Jay Powell, Chairman of the Federal Reserve Board. He said recently, "We are strongly committed to using our tools to do whatever we can for as long as it takes." "Whatever we can" is a reference to pouring more money into the economy. "Long" refers to the open-ended nature of their commitment.

The old investing axiom, "Don't fight the Fed" is true. The Fed is carrying the ball and we look to their footwork for investment guidance. Fed injections of money into the economy usually result in strong near-term investment results. Be there as an investor or be square.

Sincerely,

Leslie J. Lammers, CFA
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Enclosures

[1] Sources: *Economy.com and Lowry Research*