

Stimulating

This week started with a bang, as Senate Republicans rolled out a plan to throw another \$1 trillion of liquidity on the Coronavirus bonfire, which sounds like big money until you compare it with the \$3.5 trillion that Democrats are offering up. While there is a myriad of details to be sorted through and agreed upon, the one that is taking up most of the headlines is the \$1,200 check individuals are going to see in their mailboxes come August. The new proposal also has \$500 headed out for each dependent child, even extending above the 17-year-old threshold.

Dollar Bills, Headed Your Way



Full Disclosure: This week, we are very market and economic chart forward. That said, there is plenty to stick around for as we provide a deeper dive on the new face of education, what \$2 million buys you in the white-hot mountain west housing markets, and what \$3,000 gets you from Aaron Franklin in Austin. Here is a hint...

Smokin' Deal



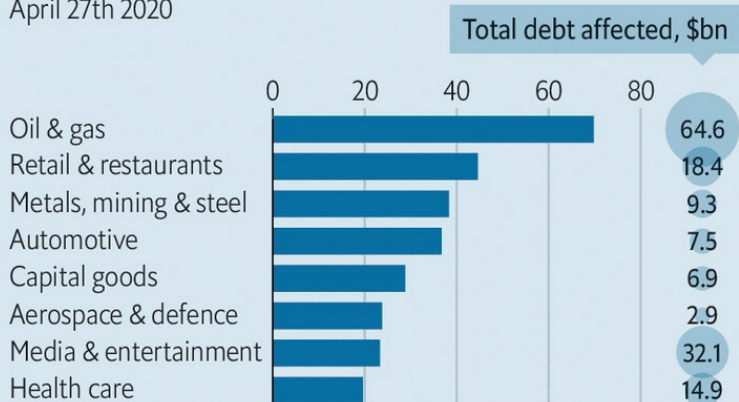
Longtime economist, and frequent pundit on CNBC, Diane Swonk, offered up her concerns, which happen to be our concerns as well, when she said, ‘Congress is chasing a moving target’. She would go on to explain her view that Covid is going to cast a long shadow over the economy and how the business failures and bankruptcies headed the economies way are going to produce a smaller base to rebuild from. That said, look at how top heavy we are in sectors that were already in trouble and probably could use a flushing out anyway. The only problem there is that the Fed is sitting ready to buy bond ETFs of zombie sectors to keep them alive.

Let Em’ Die

Debtors ledger

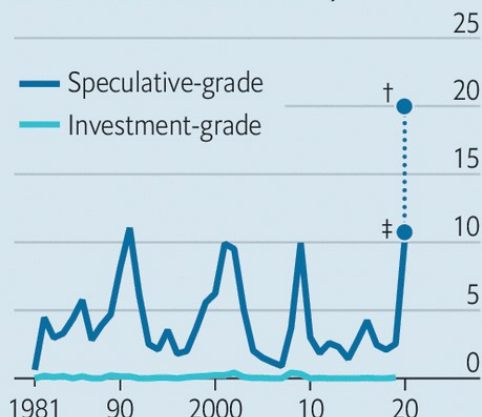
United States, distressed-debt ratio*

April 27th 2020



Sources: S&P Global; Moody's

Global bond-default rates, %



*Speculative-grade bonds paying over ten percentage points above US Treasuries as % of total

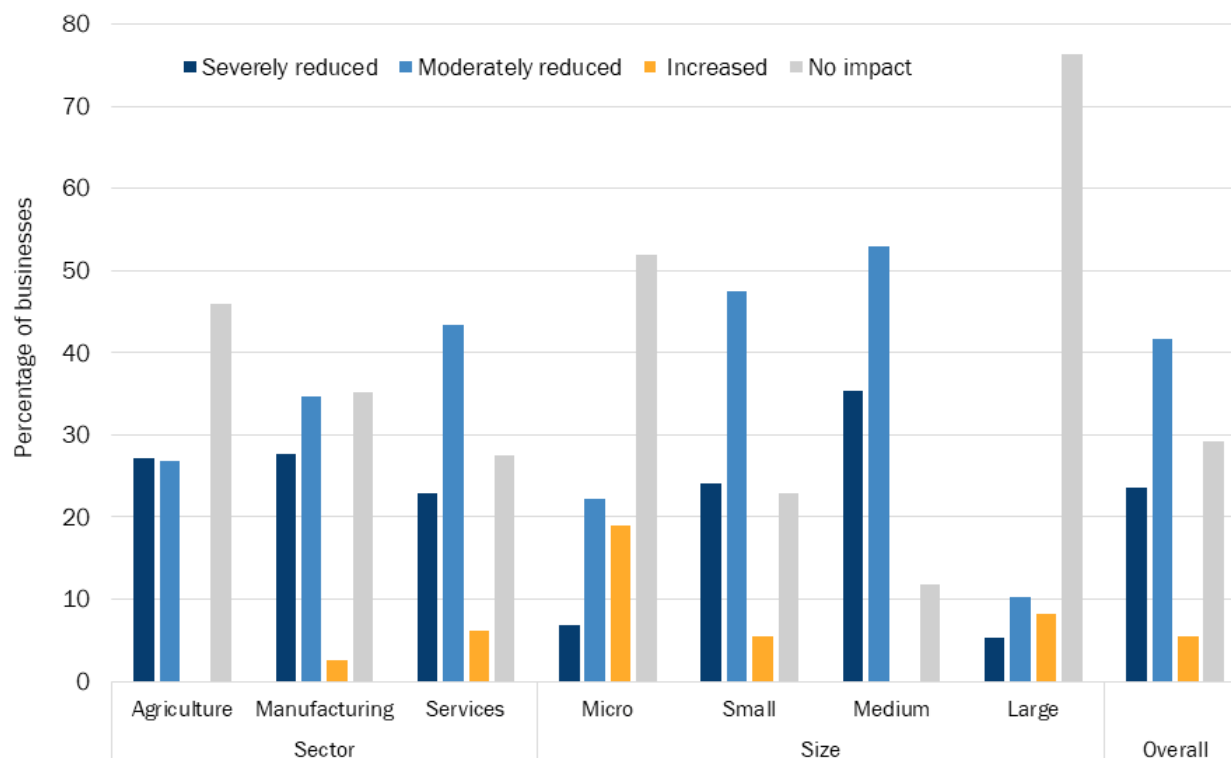
†One-year pessimistic forecast ‡One-year baseline forecast

The Economist

Earlier this year, Harvard Business School did a deep dive on the subject and with the important sub-text that a BK is not a liquidation, and those are spiking as well. The chart below helps tell the story of why mega-cap technology companies are powering the rally as they aren't seeing the downside effects.

It's Good to Be Big

Figure 2. How has the outbreak of COVID-19 affected your ability to repay outstanding loan balances?



Source: Rapid BCI survey April 2020

BROOKINGS

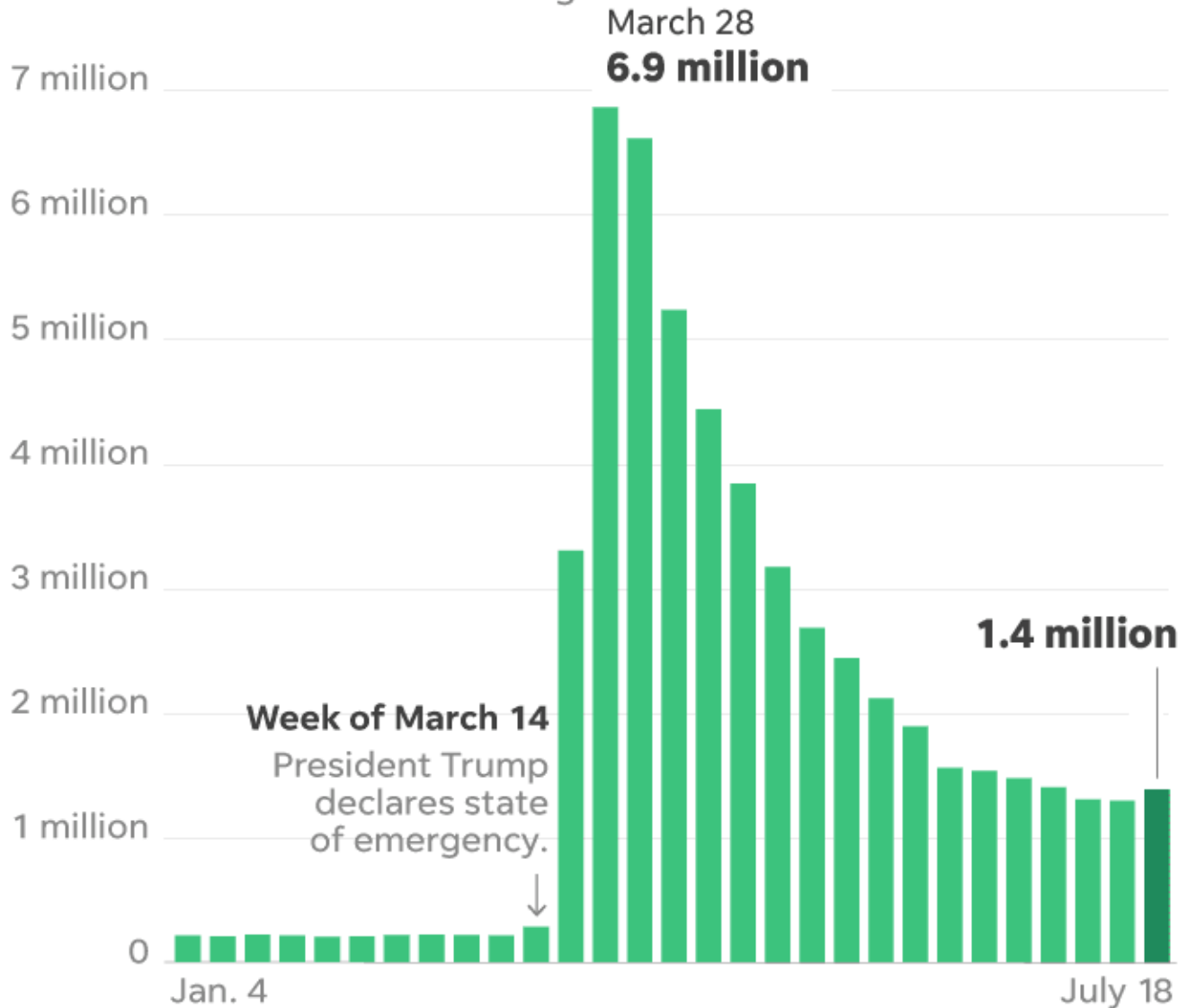
The Economy

One reason we are seeing the increased need to get cash into the hands of those who need it most, is the newly emerged trend in unemployment. While ever so slight, the fact that claims are no longer on a second derivative trend of ‘getting less worse’, is going to start acting as a bigger headwind to the economy. July’s employment situation report won’t be released for another two weeks.

Trend Bottoming

In 18 weeks, 53 million workers filed for unemployment

Jobless claims for the week ending:

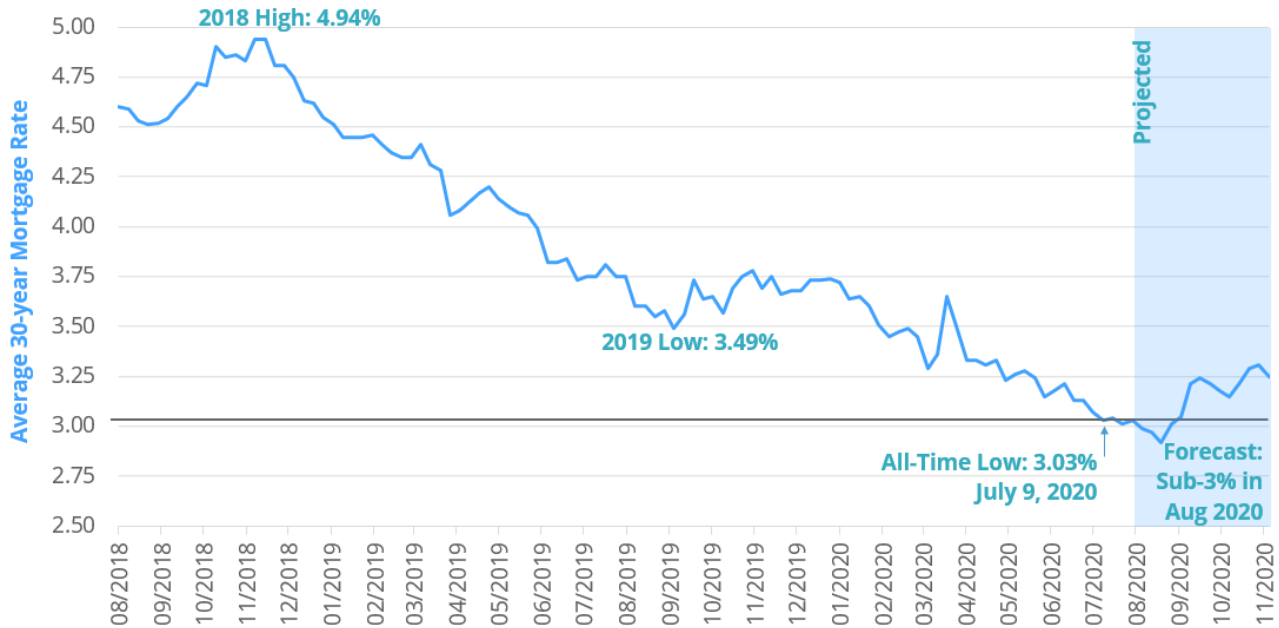


SOURCE Department of Labor

A very silver lining to the Covid recession of 2020 is the record low interest rates home buyers, and those looking to re-finance, are seeing these days. This, along with the massive wave of liquidity and Fed balance sheet expansion has done wonders to support asset prices. Which, as we have said many times is great, assuming you own assets that can use the reflation. But cheap money is cheap money, and the world desperately needs that around right now.

Lower Still?

Mortgage Rates Forecast Next 90 Days



Historical Data: Freddie Mac. Projection based on 2020 forecast from 6 housing and financial authorities and the author's view of the market. Disclaimer: Rates are volatile and will probably be drastically different than even the best projections. (c) TheMortgageReports.com

Markets

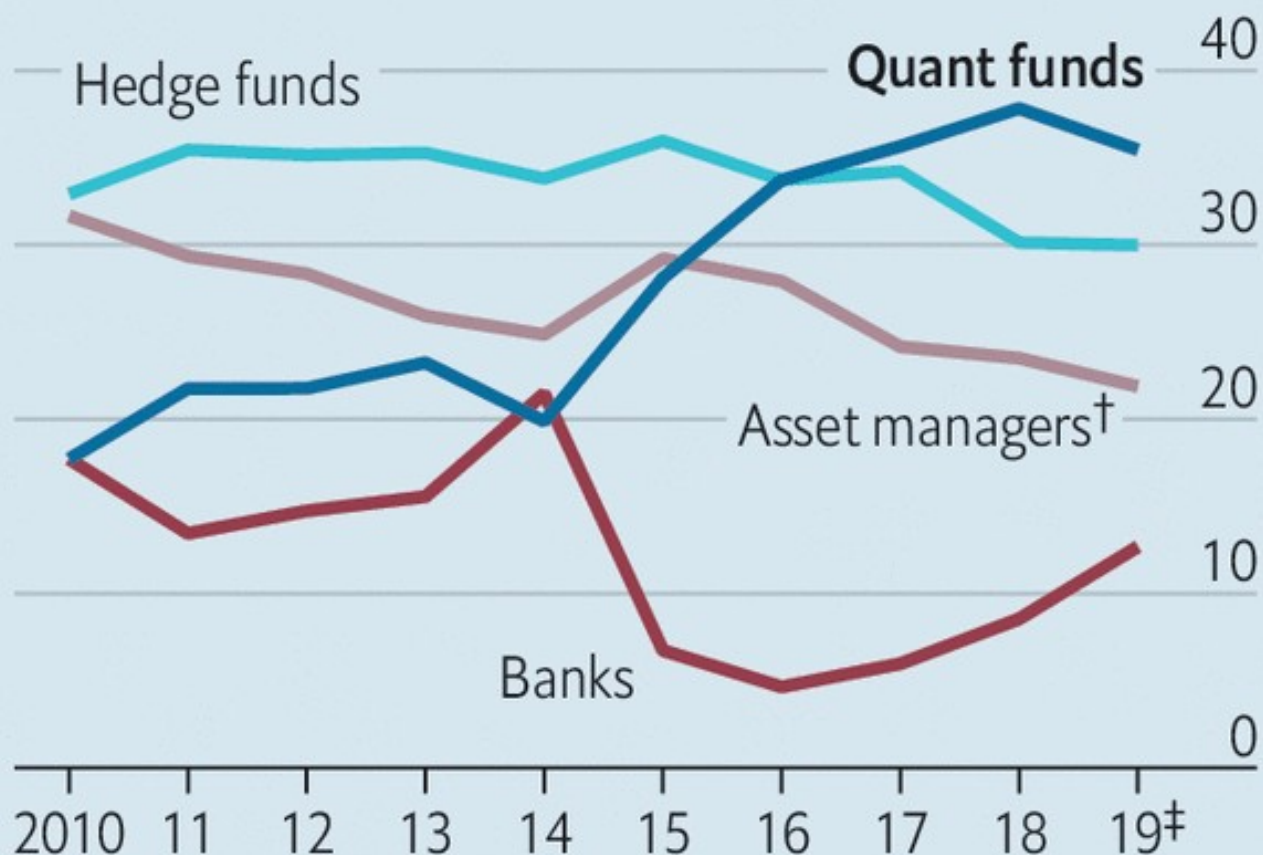
As is very much the case these days, and this can't be emphasized enough, equities and indexes are not the economy. They may loosely reflect what's going on with Main Street, but make no mistake, trading and daily price discovery are a quant driven and day trading speculators paradise. Two years ago, J.P. Morgan estimated that nearly 80% of daily stock trading was machine based. This chart from the Economist paints the directional picture right, but underestimates the magnitude of machines because it doesn't include trading of the high frequency kind.

Fundamentals Take a Back Seat

Goodbye, Gordon Gekko

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United States, share of institutional trading volume of shares*, %



Source: TABB Group

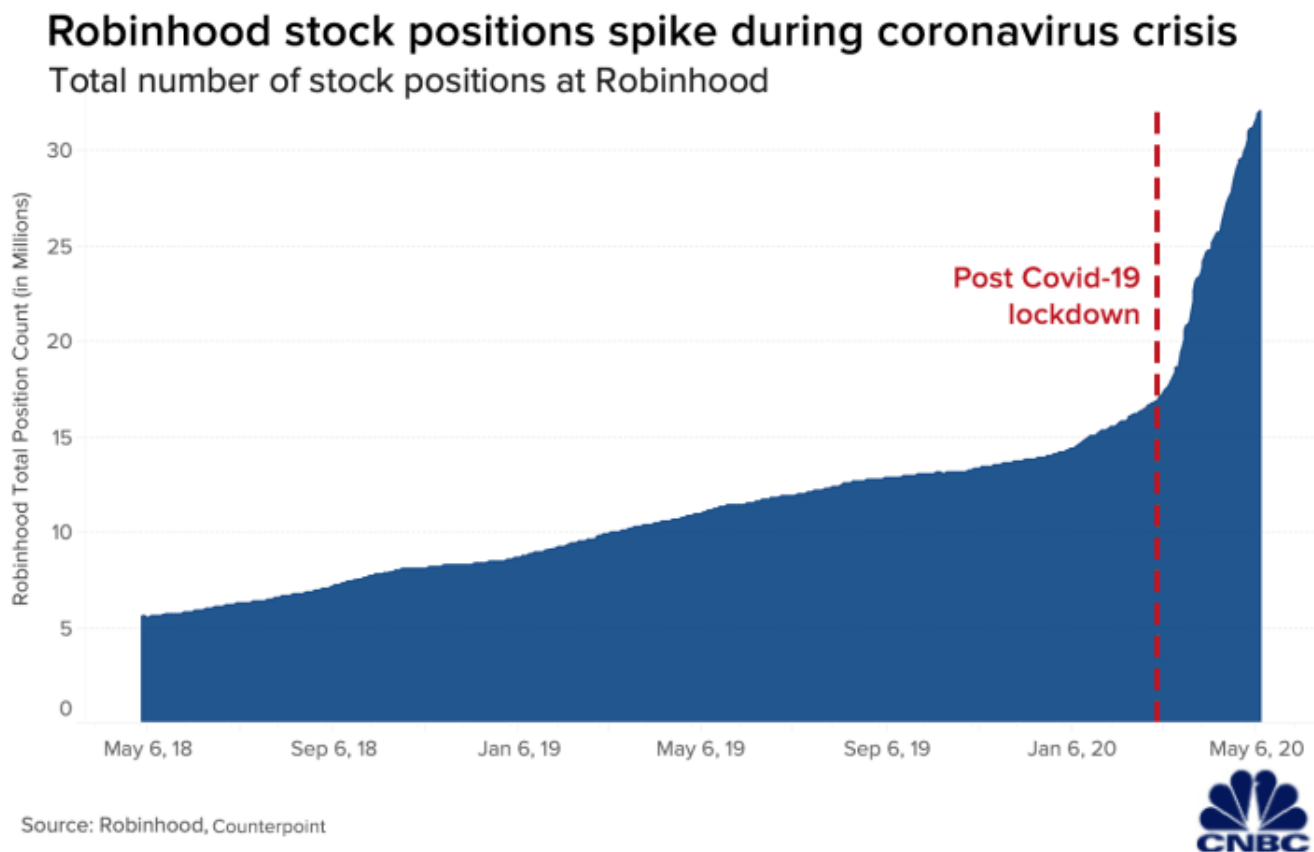
*Excluding retail and high-frequency trading firms

†Institutions including pension funds, mutual funds and other money managers

‡Estimate

Further emphasizing the point that institutions aren't in charge, over the weekend the Wall Street Journal published a piece with the headline, "Everyone is a day trader now". This can be seen by the hockey stick move higher in the number of positions held among Robinhood account holders.

Stealing from the Rich

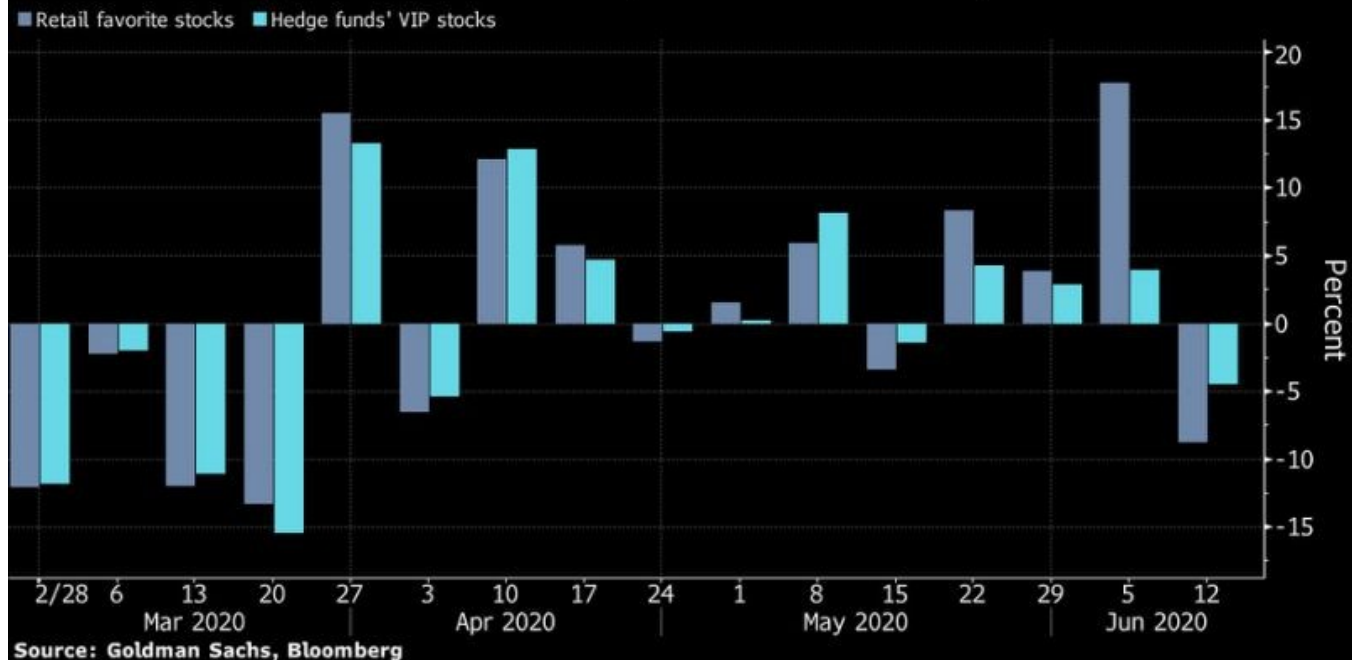


Performance of the names most heavily trafficked by the retail investor set tend to show much higher volatility and a skew to upside capture. But in this environment, downside protection is far from being in vogue right now.

Who's Dumb Now?

Smart vs Dumb Money

Pros' best stock picks beat retail money after weeks of underperformance

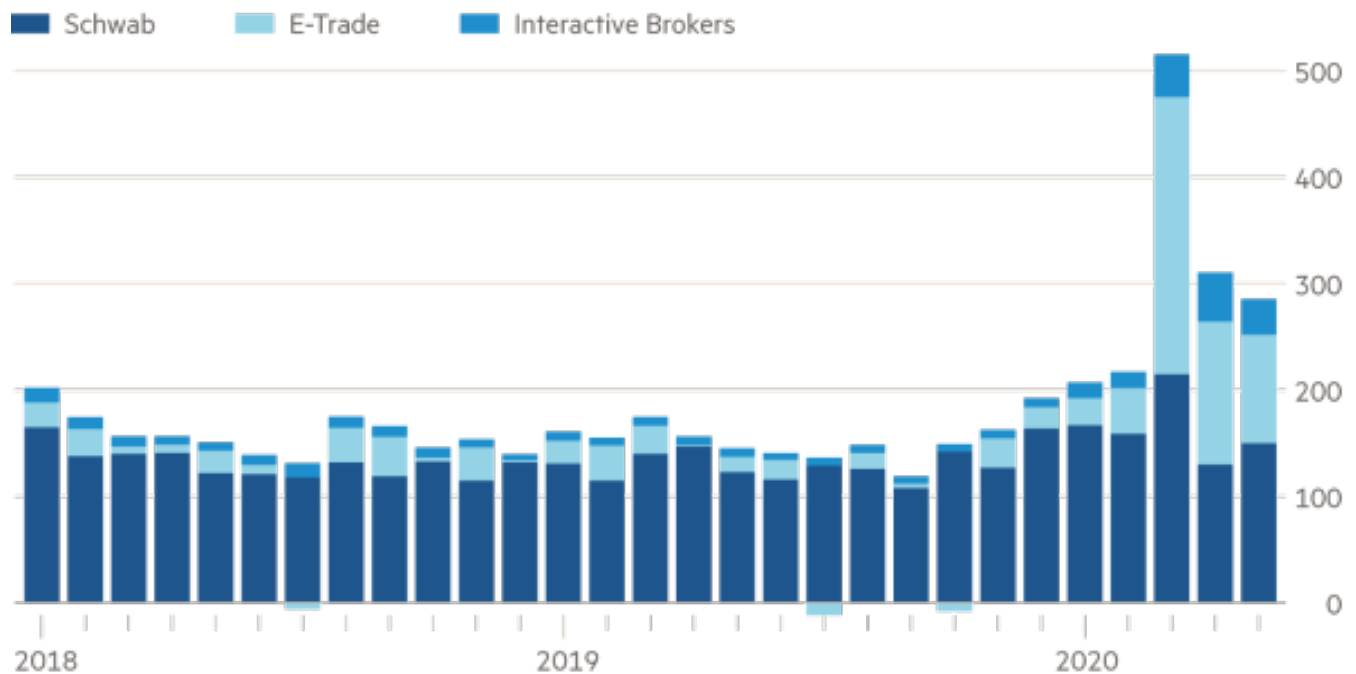


If that wasn't enough to prove that the unwashed masses are partly in charge now, here is the chart showing the explosion in new account openings among the major discount brokerages.

Power Move

Online brokers enjoy lockdown boom

Monthly new client accounts ('000s)



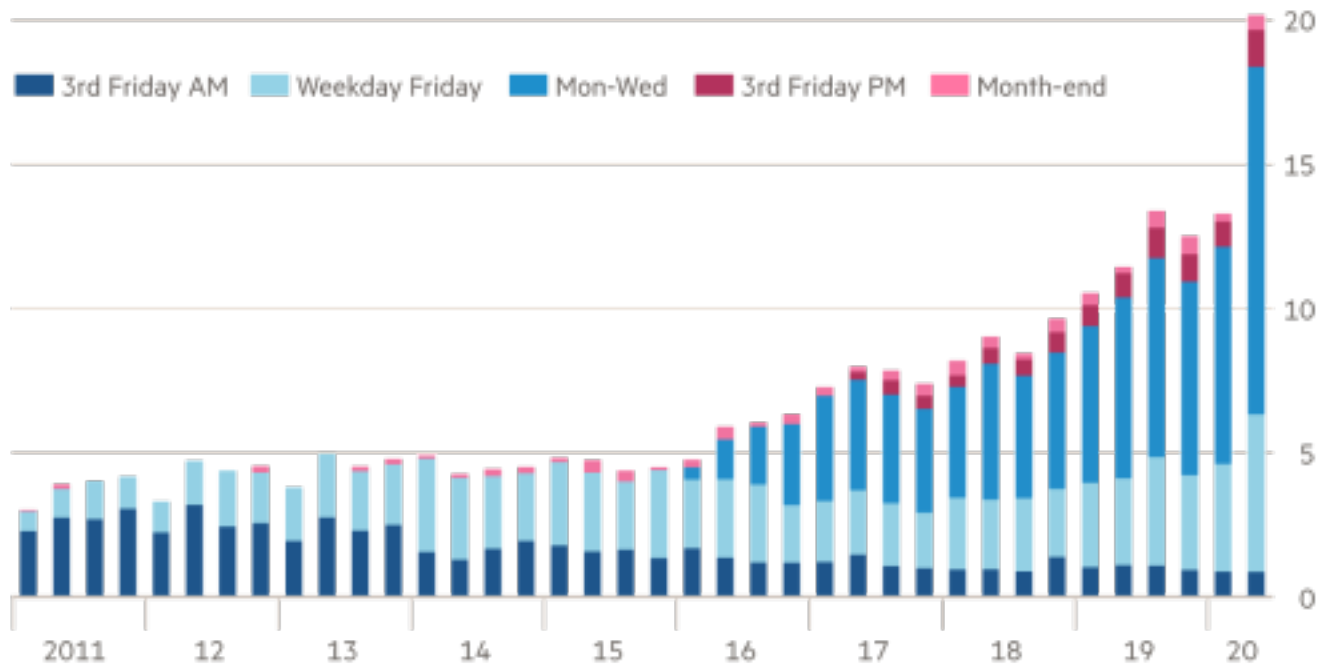
Retail brokerage accounts. Excludes acquisitions.
Source: Charles Schwab, E-Trade, Interactive Brokers
© FT

Last but not least, here is a look from Goldman Sachs on how short-term the nature of S&P 500 options trading has become during the Corona-Trading-Palooza fest of 2020.

Derivatives Are in Charge

A fifth of S&P 500 options volume has had less than 24 hours to maturity

% of S&P 500 listed volume expiring within 24 hours, by expiration type



Sources: Goldman Sachs Global Investment Research; OptionMetrics

© FT

So why are we flogging this pony so hard? In part because we don't run strategies that particularly benefit when the doors to price discovery open to anyone who wants to day trade a stock with a four-letter NASDAQ symbol. More to the point, we have seen some dismal upside capture since mid-May. While it won't last forever, being on the conservative sidelines right now as the great Covid 2020 party rages has been challenging. But here is where the cautionary disclosure comes in, all is well and good until somebody starts taking losses, at which point prices have a tendency to collapse onto themselves. During the original dot.com bust that equated to an 80% loss.

The Internet Bubble 1.0

The Rise and Fall

The Nasdaq Composite Index, daily close



One last piece of evidence that we might be jumping the shark here, is that my son and his friends, who are all of the 18 to 20-year-old age bracket, all have discount brokerage accounts now and compare holdings and returns on a daily, if not hourly basis. While they aren't wrong for doing it, just know that ratings for Happy Days crashed after the Fonz got one over the Landlord.

Jumping Sharks



What's Working

Enough about why it's working, let's focus now on what it is that's working. First off, is the 'stay at home' basket of an original list of which was produced by MKM Partners back in February. The challenge for these, and all the other thematic ideas, is what happens when we get closer to a Corona-19 cure. Will offices and malls be dead forever? The latter is for sure.

The Popular Kids

“Stay at Home” Basket of Stocks

Ticker	Name	Sector	Industry
ATVI	ACTIVISION BLIZZARD INC	Communication Services	Entertainment
NFLX	NETFLIX INC	Communication Services	Entertainment
TME	TENCENT MUSIC ENTERTAINM-ADR	Communication Services	Entertainment
ZNGA	ZYNGA INC - CL A	Communication Services	Entertainment
FB	FACEBOOK INC-CLASS A	Communication Services	Interactive Media & Services
MTCH	MATCH GROUP INC	Communication Services	Interactive Media & Services
YELP	YELP INC	Communication Services	Interactive Media & Services
Z	ZILLOW GROUP INC - C	Communication Services	Interactive Media & Services
NXST	NEXSTAR MEDIA GROUP INC-CL A	Communication Services	Media
NYT	NEW YORK TIMES CO-A	Communication Services	Media
SIRI	SIRIUS XM HOLDINGS INC	Communication Services	Media
WIFI	BOINGO WIRELESS INC	Communication Services	Wireless Telecommunication Ser
PRPL	PURPLE INNOVATION INC	Consumer Discretionary	Household Durables
SONO	SONOS INC	Consumer Discretionary	Household Durables
AMZN	AMAZON.COM INC	Consumer Discretionary	Internet & Direct Marketing Re
APRN	BLUE APRON HOLDINGS INC-A	Consumer Discretionary	Internet & Direct Marketing Re
BABA	ALIBABA GROUP HOLDING-SP ADR	Consumer Discretionary	Internet & Direct Marketing Re
EBAY	EBAY INC	Consumer Discretionary	Internet & Direct Marketing Re
GRUB	GRUBHUB INC	Consumer Discretionary	Internet & Direct Marketing Re
JD	JD.COM INC-ADR	Consumer Discretionary	Internet & Direct Marketing Re
SSTK	SHUTTERSTOCK INC	Consumer Discretionary	Internet & Direct Marketing Re
PTON	PELOTON INTERACTIVE INC-A	Consumer Discretionary	Leisure Products
RGR	STURM RUGER & CO INC	Consumer Discretionary	Leisure Products
CPB	CAMPBELL SOUP CO	Consumer Staples	Food Products
CENT	CENTRAL GARDEN & PET CO	Consumer Staples	Household Products
CLX	CLOROX COMPANY	Consumer Staples	Household Products
OKTA	OKTA INC	Information Technology	IT Services
ALRM	ALARM.COM HOLDINGS INC	Information Technology	Software
CTXS	CITRIX SYSTEMS INC	Information Technology	Software
TEAM	ATLASSIAN CORP PLC-CLASS A	Information Technology	Software
WORK	SLACK TECHNOLOGIES INC- CL A	Information Technology	Software
ZM	ZOOM VIDEO COMMUNICATIONS-A	Information Technology	Software
DEAC	DIAMOND EAGLE ACQUISIT-CL A	SPAC	

Another area that has been white hot as of late, are the shares of cloud-based technology companies, and the ETFs built to take advantage of the trend. For the Wall Street wonk/junkie in all of us, here is a link to a [deeper dive piece](#) published on ETF.com that not only reviews the products taking in real money, namely First Trust’s cloud computing SKYY, with over \$2 billion in AUM.

The Cloud v. S&P 500



The article also lays out the criteria used by one of the best performing products, the one shown above, the Global X Cloud Computing – CLOU.

CLOU holds companies that generate 50% or more of their revenues from one of five business models, including those that:

- License and deliver software through online subscriptions, known as software as a service (SaaS)
- Provide a platform for creating online software apps, known as platform as a service (PaaS)
- Provide online, virtual computing infrastructure, known as infrastructure as a service (IaaS)
- Own and manage data and server storage facilities, including data center REITs
- Manufacture or distribute infrastructure and hardware components used in cloud and edge computing

To be clear, Wall Street is a product producing and selling machine. The criteria laid out above would take about two people with some portfolio management background and decent access to screen quantitatively about 48-hours to come up with. Slap that on a powerhouse distribution platform like First Trust, and suddenly the sponsor firm is drinking from the firehose, or as a colleague of mine once said, swimming in a river of ETF nickels.

The Buffalo Nickel



The Education State

As we enter the late stages of summer, and are theoretically only a month of away from back to school, emotions are running high as schools and governments try to formulate plans to get students back into the classrooms. For those with the mental wherewithal, here is a link to the [current CDC guidelines](#) for back to school planning.

The Future?

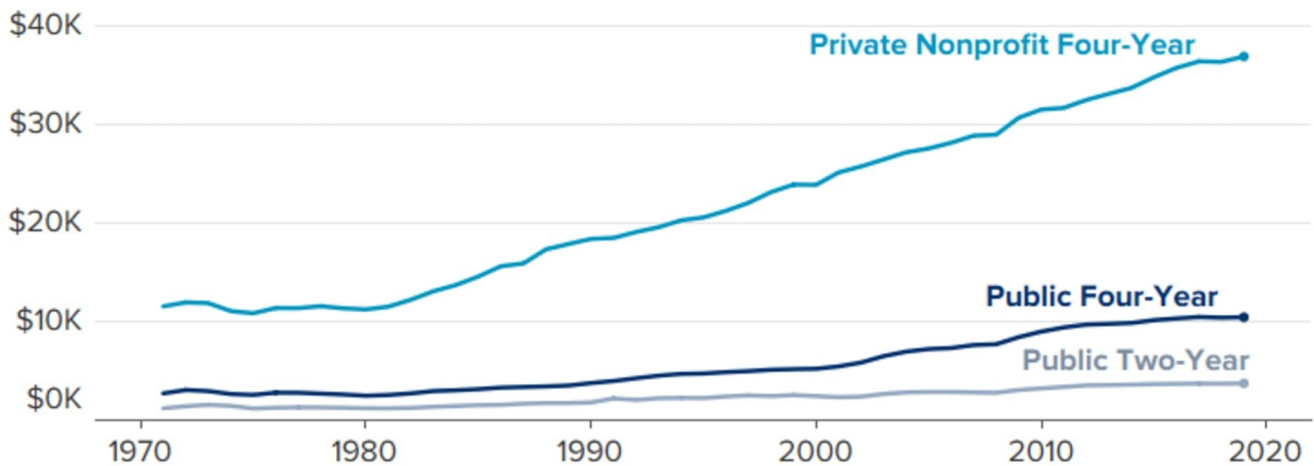


In terms of what major colleges are planning, Business Insider does the heavy work of compiling what 25 top institutions are looking at this fall and provides a running update as things change. This is hugely important, as the bailout, or deferral rate, appears to be rising rapidly from parents and students who are having trouble reconciling tuition to what looks to be amounting to coursework provided only online. And if that isn't enough to get you thinking about a not so pleasant future, CNBC reports that 56% of students say they can no longer afford tuition.

Inflation in the Wrong Place

Rising college costs

Average tuition and fees, adjusted for inflation (data in 2019 dollars)



SOURCE: The College Board, Trends in College 2019 report



There is little doubt that getting students back in their seats safely is paramount, but the issue is far from one dimensional. On top of the educational component, there is a huge risk of negative emotional and psychological impact from distancing and a lack of social interaction. Taking it a step further, primary education provides the best babysitting money can buy, which in most cases is free money. Think about the impact of not being able to send Johnny and Susie to six hours to eight hours of monitored supervision is going to have on a middle-income family? Enter the 'learning pod'.

The New Classroom



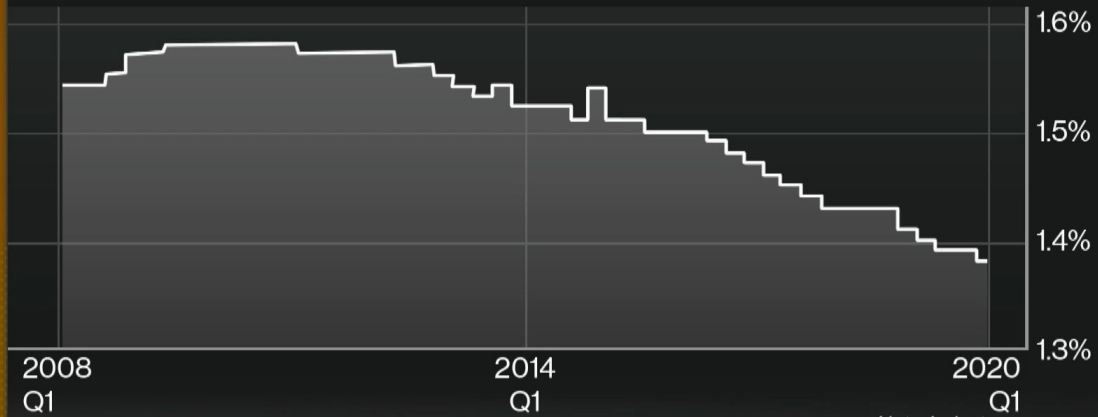
Hedge Funds

Following an unpleasant trend for the industry, the world's largest hedge fund, Bridgewater Associates, is cutting headcount on both the operational and investment level. This is on the back of an otherwise challenging year for the firm, which is seeing losses north of 10% after a 20% first quarter drawdown. Assets under management are also on a downward trend, though some longtime investors are coming back in for the reversion to mean trade. All of which dovetails into what Bloomberg wrote on Monday, that the headwinds of lower management and performance fees continue unabated. That said, most active long only managers would take something north of 1% and run to the bank with it.

Feefalling

HEDGE FUND FEES AT ALL-TIME LOWS

MANAGEMENT FEES



Note: Industry averages
Source: HFR

Real Estate Reality

Having just completed a run through Wyoming, Idaho, Utah, and Montana, we can report with real boots on the ground knowledge that the Mountain West skit town real estate markets are on fire. Both Jackson Hole and Sun Valley had zoo like market conditions that even the locals said was well beyond normal. Properties in Montana are going sight unseen, as there is a scramble to get out of the metropolitan areas. With that, we give you what \$2 million will buy you in a desirable area of each state.

Sun Valley, Idaho

Three days on the market, and this 2,400 square foot, 3 bedroom, 3 bath, streamside property is now under contract for somewhere around the \$2.2 million asking price. Backup offers always welcome.



Jackson Hole, Wyoming

A similarly situated home in Jackson will run you slightly more, but that is to be expected as the state offers an appealing zero percent income tax. For this home listed at \$2.5 million you get 500 extra feet with the same three bedroom, three bath configuration.



Park City, Utah

If you are looking to seriously stretch your mountain town dollar, head to Park City where for the same money as Jackson and Sun Valley you can square yourself away with twice the square footage and bedrooms. Case in point is this 7,000 square foot 5 bedroom, 5 bathroom home set against the Wasatch Range.



Bozeman, Montana

And now for something completely different. For \$2.1 million you can be the owner of this 1897 classic Queen Ann Victorian named after brew master Julius Lehrkind. While the style of architecture is an acquired taste, you get 6,000 feet of living space in a downtown location.



The Barbecue Guide

The writing staff at the Wall Street Journal once again did the work for us when they published their BBQ: Ultimate Guide, barbecue A - Z over the weekend. Subscription required, but it's well worth it.

WSJ's Ode to Q



For us, the highlight was the Aaron Franklin crafted offset smoker with the brisket masters signature cut from the metal. The list price for this piece of New Braunfels art is \$3,000, a

full 10x premium to that which you would find at your local Home Depot for a similar, yet vastly lesser quality, version.

The Master's Smoking Vessel



In case you have missed it on the Instagram, Facebook, or pop-up ads on your most visited website, purveyors and distributors of online meats are hitting their bull market stride right now. Business Insider [reviews the top sites](#), and how they differentiate themselves in a seemingly saturated market.

The SRF Tomahawk Chop



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