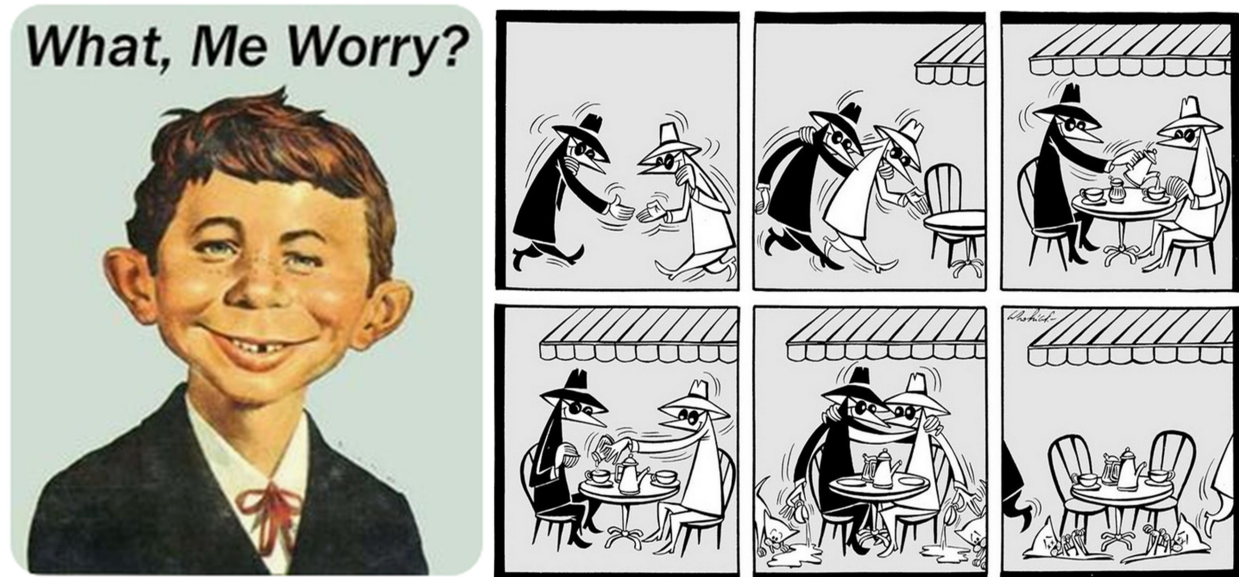


Market Watch with RMH – What, Me Worry?

Back in the day, this was a fun piece to read, Mad Magazine. I was young (reading at the local pharmacy while we were at the cottage for the summer, as I could not afford to buy) didn't understand half of the humour; some would say that is still the case! Looks like the Spy vs. Spy strip could be used for a lot of scenarios in the U.S./World today.



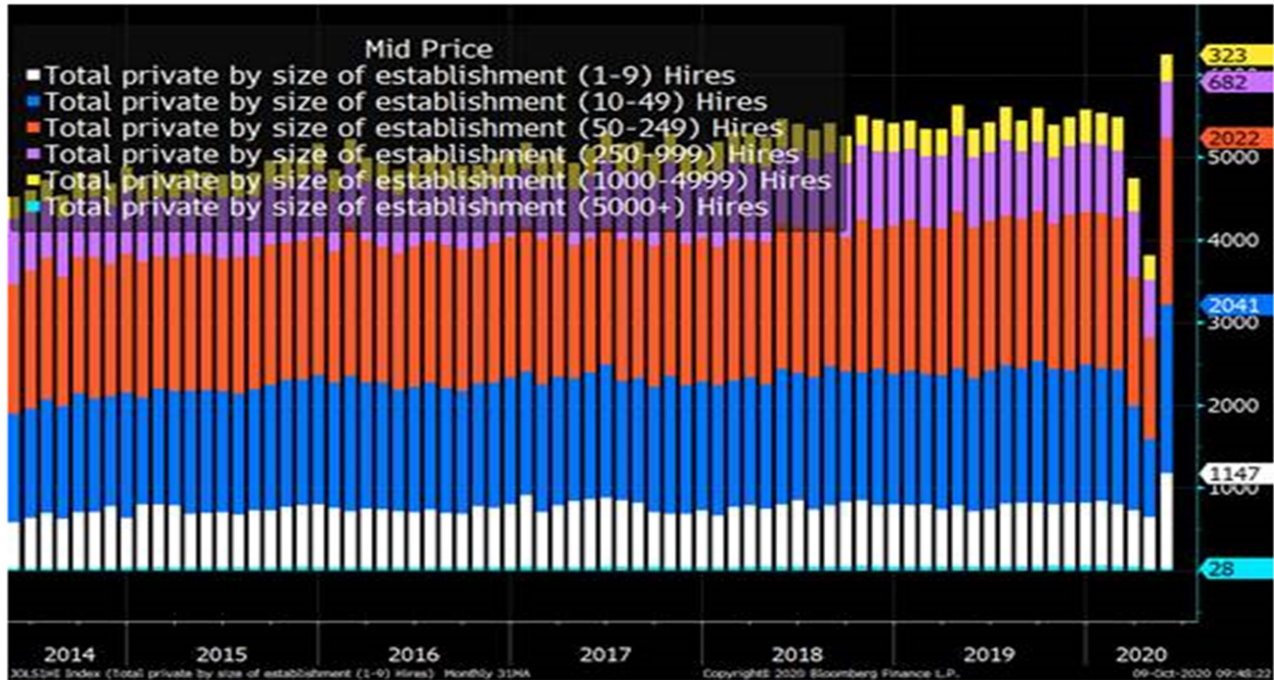
As an aside, the artist who drew the Spy vs. Spy comic strip walked into the Mad Magazine office with his daughter as a translator. He was a refugee from Cuba, showed them his portfolio of work, was unexpectedly hired on the spot and for the next 27 years, drew!

A very interesting thing is happening across the United States (U.S.). From an article in the Wall Street Journal dated September 26, 2020: **Is It Insane to Start a Business During Coronavirus? Millions of Americans Don't Think So.** Americans are starting new businesses at the fastest rate in more than a decade, according to government data, seizing on pent-up demand and new opportunities after the pandemic shut down and reshaped the economy. Applications for the employer identification numbers that entrepreneurs need to start a business have passed 3.2 million so far this year, compared with 2.7 million at the same point in 2019, according to the U.S. Census Bureau. That group includes gig-economy workers and other independent contractors who may have struck out on their own after being laid off.

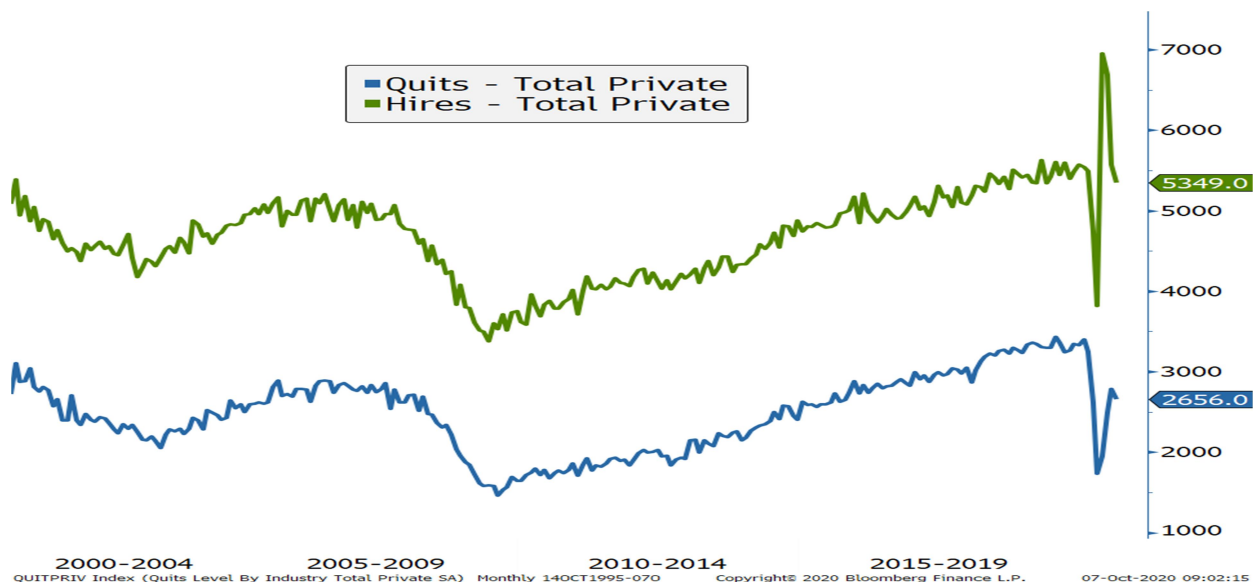
Even excluding those applicants, new filings among a subset of business owners who tend to employ other workers reached 1.1 million through mid-September, a 12% increase over the same period last year and the most since 2007, the data show.

"This pandemic is actually inducing a surge in employer business startups that takes us back to the days before the decline in the Great Recession," said John Haltiwanger, an economist at the University of Maryland who studies the data.

In looking at the chart below from Bloomberg, we are seeing this surge in startups of new businesses. To me this is exciting, particularly as a small business owner. The large firms will get the headlines with hires/layoffs; however the small businesses in our country will be the ones that make the difference in the coming quarters.



The chart below took me a while to figure out and was provided by Samuel Rines of Avalon Advisory, October 7, 2020: JOLT'ing the Labor Market. The blue line showing **Total Quits** is the dynamic indicator of the two in my opinion. At first glance this seems contrary, however in general, people only quit their jobs if they feel comfortable with the labor market and their prospects in switching jobs.



All of this ties in with the 1940's economist Joseph Schumpeter who popularized the term "creative destruction" to describe how new and innovative businesses often displace older less efficient ones creating long term economic growth. Just a few examples, where did Apple come from (Steve Jobs sold his Volkswagen bus and Steve Wozniak sold his calculator and they started in the Jobs family garage). How about Amazon, Jeff Bezos wanted an ONLINE bookstore and was funded by family (\$300k). More recently, Ileana Valdez (age 21, computer science senior at Yale) as a joke made a post in Facebook, and then created a functioning dating website for college students that now has 20,000 users, six employees and a mobile app. Then there is Ian Oestreich, a bike mechanic who realized with Zoom (structured times for meetings), that he could open a "moving" bike repair by advertising on social media where he was going to be. In the past people (the author) would utilize the weekends to take their bike in for repair.

In conclusion keep supporting your local small businesses, and keep encouraging firms to grow and innovate. Covid is an accelerant as we have mentioned before.

Joe Zidle and Jasvinder Khaira from Blackstone had an interesting October, 2020 article titled, **Navigating Growth and Technology Post-Covid:**

"Finding new opportunities in this disconnected market will be critically important. The tech sector is well regarded for its growth, but investors must be mindful of the concentration risk at the top. Leadership in the S&P 500® is even narrower today than at the peak of the tech bubble in 1999/2000. The top five market weights in the S&P 500 comprised 18% of the index at the end of 1Q'20, compared to a record-high 24% today.²

Facebook, Apple, Amazon, Netflix, Google and Microsoft (FAANGM) benefit from faster revenue and profits growth and a combined profit margin 50% greater than the S&P 500. But this year excess liquidity, and perhaps a lack of opportunities in other sectors, pushed valuations of these stocks to a record 40x next 12 months' earnings.³ The probability of these companies monetizing future innovations is high. Growth, though, often follows a varied path. Investors shouldn't get carried away by exponential growth. Rather, they should recognize the importance of the S-curve.

Exponential growth is temporary. Rapid increases are followed by inevitable slowdowns, whether it be in corporate profits, investment returns or technological innovations. The most common variety of growth follows an S-shaped pattern: from a very low rate of growth to a peak and back to a low rate as the growth process matures.⁴ Investing along the growth curve when it transitions from low to exponential growth offers the possibility of open-ended earnings potential compared to investing at the other stages of the growth curve where rates reflect cyclical or logistic growth.

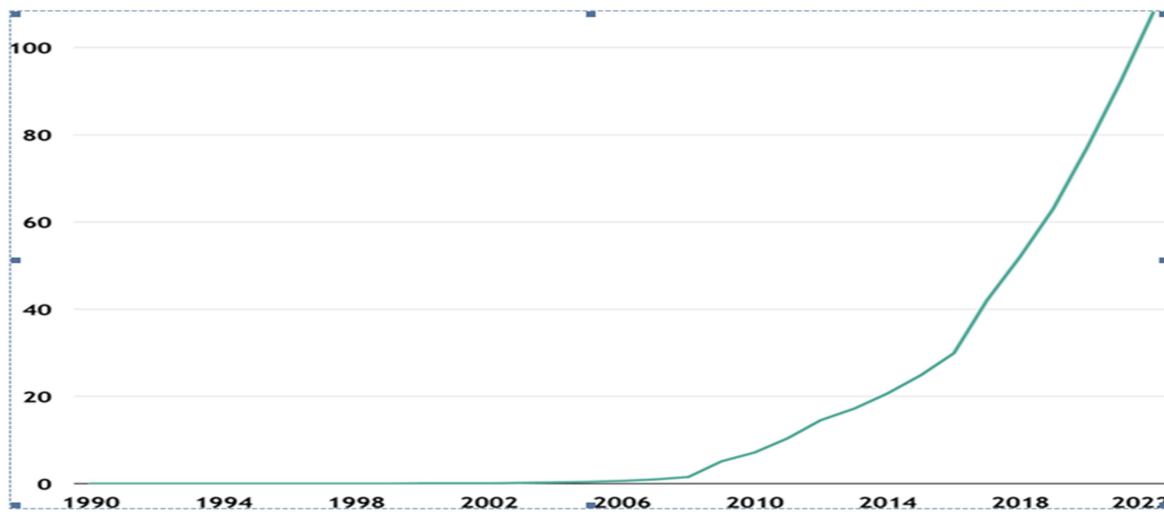
That being understood, technology will continue to innovate, disrupt the status quo and present opportunities for investors..."

What new trends will be up and coming?

One new trend is in the field of education, particularly higher education. The CFA Institute was exploring computer based testing (CBT) as the logistics of moving 400,000 paper exams worldwide is daunting, not to mention the security of the intellectual property for an exam scheduled the same day worldwide. Now with the last exam in June of 2020 cancelled due to covid, CBT will be accelerated.

This trend will continue wherever there are exams being written. Universities/high schools, to name but two, must adapt or face the negative consequences. After all, tax revenue flows to where students are registered.

Figure 3: Global Internet Traffic Volumes
(1984-2020, billions of gigabytes/month)



Source: Cisco, as of 3/9/20.

A second new trend is the acceptance of using the internet for a number of critical functions going forward. The public “cloud” is a computing evolution and is creating economic values and is rapidly turning into a utility. Companies that utilize the cloud include some of the following, and this is just the tip of the iceberg: MSFT AMZN, FB, AAPL in the U.S. While in China, Alibaba, Tencent, Baidu.

Third, data centers are where the cloud lives. Over 5,000 data centers at present support both the public and private clouds. While the U.S. is presently the center of information infrastructure today, emerging market countries and some smaller developed countries will see dramatic growth. **The problem with all of the data centers worldwide is that they are terrific consumers of energy to cool the heat from the servers.** One of the big data centers will consume as much power as 40,000 houses in the U.S. Witness Google’s experiment to put a server farm (data center) on the bottom of the North Sea, and pump it full of nitrogen. Water temperature at the bottom of the North Sea is in the high 30’s – low 40’s Fahrenheit, a good cooling mechanism, allowing less electrical usage for cooling. Server failure is significantly less than on land!

Fourth, the Internet of Things is the collision of above mentioned new trends and the demand for real time data (**5G**). While much of the press concentrates on driverless cars or virtual reality, **5G** is also the connection to smart manufacturing, or warehouse automation for example. Why sell a sensor to collect data, **when you can sell software and receive recurring services to customers and increase profitability.**

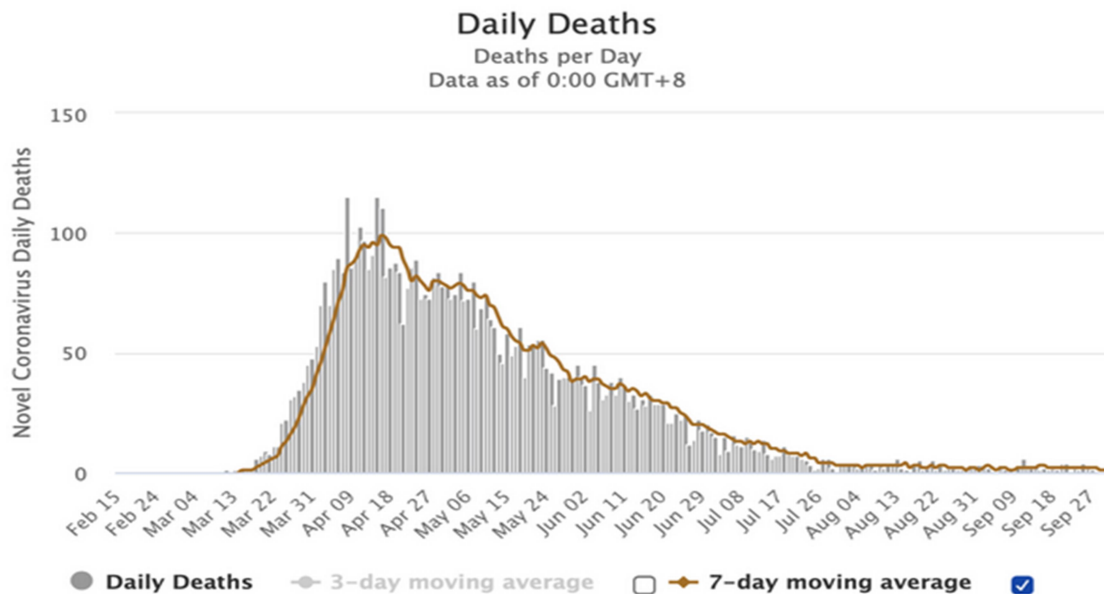
Fifth, fiber to the home to increase internet speeds. Covid accelerated the shift towards broadband usage at home. Zoom calls, potentially school/university, gaming, new business startups are just a few examples. In 2020, cable companies for the first time received the majority of their revenues from broadband internet versus video. Where we live, Cox will be utilized for broadband, as I hear from friends, home telephone numbers and cable TV are getting dropped and the corresponding internet services being picked up.

What trends will we be looking for in the near future that will turn out to be permanent, an interesting time to say the least?

What would an RMH Market Watch be without a chart regarding Covid? Sweden seems to be the All-Star. They made a quick decision to leave the economy open, creating dramatically less havoc with businesses, the economy stayed reasonably stronger, more people employed, less financial destruction, lower stress, suicides, medical wellness not postponed, etc.. As a result the worst of Covid is well behind them. We, the rest of the world will be following along soon.

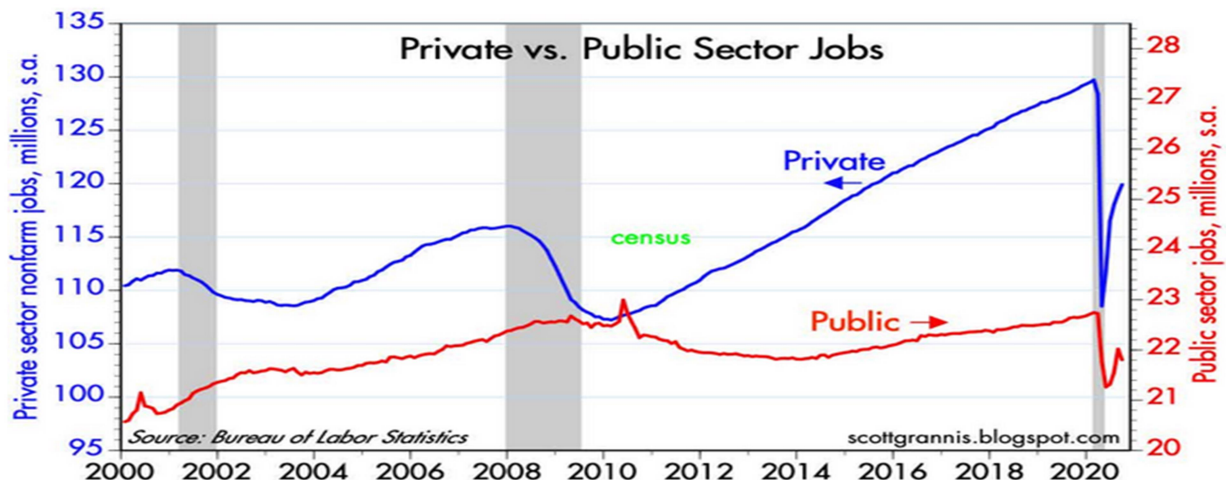
Daily New Deaths in Sweden

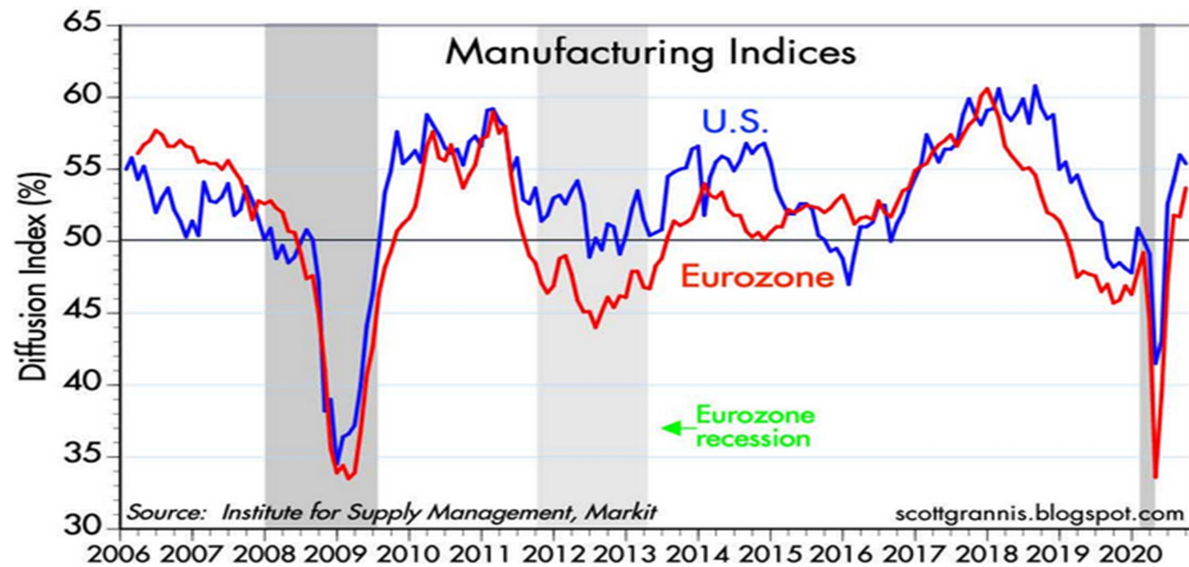
Click to enlarge



As Sir Winston Churchill once observed, “America will always do the right thing, after they have tried everything else”. This certainly applies to how the US and the EU have treated Covid. A complete disadvantage compared to China where they could and did lockdown cities, people, businesses (I hope we never find out the difference), thereby squashing Covid at a cost.

A few charts from the Calafia Beach Pundit, (one of my favorite reads in Seeking Alpha) Oct 3, 2020.





While we had a terrible March through June of 2020, the economy is starting to revive nicely. In addition I was reading there are \$2Trillion dollars on corporation balance sheets waiting to be deployed once the future becomes clearer.

Some humour, as I believe we all need some!

PARAPROSDOKIANS

Winston Churchill loved them. They are figures of speech in which the latter part of a sentence or phrase is surprising or unexpected, and frequently humorous.

1. Where there's a will, I want to be in it.
2. The last thing I want to do is hurt you, but it is still on my list.
3. Since light travels faster than sound, some people appear bright until you hear them speak.
4. If I agreed with you, we'd both be wrong.
5. We never really grow up, we only learn how to act in public.
6. War does not determine who is right - only who is left.
7. Knowledge is knowing a tomato is a fruit. Wisdom is not putting it in a fruit salad.

8. They begin the evening news with 'Good Evening,' then proceed to tell you why it isn't.
9. To steal ideas from one person is plagiarism. To steal from many is research.
10. Buses stop in bus stations. Trains stop in train stations. On my desk is a work station.
11. I thought I wanted a career. Turns out I just wanted paychecks.
12. In filling out an application, where it says, 'In case of emergency, notify:' I put 'DOCTOR.'
13. I didn't say it was your fault, I said I was blaming you.
14. Women will never be equal to men until they can walk down the street with a bald head and a beer gut, and still think they are sexy.
15. Behind every successful man is his woman. Behind the fall of a successful man is usually another woman.
16. A clear conscience is the sign of a fuzzy memory.
17. You do not need a parachute to skydive. You only need a parachute to skydive twice.
18. Money can't buy happiness, but it sure makes misery easier to live with.
19. I used to be indecisive. Now I'm not so sure.
20. You're never too old to learn something stupid.
21. Nostalgia isn't what it used to be.
22. Change is inevitable, except from a vending machine.
23. Going to church doesn't make you a Christian any more than standing in a garage makes you a car.
24. Where there's a will, there are relatives.
25. I'm supposed to respect my elders, but it's getting harder and harder for me to find one now.

What steps are we Taking at RMH?

- We are looking at the portfolios and rebalancing where necessary.
- We are taking advantage of tax loss selling to lower future capital gains.
- We are looking at what insiders are doing with some of the stocks we have purchased.
- We are talking with portfolio managers on a one to one basis and participating in conference calls.

If there are ever any topics you wish us to explore, please let us know. ***We are here to help and guide you through these times.***

We thank you all for taking the time and reading "Market Watch." It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us.

On a personal note, RMH is now in the position to bring on new clients so please be sure to share this informational letter with whomever you wish. RMH's focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires

Richard Munding, CFA

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