# ACM QUARTERLY MARKET COMMENTARY

## *SECOND QUARTER 2020*

### Capital Markets

Never underestimate the power of ten trillion dollars in worldwide economic stimulus. That is the lesson of the second quarter, a quarter in which global stock markets and other risk assets rebounded in impressive fashion and retraced a majority of their first quarter waterfall decline. Global stocks, as measured by the MSCI All-County World Index (ACWI), gained nearly 19% last quarter on the heels of the first-quarter loss of 21%. With the additional gains so far this month, global stocks are now down less than 1% on the year. The rebound in the U.S. has been particularly robust. The S&P 500 has nearly eclipsed its February high and is on solid ground with a year to date return of about 2%. One of the fascinating characteristics of the market during the past six months is that leadership never changed. Sharp corrections often discriminate against long-time market leaders, and rebounds typically favor the parts of the market most hurt in the preceding decline. However, in the see-saw battles of U.S. vs. world, growth vs. value, large vs. small, there have been no leadership changes this year. U.S. stocks fell less than global markets in the first quarter and have risen more off the bottom. Similarly, growth stocks held up better than value stocks on the way down but have also continued dominate on the way back up. The 13% return of large U.S. growth stocks this year is a real outlier compared to the losses in value stocks, small-cap stocks, international stocks, and emerging market stocks.

### Growth Stock Bubble

With their recent surge, one can start to make the case that U.S. growth stocks are in a bubble. The action in many ways looks like a repeat of their rise in the late 1990s, which was followed by a historic collapse in 2000-2002. In terms of relative valuations and disparate outperformance over multi-year time frames, the euphoria surrounding large U.S. growth stocks is only eclipsed by the very latest stages of that bubble two decades ago. Today we are seeing the same concentration of market gains in just a handful of top-performing stocks. Then it was big names like Microsoft, Dell, Cisco, Intel, AOL, Yahoo!, and Amazon accompanied by moonshots in long-gone names like Lucent, Worldcom, Global Crossing, Pets.com, and Webvan. Today, the list again includes Microsoft and Amazon but also includes Apple, Facebook, Alphabet (Google), and highfliers like Netflix and Tesla. These stocks dominate the financial media. Investors brag of buying these stocks at much lower prices. Meanwhile, new, inexperienced investors are being drawn into the market seeking quick profits.

### Being Right or Making Money

There is a square-shaped book in our investment library by Ned Davis entitled Being Right or Making Money published in 2000 and long out of print. The title is a question about which is better, and the answer is obvious – making money! The title is a non sequitur, of sorts, because “being right” is best measured by the money you make. It is one thing to have your “this will end badly” predictions vindicated by an eventual collapse. A far better thing is to share in the gains on the way up while avoiding larger losses on the way down. Through pages of charts and tables, the book provides a framework to do just that by combining both fundamental and technical analysis.

Ackerman Capital Management similarly approaches the markets by combining our independent data assessments of relative valuations with measures of relative price trends. By placing more emphasis on the latter with regard to tactical stock market positioning, our models are well designed to navigate market bubbles. Yes, large U.S. growth stocks are over-extended and quite expensive, in our opinion, but they continue to outperform. Even so, because markets are, in part, driven by emotions, there is nothing to stop them from becoming even more expensive. Knowing this, we continue to emphasize large U.S. growth stocks across our portfolios.

## Looking Back

As we look back to the market collapse in the first quarter, from a portfolio management perspective, we did a good job not getting caught up in the hysteria and not letting our clients do the same. We added stock market exposure after some of the largest price drops to keep our allocation in line with policy targets. In taxable accounts, we harvested a large number of losses that will make future gains more tax-efficient. We were correct in our belief one month out that the March 23rd low was the “bottom”. Generally speaking, our portfolios were neutral to modestly overweight stocks during most of the second quarter. We expected a more uneven advance but were just as content to watch allocations drift higher in the nearly uninterrupted price recovery.

## Looking Forward

Stepping back to the larger investment picture and economic outlook, we are cautiously optimistic. There are some familiar aspects to the current situation, but the interplay between the pandemic, containment efforts, the global economy, fiscal stimulus, and quantitative easing is without precedent. As a firm, we have greater concern than most about the pandemic’s negative, long-lasting effects on the economy. At the same time, we are strong believers in the market adage made famous by the late Marty Zweig to not “fight the Fed”. The fiscal stimulus has been generous and swift, and the Federal Reserve was quick to shift their quantitative easing into a new, fifth gear. All major G7 countries are following suit. Therefore, we lean bullish, especially if the market were to stumble a bit. Regardless of this outlook, we rely on our relative valuation and price trend framework to drive our stock/bond allocations. From a valuation perspective, this analysis favors stocks over paltry fixed-income yields, but the relative price trend picture is mixed. The stock market rebound has been strong but narrow, as only U.S. growth stocks have really shined. Meanwhile, the stock/bond chart is still well off its highs from early 2018 and this past January. We will take it month by month and follow the market’s lead.

COMMENTARY DISCLOSURES

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***A financial partner in navigating the complexities and unique opportunities that come with significant wealth.***

**SEC-regulated Registered Investment Adviser (RIA).** Ackerman Capital Management is s SEC-regulated Registered Investment Advisory (RIA) firm with $450+ million in assets under management (AUM). In contrast, RIAs with less than $100 million are regulated at the state level.

**Experience & Expertise.** In 1969, our firm opened its doors and launched the first hedge fund in Dallas, Texas. Over five decades, academic research and new technology have fueled our investing innovation and fiduciary services from generation to generation.

**Independent, Fiduciary Advice.** All RIAs are accountable to a "fiduciary" standard. This standard requires that a client's financial interest is placed ahead of their own when providing advice. An "Independent" RIA should be free from bias towards in-house products or fee arrangements.

**Co-invested Accountability.** We operate at the highest level of client performance accountability - investing alongside our clients. We prefer to "eat our own cooking" by using the same research, same trading decisions, and the same strategies to manage client wealth as we do our own.