

Lumbar
& Kellner

INSIGHT

S&P 500 3,357 * Dow Jones Industrials 27,902 * 30 year U.S. Treasury Bond 1.43%

BETTER THAN ANYBODY EXPECTED

For most of this woeful year millions of investors held their breath, waiting for stocks to plummet. From March to May the economy was just awful—bankruptcies, bailouts, epic unemployment—yet the stock market roared higher.

Why? Because the economy recovered **much** faster than expected. But it's also fair to say that it roared higher *because millions of investors held their breath*. On Wall Street they say that “stocks climb a wall of worry”, meaning that they go *up* when investors are worried and sitting on cash. They go down as soon as investors have loaded up on equities because everything seems hunky-dory. Once everybody buys in, there's nobody left to buy in.



“Henry is holding his breath until Washington regains its sanity.”

There are still plenty of doubters. The most-recent survey taken by the Yale School of Management showed that, in July, individual investors were unusually worried that a Crash was just ahead. They were more frightened this past summer than they were in 2008!

In early September it seemed that investors had become much more confident, so we did some trimming of equity portfolios. The stimulus spending of the spring is petering out, and the election will be contentious.

Higher taxes in the future could hurt corporate profits. Increased regulation would also hurt corporate profits.

If you're looking for reasons to be cautious, economist Paul Wright has more details on page 4. On this page we'll reiterate that it's *risky to sell* stocks, because you have to have perfect timing in selling, and also perfect timing in buying back in. When you look at a long term chart, the terrifying market drops of the past look like small squiggles.

As we picked stocks to sell we kept getting stuck on the question “what are you going to do with the proceeds?” Bonds? Money market funds? Office buildings and retail? Aaah, no.

Interest rates have *never* been this low. You can't compare the P/E ratios of 2020 with the P/E ratios of other years, because in those years cash and bonds were reasonable alternatives. Right now they're not. If there were such a thing as a completely safe investment with a decent yield, hundreds of millions of investors would flock to it from around the world and drive the price up.

70% of the assets of our benchmark account are still in equities. There's still growth to be had. *Most* stocks are still down for the year, and some offer huge dividend yields. Thousands of good companies are still far underwater, here and abroad. Emerging-market stocks have gone nowhere in the last **nine years**. ■

ELECTRIFYING

Honda and General Motors have expanded a long-standing partnership that will now have GM build electric automobiles for Honda, using GM's Ultium battery technology. There was barely a ripple in the news, but when GM signed a similar deal with Nikola (a truck designer which doesn't have any earnings, sales, or trucks) the market value of the latter immediately jumped to \$19 billion!

In the near term GM (GM - \$32) doesn't *need* to make money on electric vehicles. It just wants to stop giving money to Tesla! In the most recent quarter Tesla got \$428 million, more than 100% of its profits, by selling regulatory "credits" to GM, Chrysler and

others that allow them to continue building profitable, gas-guzzling pickup trucks.

Less than a decade ago we were all told that this program of government-created credits would cause new vehicles to get 56.2 miles per gallon. But *more than half* the sales of new passenger vehicles are now trucks, and they've been getting bigger and bigger. The weight of the average pickup truck has increased **1,142 pounds** since 1990! Gasoline taxes sit at a cowardly 18.4 cents per gallon. ■

From April through August new orders for manufactured goods rose at the fastest pace in history.



GM is umm, also working on Urban Air Mobility. Flying taxis without a driver! The surprise is that there's lots of competition. Toyota, Hyundai, Intel, Daimler (Mercedes), Uber, and Geely are in the race.

“Keep the company of those who seek the truth. Run from those who have found it”

— Václav Havel, who spent years in prison because he criticized the communists who ruled Czechoslovakia.



New virus cases in the United States have been declining since July.

The virus burned its way through the New York metropolitan area and pretty much departed. The Big Apple was slow to shut down bars, reduce crowding on mass transportation, adopt mask wearing, or reduce travel in and out of the city. Yet coronavirus cases, positivity, and other metrics in NY have improved so much that it's now considered one of the safest states. Travelers from NY to MA no longer have to quarantine for 2 weeks!

During the Russian revolution Marxists, animated by a religious fervor and sure of their vision, overthrew their overprivileged rulers and created a strong central government that could bring equality and fairness to all.

Just 7 years later Joseph Stalin came to power. He killed millions, including 681,692 officially-recorded executions of political opponents and ethnic minorities during the Great Purge. ■

“When I was a rambunctious youth my mother used to joke that if I didn't cut it out she would slap me into next year.

I'm almost ready to call and see if the offer is still good.”

— Peter Dragonas.

JAY CONWAY, CFA

Welcome to Jay Conway, CFA, who is joining Lumbard & Kellner as a partner! Jay comes to us from FC Advisors, a San Francisco investment advisory firm. He's originally from Hollis, and he's weary of the high taxes and high cost of living in California. The fires also played a role, although he made his decision long before they became the raging inferno that's been everywhere in the news.

Jay became a Chartered Financial Analyst in an era when the "pass" rate on each of the three annual

exams was extremely low. He has a deep understanding of financial markets, as well as the powerful psychological and emotional aspects of money & investing. He's analytical, focused, and fascinated with public companies, their industries, and the economy.

Jay rowed crew at Georgetown. His wife CarOline was born and raised in California, so he put a lot of effort into warning her about the cold and dark of a New Hampshire winter ... He has two delightful daughters, aged 3 and 6. ■



Jay Conway, CFA

If recent weather forecasts have seemed a bit off, there's a reason. Air traffic! 3,500 commercial planes carry equipment that transmits data directly to the National Weather service, and lately they've been transmitting from the blazing-hot tarmac that they're all parked on. We recommend that you wear shorts when you go out; but be prepared for powerful winds, sun, cold, and rain.



In July the savings rate was eighteen percent. In June it was nineteen percent. In May it was **twenty-five percent**. D'ya think that money might get spent in the months ahead?

One more time: If everybody is upset about the growing power of the tech titans...

WHY ARE THEY ALLOWED TO ACQUIRE COMPETITORS EVERY WEEK?

Samsung just won a big contract selling next-generation "5G" telecommunications gear to Verizon. The emergence of Samsung in this market means that it will become more competitive. Bad news for Nokia and Ericsson, but the U.S. will find it easier to persuade other countries to reject Huawei, the low cost provider. It's also good news for the Franklin FTSE South Korea ETF (FLKR - \$23), because 17.6% of the fund's assets are invested in Samsung Electronics.

FLOATING ALONG

Nearly all the bonds our clients hold (aside from a Ford bond that we snatched up at an 8% yield in the panic) have floating rates. That is, the interest rate is re-set every quarter or so, at a level that's higher than LIBOR or some other benchmark. You can think of these bonds as an inflation hedge, or simply a way to avoid the pain that fixed-rate-bond investors will feel when interest rates finally rise toward "normal" levels.

New single-family home sales rose 13.9% in July to a seasonally adjusted annual rate of 901,000, **the highest level since December 2006**. Mortgage rates are at 3%! We hold shares of builders D.R. Horton (DHI - \$73) and M.D.C. Holdings (MDC - \$47).



Paul K. Wright, CFA

CAUTIOUS.

In recent weeks investors have become too optimistic about key factors that will influence the markets going forward. They seem to believe that the economy will

continue to rebound at a good pace, that interest rates will stay low, that the president will be re-elected, that Congress will pass another stimulus bill soon, that a vaccine is just around the corner, and that herd immunity will follow shortly thereafter.

All these things are possible, but it's not likely that all of them will happen. The PPP program has ended, and it appears that there will not be any further economic stimulus. There are huge deficits at the state and local level. Without more stimulus, these deficits will lead to substantial layoffs.

Common-stock valuations look attractive, because interest rates are at all-time lows. But where

will those interest rates be in two or three years? Rising rates would make stocks look less attractive, as would slower earnings growth. What kind of earnings growth might we get with a Biden presidency?

There is a coronavirus vaccine coming soon, but experts say that we can only hope for effectiveness in the range of 50% to 70%. And huge numbers of people will refuse vaccination, or simply fail to get to a doctor's office or a clinic. If you assume 60% effectiveness and a 50% "take rate", that adds just 30% of the population to the Americans who have already been exposed or are otherwise immune. We need at least 60% to reach herd immunity. ■

TOOGVIROLOOG

There are some new words in Dutch. A **toogviroloog** spreads false or unsubstantiated information about coronavirus or its transmission.

Nota Bene: The mask is supposed to cover your nose!

In China 2020 is the Year of the Rat.



Yeah, lots of us feel that way.

GRATITUDE

"Americans work 22 fewer hours a week than they did in the late 19th century and lose 43 fewer hours to housework."

— Harvard psychologist **Steven Pinker, author of Enlightenment Now.**

Life is easy now. Lots of people would argue with that statement, but lots of people have no idea how much better life is today, and how much easier the jobs are. All of us take light, heat, and transportation for granted, but just a few generations ago oil came from whales. It was dirty, cold, dangerous, miserable work. Granite countertops? It took 2,000 men *five years* to cut enough

stone to build a granite building in Boston. Free markets spawned remarkable innovation.

It's fashionable today to question the benefits of those markets, and even question the benefits of material wealth. We imagine a simpler world without wealthy and powerful employers, in which government promotes fairness. That was the goal of Hugo Chavez when he declared, shortly after his election, that Venezuela would become a socialist democracy. But power corrupts. His gifts to the poor destroyed the economy. Now the lights go out frequently in the Land of Grace, the elections are rigged, and goods cost so much that workers can't afford them. ■

GAOA FOR GAIA

“The Great American Outdoors Act (GAOA) is the biggest land conservation legislation in a generation. The National Parks Conservation Association, the leading advocacy organization for the parks, is hailing it as ‘a conservationist’s dream.’

The legislation has two main impacts. First, it establishes a National Park and Public Lands Legacy Restoration Fund that will provide up to \$9 billion over the next five years to fix deferred maintenance at national parks,

wildlife refuges, forests, and other federal lands ...

Second, the GAOA guarantees \$900 million per year in perpetuity for the Land and Water Conservation Fund (LWCF), a flagship conservation program paid for by royalty payments from offshore oil and gas drilling in federal waters.”

— Harvard.edu.

The bill passed the Senate and the House **this year with bipartisan support**. It was signed by the President on August 4. ■



Drew D. Kellner, CFA

TREDECUPLED

The stock market has been on a tear. On September 2nd our “Benchmark” account, a fee-paying client account that we’ve been managing just like our other portfolios for 30 years, hit the Quattuordecupled level for a day. Then the market sold off.

Still, \$1,382,693 looks good when compared with \$1,308,411 at the beginning of the year, or \$217,974 on December 31, 1999, near the top of the tech-stock bubble. Like all our accounts this one should be compared to a mix of U.S. stocks, foreign stocks, bonds, and cash; it’s not invested 100% in the S&P 500. For further information, see www.Lumbard.com.

**OPPOSITION TO
FREE SPEECH**

**IS A CALL FOR
TOTALITARIANISM.**

INDONESIA



With 268 million people, Indonesia is as populous today as the U.S. was in 1996. It’s about four times the size of California, but its coastline is forty times longer because the nation is made up of 17,508 islands. If you’re in the market for an island paradise, only 6,000 of these are inhabited.

Countries that are poor but free tend to grow quickly. Before the pandemic Indonesia’s economy was

growing at 5%, more than 2.5 times the growth of the U.S. in the past decade. The IMF expects 6.1% growth in 2021.

Indonesian stocks plunged in March. We like an Indonesia exchange-traded fund (EIDO – 18) that trades at just 13 times earnings. Not a bad price, for a piece of one of the world’s fastest-growing economies! ■

COMPASSION CAUSES PAIN

In 2020 the federal government killed Lawn Envy, a successful landscaping company with more than 300 loyal customers, centered in Peterborough, NH. Landscaping was a terrific business to be in during the pandemic, if you could get enough workers. They simply couldn't; the labor shortage was so bad that they had to literally close their doors.

Why? It was the \$600-a-week unemployment supplement, which was paid on top of each state's unemployment checks. Workers were paid to stay home, so they did; by the millions. Proprietors Patrick and Lindsey Masterson wrote "We actually know it killed us. After that started to run out we got so many people applying. That \$600 has killed a lot of trade businesses, and other small businesses too."

The Wall Street Journal says that 68% of those receiving the additional \$600 a week were making more on the unemployment rolls than they made when employed. Incentives are powerful, and greatly underestimated. ■

THE SPECIAL DEAL

When an employee of a corporation commits a crime, the CEO of the company is expected to take responsibility. The same is true for police officers, who are employees of the mayors of their cities. The mayors of Minneapolis, Kenosha and other cities should step up and accept responsibility.

They do have a partial excuse, in that their policemen are often protected by unions. Public unions have managed to take advantage of laws that were designed to give employees power in their negotiations with private-sector corporations. But cities are not greedy corporations. And corporations almost always have the power to hire and fire without restrictions. So why are there special protections for unions in the public sector?

When Rahm Emanuel was the mayor of Chicago, he battled his unions over work rules, pay, and their excessively-generous pension plans. For decades politicians had been garnering union support by offering rich pay and benefits. Illinoispolicy.org says that the total debt for state and local retirement benefits in Illinois is \$203 billion.



In labor negotiations, cities and states should refuse to include management issues such as hiring, firing, and discipline. That's just a start. Public service unions have been circumventing the public's interest for decades. Why do they deserve a special deal? ■

— John Lumbard, CFA

**IF WE DIDN'T HAVE COPS,
WE'D ALL BE COPS.**

— Eliot Lumbard,
founder, NYC Police Foundation



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