BROKERAGESELECT NEWSLETTER

Taxes

Much is discussed about asset allocation but asset location is important too. Assets that generate short-term capital gains and interest income, which are taxed at ordinary rates should be kept in tax-deferred accounts. Assets that generate long-term or favorably taxed income should be held in regular accounts.

Gardening

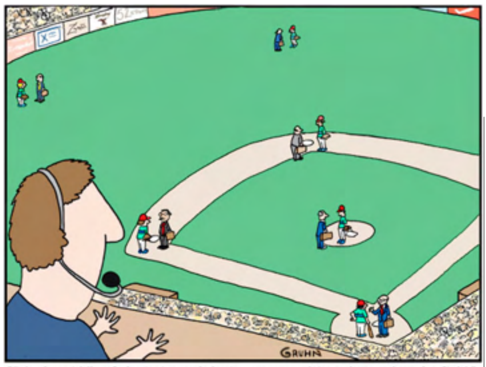
Summer is well underway and so are mid-season flowers. In the FT garden section, Robin Lane Fox suggested a pairing of pink roses and Blue Cloud geraniums. The two make colorful companions. For self-seeding plants, look to blue and white campanulas for perennial enjoyment.

Travel

Travel is getting busy. Two friends recently went to France and Italy, respectively and while both were busy, the absence of Americans made summer travel far less crowded.

Perspectives

The market seems to have no memory from one day to the next. On Thursday, July 8 stocks dropped on fears of the Delta COVID variant only to rally on Friday. The stock market has a lot to digest - COVID variants, political deadlock in Washington, higher commodity prices, Fed tightening and second quarter earnings about to be released. Markets always have a lot to worry about. However, it is one thing when stocks are trading at low multiples and another when the market is trading where it is now at 26 times earnings. At lofty multiples there is not a lot of cushion and prices are vulnerable to sharp sell-offs. No one wants to be be stuck "holding the bag." Some of this quick-to-sell attitude is justified but some of it I would suggest is the result of the residual effects of the 2008 financial crisis, amplified by cable TV. A large down day is described as if it is undeniably the start of a deep bear market. Despite all the recent worry, stocks are making new all-time highs. With new highs, it's hard to see an end for this bull market. Market action is often a strong tell. The news was flooded with reports of run-away inflation and the inevitability of Fed action to raise rates. The bond market ignored all of that. Rates actually FELL, with the 10-year Treasury going to 1.25% and the 30-year T-bond below 2%. Does "Mr. Market" know best and inflation is really not a problem? We'll see. Similarly, with stocks hitting new highs, is Mr. Market telling us that 2nd quarter earnings will be good and that the economy is in the midst of a strong recovery? According to FactSet, Q2 S&P500 earnings are estimated to grow 64% from a year ago (the large comparison is due to last year's COVID shut downs). This is the largest growth estimate in more than a decade. Expectations have been increasing. So far, 37 companies in the index have issued negative guidance while 66 have increased guidance, the highest number since FactSet began tracking in 2006. If you are watching oil and gasoline prices, it is not surprising that the energy sector has seen the largest increase in earnings estimates. The biggest market cap stocks, Apple and Microsoft have both had positive earnings



"It's the middle of the inning and the investment advisors have taken the field."

Something Else

Happy 245th Birthday, America!

Some little known facts:

Independence was actually declared on July 2nd

Not all signed the Declaration at the same time. Matthew Thorton was the last to sign on November 4, 1776.

During WW2, the Declaration and Constitution were taken to Ft. Knox for safekeeping.

Benjamin Franklin signed both the Declaration and the Constitution.

Nine signers did not live to see independence won. Button Gwinnett died in a duel .

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revisions. If the two beat estimates it will certainly help to keep the bull market going.

Out Of The Box

The moves in the 10-year US Treasury rate have been fascinating. At the end of March, as vaccinations were underway and there was talk of a broad infrastructure program, rates moved up to 1.77%. The conventional wisdom held that a re-opening economy, accompanied by inflationary pressures would move rates towards 3%. Last week the 10-year rate went the opposite direction, hitting 1.25% and closed the week around 1.35%. Treasury bonds which are considered to be "safe money" have been rather volatile. From December 31, 2020 to the low on March 18, 2021 the exchange-traded fund, TLT which represents the 20+ Treasury bond fell 15% in value. As rates fell from the March highs the TLT has rallied almost 10%. What can we infer from such price movements? Bonds rally (and rates decline), generally, as investors seek safety and/or when investors expect the economy to slow. Conversely, bond prices fall when investors believe the economy will be strong and/or there is an expectation of inflation. While there is always a difference of opinion which motivates buyers and sellers to make markets, recent price moves in the bond market that are sharp and reverse in such short time frames makes one question what is going on. Is it possible that traditional messages that are sent from the markets are being distorted? Perhaps the ubiquitous use of computerized and algorithmic trading moves prices regardless of any fundamental view of the economy. Programs move prices to an extreme only to snap them back to the other side of the boat. If this is true, then it is difficult to trust the bond market as a signaling mechanism for the future path of the economy. One might make a case that in addition to computers, active central banks are creating similar conditions. If central banks massively buy to accomplish policy goals, it may not be the markets signaling but rather the central bankers. Complicating matters further is a bond market that is at extremely low rates. In some parts of the world rates are still negative. Like the stock market at high multiples, bond markets at very low rates are volatile.
