Wenzel
Analytics
Inc

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Clients,

As I age I spend more time reviewing the past, particularly my past. In 1966 as a seminarian I attended a lecture at the Garrett chapel on the Northwestern campus given by Harvey Cox, author of the provocative and controversial book God is Dead. If God is dead, does that leave a big hole is what preachers have to talk about? If he is dead does that mean he was alive, and if so, in what sense? Everything that is alive eventually dies, or does God not change? The whole debate exposed and undermined a set of foundational institutionalized beliefs around an anthropomorphic God.

The investment world has a foundational institutionalized set of beliefs around valuation, meaning that stock prices are related to company earnings. However, it is difficult to connect current prices to past or projected earnings. A statistical analysis will show that often to be the case. Changes in earnings are often more predictive than the level of earnings, but even that has lost its bearing. The current market appears more dependent upon fiscal and monetary infusions and a considerable amount of denial regarding economic realities often aided by political ideology. The function of the market as a stock pricing mechanism has become distorted from traditional institutionalized beliefs. Will stock valuations come down to earth and correspond to earnings or will they continue to be buoyed by ample money supply? What if anything from the past has relevance? It is a time for overarching strategy along with tactical decisions.

For a more detailed but yet understandable and succinct economic analysis, look here:
https://www.lynalden.com/june-2020-newsletter/

Given the uncertainty, our allocation to cash is greater than at any other time in my eighteen years of managing other people's money (OPM), as is the allocation to preferred stocks. Preferred stocks are like bonds in that we are relying on the contracted dividend proceeds rather than price fluctuations. If we don't sell and the company doesn't go broke, we collect the dividend rate based on $25 plus an eventual $25 per share when called. In the meantime, price is immaterial.

As for stocks, I've been mostly selling those that correlate closely to the overall market as I see them as most vulnerable to a general market decline. It is not the time for passive indexed funds or correlates. The stocks still held are mostly those that have shown dramatic gains over the last month or so, some having dramatically declined from the February high and some immune to the March collapse. The latter are mostly large companies related to data services. All of these are on a short leash, meaning that I watch them closely with the hope of selling before a severe gap down.

So the plan for now is to be heavy in cash, continue to hold the preferred high-income stocks, and closely watch the remaining momentum stocks. I welcome your perspectives.

Lee

An alternative to mutual funds.

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