Margin of Safety Investing

by Kirk Spano

Launch chat

Kirk Spano

Quarterly Outlook & Game Plan (April 2020): Coronavirus COVID-19 Impact On The Economy And Investing

Apr. 14, 2020 2:11 AM ET | **American Tower Corporation (AMT)**, **ARKK**, **EPR**, **EPR.PC**, **EPR.PE**, **EPR.PG**, **GDX**, **QQQ**, **SOXX**, **STAG**, **STOR**, **TAN**, **VDADX**, **VGSIX**, **VGSLX**, **VGSNX**, **VICI** | CMBS, GS, GS.PA... | 5 Comments

Summary

- Structural slow growth was met by a cyclical slowdown and then whacked by the biggest economic shock in modern history.
- There are more economic shoes to drop and a second wave of Coronavirus is the most dangerous risk.
- Helicopter money came early as it was necessary to fend off a collapse.
- I suspect the helicopter money will propel a high growth period in the early to middle 2020s.
- Stocks are overvalued and investors are over zealous, there is likely at least one more leg down to buy on.

March 2020 is what happens when secular trends creating long-term slow growth, meet a cyclical economic slowdown and are then slammed by a severe economic shock. Stock markets crash quickly, unemployment rises dramatically, corporations are threatened with bankruptcy and the financial system teeters at the edge of collapse.

The story unfolding today, is not one of only Coronavirus COVID-19, but of a structurally challenged economy and questionable economic policy that has put America in a position to feel any economic or financial shocks more severely.

Investors must look realistically at where the economy and markets were headed, in 2020 and coming years, independent of COVID-19. Then, add what will be remembered as one of the most severe economic shocks in history, the sudden shutdown of over half the economy.

Nobody can say how the COVID-19 pandemic will turn out exactly. Anyone who tries to is a huckster. What we do know is that we are in a recession and the odds of a "V" shape recovery are slim. Investors beware.

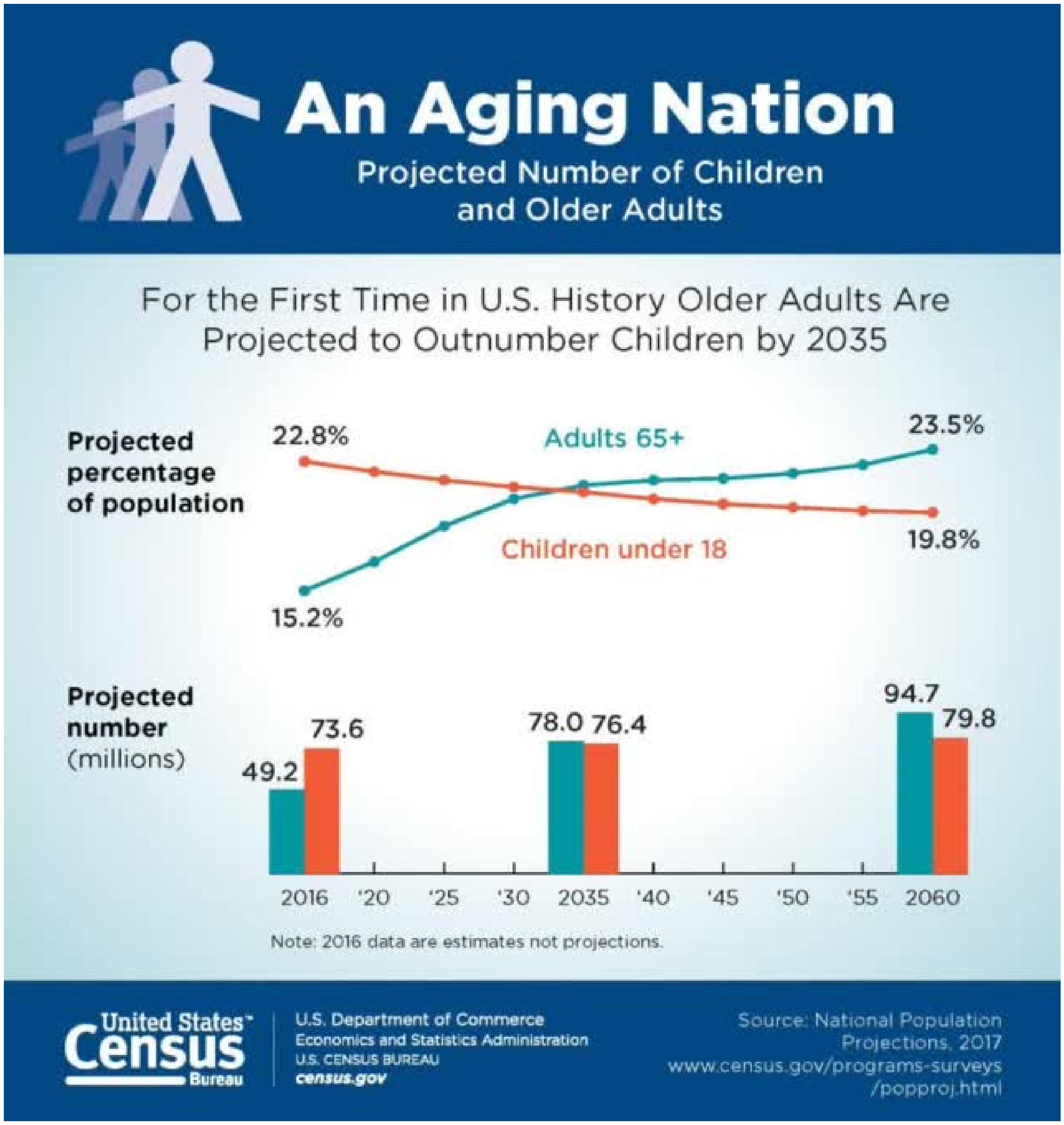
The Slow Growth Forever Global Economy

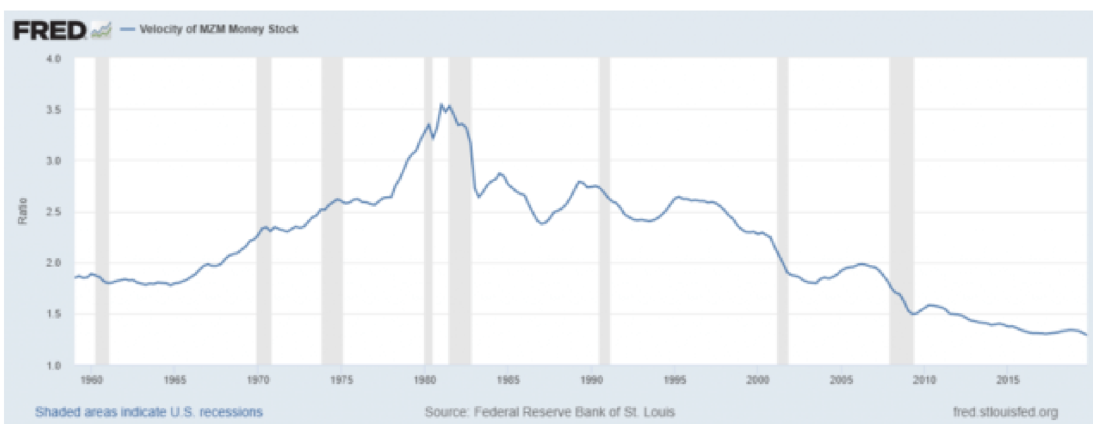
I will not go into this very deeply. I presume you have read:

Understanding And Investing In The "Slow Growth Forever" Global Economy

If not, you can read that for more depth. Here is a summary of "Slow Growth Forever:"

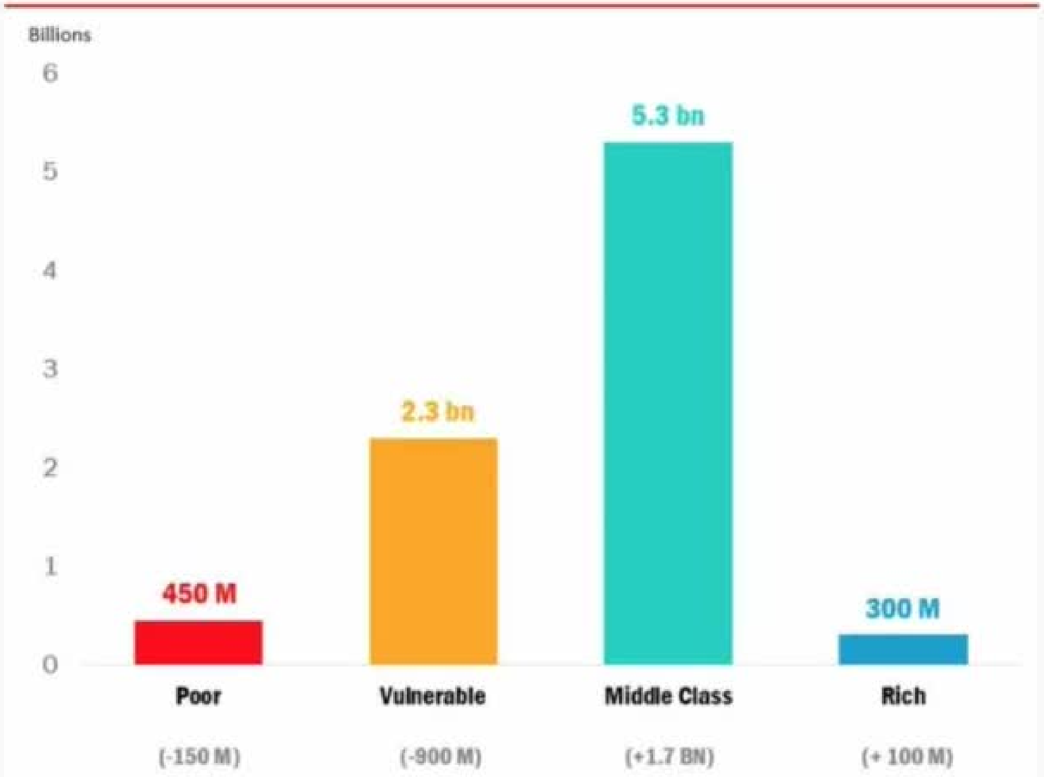
> Aging Demographics always drive economic growth. More people in their peak earning years is good for spending, which is good for the economy. As the economy ages, spending falls and causes velocity of money to fall causing slow economic growth.





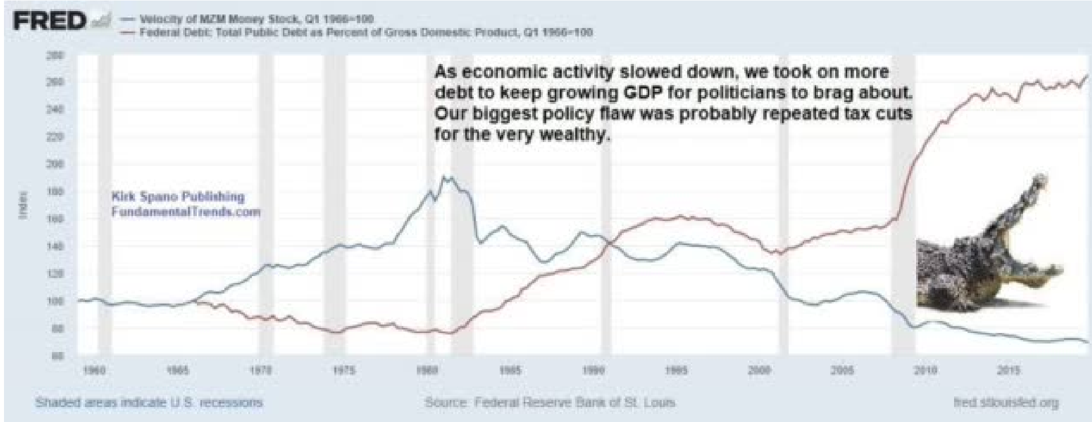
People moving from poverty to middle class globally is also growth engine. A boom from the 1990s thorough a several years go. Recently, the percentage number of people moving out of poverty has decreased. The global middle class stands at about 4 billion now, having about doubled in the past 20 years. It should grow to over 5 billion people in a decade, but that is a far smaller percentage increase than doubling in the past generation.

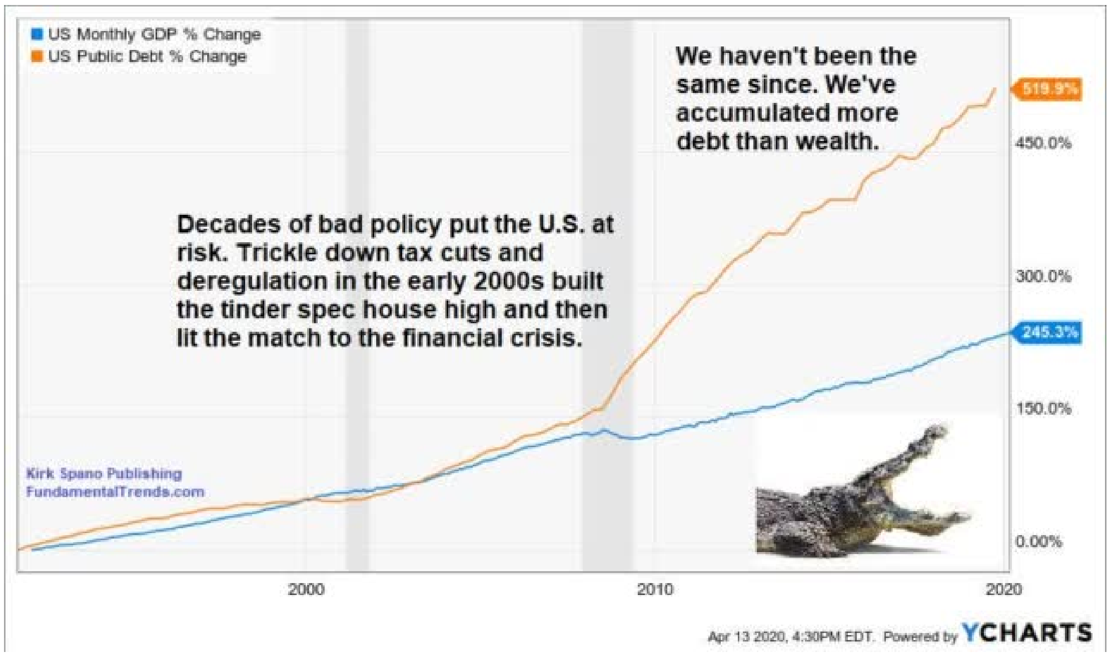
Figure 2. Middle class dominance in 2030



Note: Figures in parenthesis indicate the increase/decrease in the number of people in each category by 2030. Source: Projections by World Data Lab

Massive debt, driven by poor public policy decisions since the 1980s, is creating a ferocious problem that is getting closer to needing a solution. There is a saying in economics and finance: "alligator jaws always snap shut." The following charts are the strongest case that we are at the edge of a depression. Money velocity has slowed due to less economic activity per person. Debt has increased more than wealth generated. That is like borrowing $500,000 to buy a $250,000 house. Doesn't make a lot of sense does when you think about it that way. The financial crisis marked the "middle innings" of a game we are currently getting blown out in and we will have to try to win late (I do think we win).

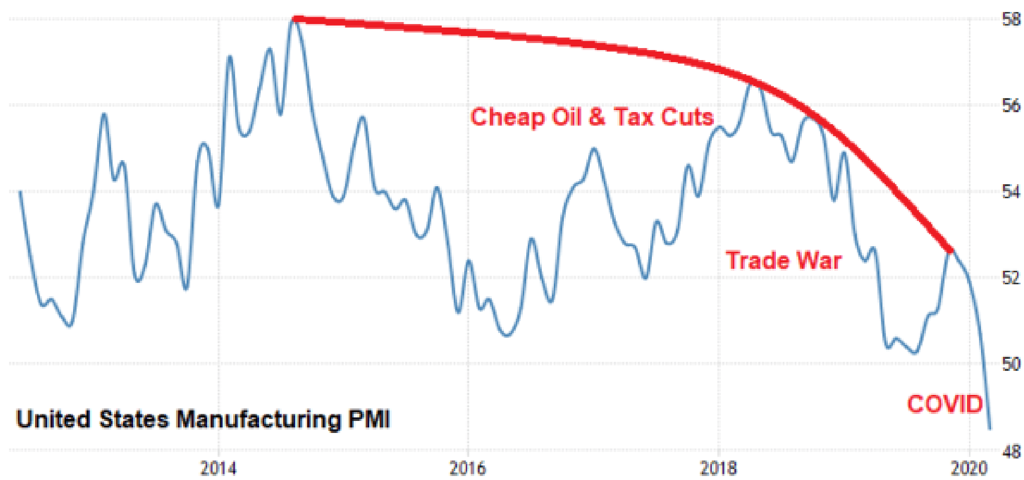




Ultimately the combination of aging demographics slowing growth, as well as, adding to social obligations for healthcare and retirement systems is a gale forced headwind that we are walking into.

A Cyclical Economic Slowdown

The economy was already slowing down the past couple years. It was only held up by tax breaks and cheap oil that masked the true underlying weakness. The trade war, despite having some valid goals, was poorly executed to the point that trade slowed and the economy did not improve domestically.

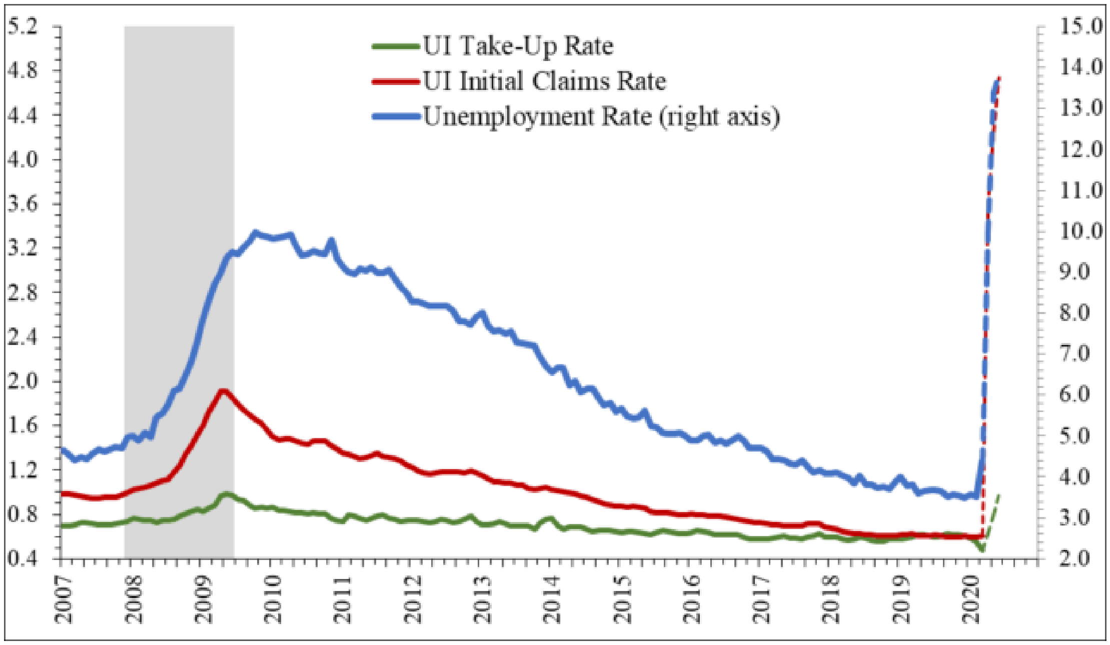


While we would normally expect a run of the mill recession that is easily counteracted by stimulative policy, as I described in other pieces, the economy has been running on the sugar high of debt from tax breaks (deficit spending) and cheap oil. The rise in debt put pressure on liquidity which led to the Federal Reserve needing to bail out the Repo Market beginning in September 2019. While under the radar of most folks, essentially, the there was a major problem with the debt markets due to government deficits the past two years that reached a trillion dollars in 2019.

The Biggest Economic Shock In History

The novel Coronavirus COVID-19 is the biggest economic shock in U.S. history. Nothing else compares really, not the 2008 Financial Crisis or the 1929 Great Depression. Within weeks of being at full employment and GDP growth a middling 2%, unemployment has surged to around 14% or higher.

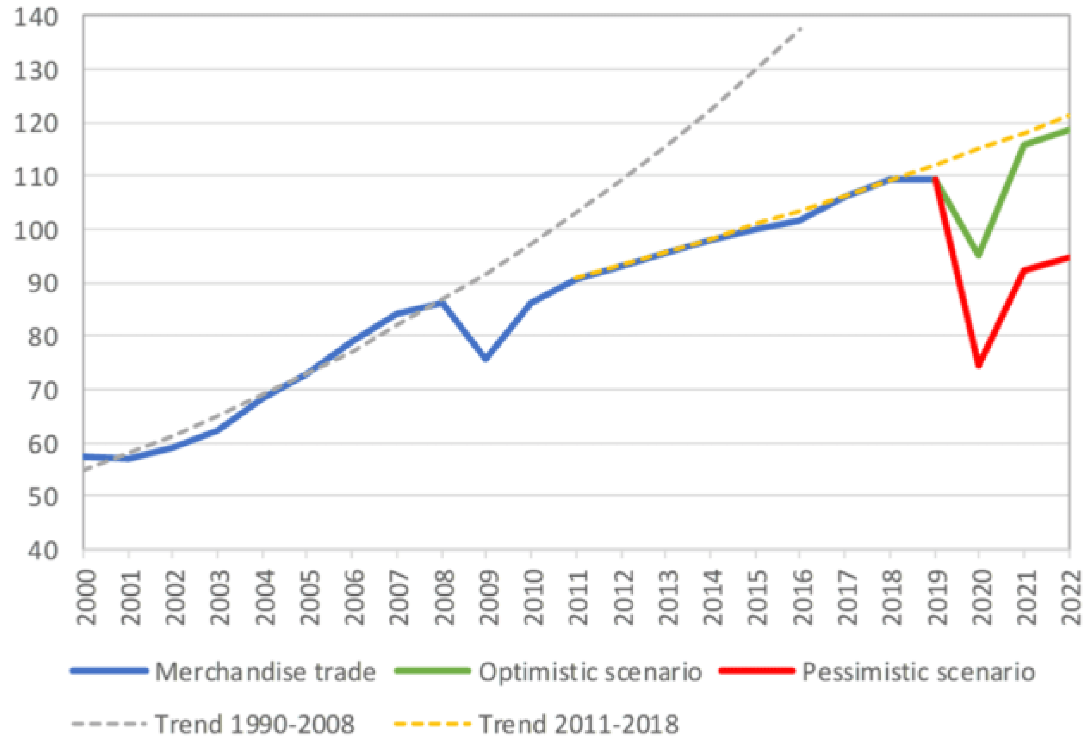
From the Chicago Fed:



The Payroll Protection Program, one of the programs designed by the government to prevent unemployment has likely kept at least as many people on payrolls as have been laid off. Effectively, around one-third of the population is unemployed right now and around half (or more) are making less than they made a few weeks ago.

The World Bank is showing a trade disruption greater than the financial crisis. The International Monetary Fund is comparing this to the Great Depression. The question we must ask is "how bad" will things get, not whether things will get bad.

For trade and GDP growth, I believe the pessimistic scenarios are most likely to play out as rolling shutdowns occur, especially in light of little international cooperation to slow COVID-19.



Trade is important because it has always been correlated to economic growth. While that correlation has slowly been weakening as machine learning brings manufacturing closer to end consumers, it is still a powerful correlation. As trade goes, so goes GDP growth.

Latest Articles

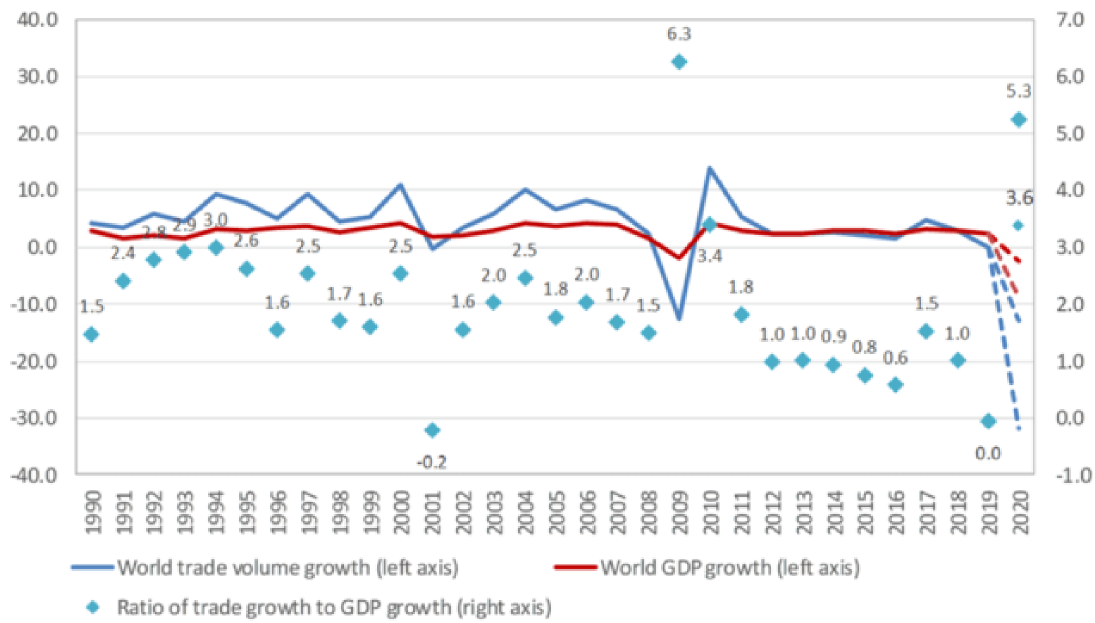
Here's How To Beat This Bear Market

Dividend Sleuthing: Compass Diversified

Global Trends ETF: X Games Markets

Dividend Sleuthing: Apple

Dividend Sleuthing: Cisco Systems SWOT

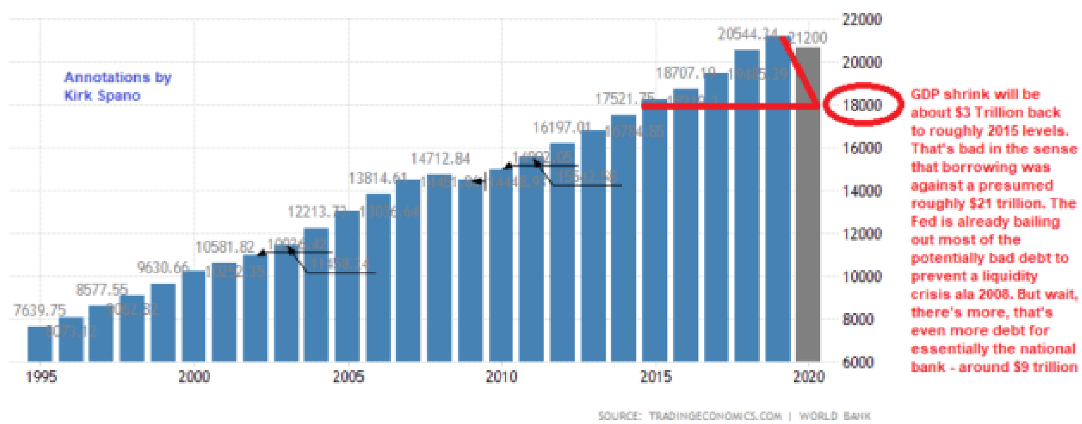


There is even a possibility the global economy contracts this year. That did not even happen in the Great Recession. If it does occur, then global debt markets would have massive seizures. While I would not put this as a probable outcome, it is possible, especially if COVID-19 has a second wave the United States.

The U.S. economy is about two-thirds consumer driven. Most of that is shut down right now. Most of the rest of the economy is open to some degree. So, we are looking at about 60% of the economy turned off.

The economy is $21 trillion. That means each week normally represents about $400 billion of GDP. Each week we remain "closed" the economy loses about a quarter trillion of a full year's GDP.

If the economy stays mostly shut until the end of May, then we can expect GDP to contract about $2.5 trillion over the ten weeks of shutdown or 11% on the year. It will likely be a bit more with presumed phased reopening. Let's ballpark the loss of GDP around 12-15% for 2020 versus 2019. For comparison, the peak to trough decline in GDP during the Great Recession was 4%. (***Update*** - Goldman Sachs came a day after my estimate at an 11% decline in GDP for 2020.)



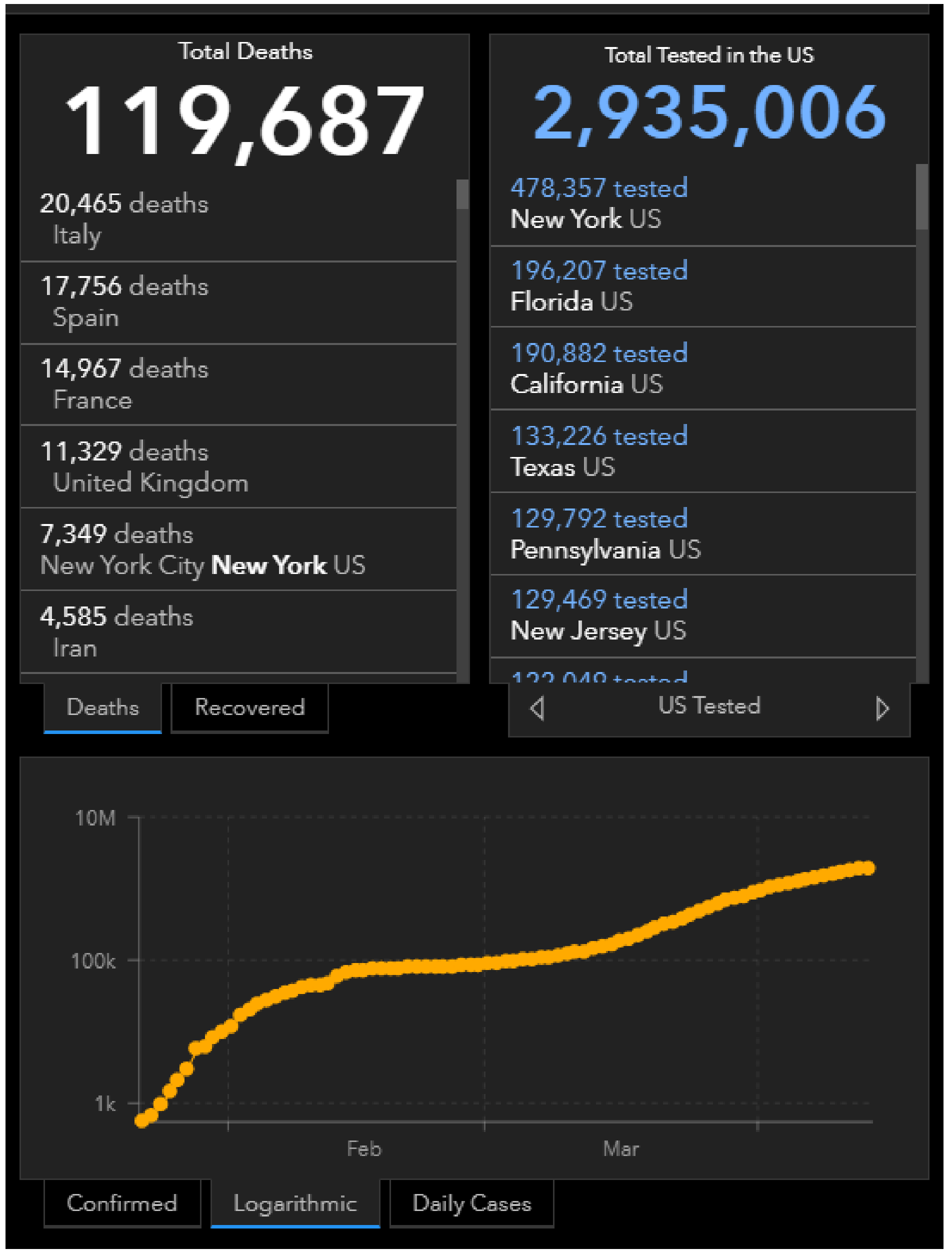
The Massive Risk Of Reopening Too Soon

Currently, the infection rate of COVID-19 virus seems to leveling off in the United States. If we can hold that for 2 weeks and then turn it over in May, then we are on pace for a partial reopening of the economy June 1st at the earliest.

I am using the **John Hopkins Coronavirus web page** to track what is going on with the disease. On the bottom right hand portion of the page is a chart that details the rise of infections. The Logarithmic chart is the most important.

On the left access you see the numbers 1k, 100,000 and 10m (million). That is scaled to represent every 100x increase in cases. As you can see, the first 100,000 cases took about two months. In the past two months we have moved all the way to 2 million cases. Getting to 10 million cases might not take very long from here even with social distancing.

We need the log chart to completely flatten so that there are no more new cases. Of course that is impossible until we get a vaccine. So, we need to get as close as possible. If we can almost flatten this curve, then about 30 days after that, we can responsibly start to relax social distancing rules.



With certain states not taking social distancing guidelines as seriously, I am not convinced we see a June 1st partial opening - at least we probably shouldn't. The fact that Churches across the south held Easter Masses makes me fairly certain that we will see higher infection rates within a couple weeks.

Regardless of what the health data shows, the President seems to be pushing for a fast reopen. He has floated a potential phased reopening starting in May. In my opinion that would be catastrophic.

If there is a second wave of COVID-19 (we already know there will be small flair ups for a year or more), if that log chart bends back up, then we are in for months more of economic shutdowns lasting past summer. With wider infection rates, not only do more people die tragically, but the economic toll begins hurt far more seriously for the living.

Consider the amount of money we are spending to try to turn that curve down. It would be financially irresponsible at a minimum to reopen the economy quickly on top of being morally repugnant.

Relief And Bailouts

So far, Congress has approved over $2.5 trillion in relief and bailouts, the biggest bill being the $2.2 trillion CARES Act. These bailouts are about 3x larger than the TARP package from the 2008 financial crisis.

The money is going for extra unemployment payments, small business relief, one time payments to taxpayers, money for hospitals, states and cities, massive bailouts for corporations, as well as, money allocated to the Federal Reserve for bond buying and other programs.

With its money, the Federal Reserve has embarked on a virtual nationalization of about one-third of the bond market. For the first time in history, the Fed is buying corporate debt. What does that mean? It means the Fed is bailing out corporation's, ill advised and under regulated, debt binge of the past several years.

The Fed has also embarked on the ***Main Street Lending Program***, designed, *"...to enhance support for small and mid-sized businesses that were in good financial standing before the crisis by offering 4-year loans to companies employing up to 10,000 workers or with revenues of less than $2.5 billion....(the Fed) will purchase up to $600 billion of loans."*

Another program called the ***Paycheck Protection Program***, called PPP by bankers, "... is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities." The Fed has committed $349 billion so far and most of it is already taken after 10 days. The Treasury is asking Congress for more money.

There's more. The **Municipal Liquidity Facility** will provide states and cities with up to $500 billion to buy up to 20% of certain issuers debt. ***TALF*** (*Term Asset-Backed Securities Loan Facility* because I know you wanted to know that) will provide $100 billion for collateralized mortgage backed securities (CMBS) and collateralized loan obligations (CLOs which if you remember the movie "The Big Short" you'll remember CLOs) - basically bailing out certain real estate loans. There's more, but you get the point.

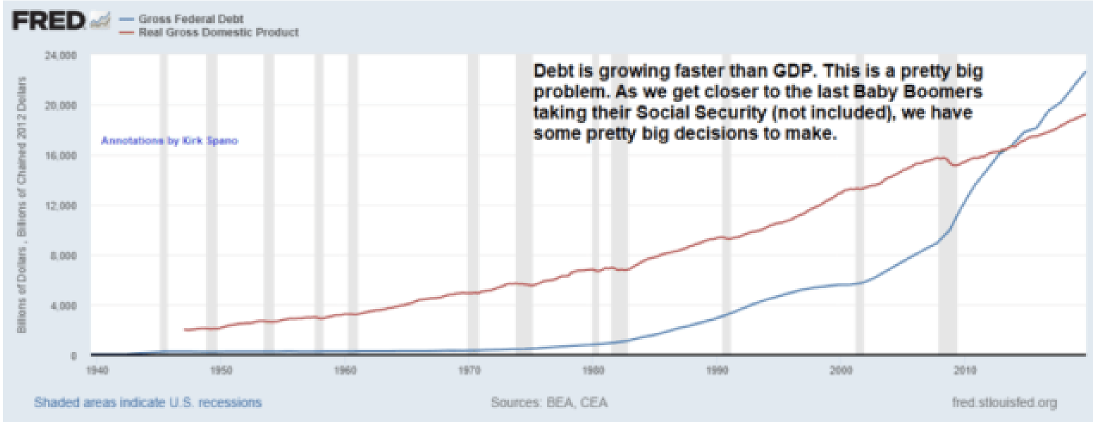
Debt Is Still Everywhere, Especially With Government

Selected Liabilities of the Federal Reserve

On the liabilities side of the Federal Reserve's balance sheet, the amount of currency outstanding has continued to rise gradually, but reserve balances (deposits of depository institutions) have increased dramatically relative to prior to the financial crisis.

Total Assets of the Federal Reserve

The Federal Reserve's balance sheet has expanded and contracted over time. During the 2007-08 financial crisis and subsequent recession, total assets increased significantly from $870 billion in August 2007 to $4.5 trillion in early 2015. Then, reflecting the FOMC's balance sheet normalization program that took place between October 2017 and August 2019, total assets declined to under $3.8 trillion. Beginning in September 2019, total assets started to increase.



More Helicopter Money Is Inevitable

"Helicopter money" is the term given by Milton Friedman for printing a large quantity of money to shock the system into functioning again. We have never seen the amount of helicopter money before.

I was interviewed a couple years ago about the long-term outlook for the economy and I stated that "helicopter money" was inevitable to solve the coming retirement crisis when all the Baby Boomers have finally retired.

Coronavirus may have pushed up the retirement crisis as I believe millions of Baby Boomers will retire after this event. Tens of thousands of their small businesses will never reopen. That's a great opportunity for Millennials. But, it means a lot more from the Social Security and Medicare systems.

For now, we have a massive money drop that cannot ever possibly be repaid. You can see the charts as well as I can. Eventually, with a few clicks of a button and some conjured legislation, we will wish trillions of dollars of debt away.

It will work too. The United State is in debt, but our economy is sufficiently better than others that we can carry more debt. The next 3 largest economies, China, EU and Japan all have worse demographics problems than we do. Japan has been moving sideways for three decades.

If we do the right things sometime in the next decade with regard to finances, not only will we see a massive growth spurt as we move into the "smart everything" and alternative energy economy via 4th Industrial Revolution, but we will see a normalization of the finances of the economy.

In the shorter term, look for a few trillion more to clean up the Coronavirus mess. That will drive the dollar down a bit, but not much. Other nations are doing the same and currencies are relative to each other. That means, as bad as it looks, it's all fixable in time.

By The Way Oil Collapsed Again

Saudi Arabia and Russia had a brief oil price war that pushed oil to around $20 per barrel. They agreed to a deal a few days ago that they won't abide by, but oil rose a shade.

The majority of U.S. shale oil companies will have to go through bankruptcy in the next year or so as none are profitable at these prices and even the low debt companies are fairly high debt. There's hundreds of billions of debt tied to those companies. Banks hold a lot of that.

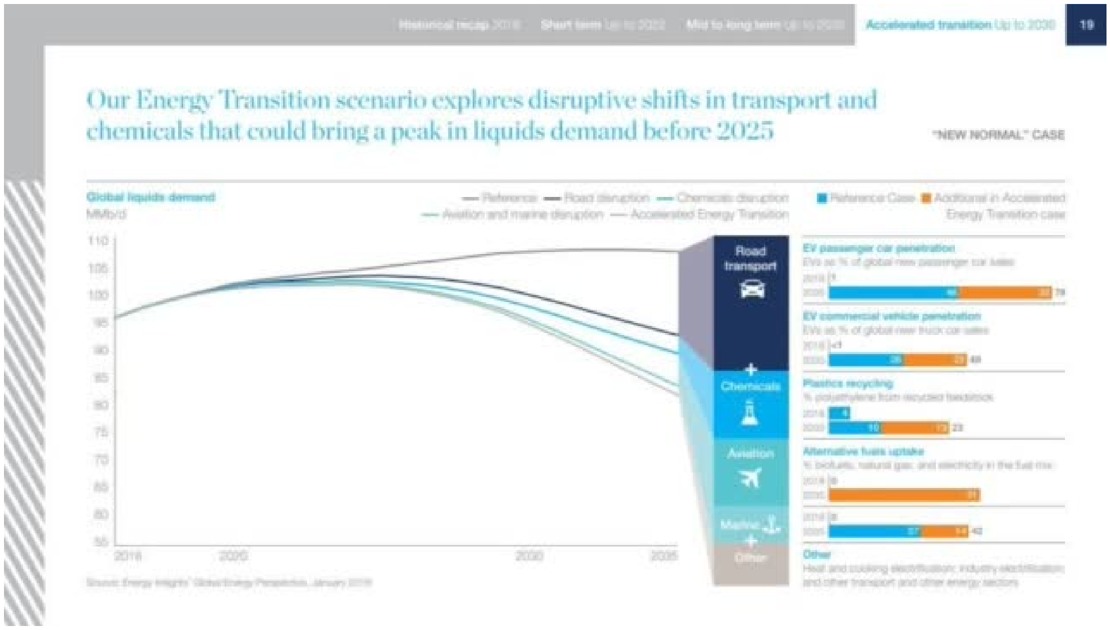
Stocks will be mostly go to zero as bankruptcies progress. I sold a while back because it became clear that a 150 year bull market in oil was over suddenly much faster than anybody imagined. In recent weeks, oil investing has went from bleak to hopeless.

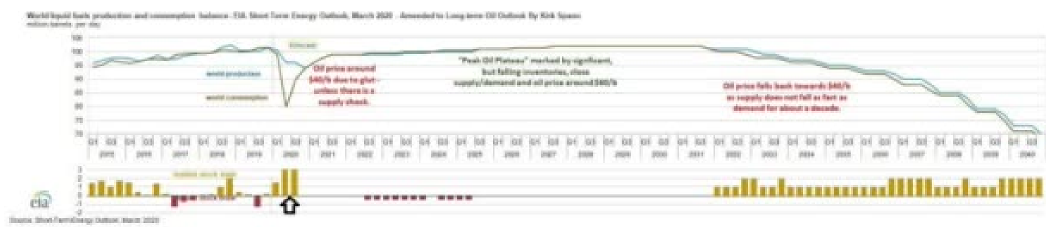
In coming quarters you will see...

- bankruptcies wipe out shareholders
- banks take deep losses
- bond holders take deep losses and/or become new shareholders
- executives, private equity and institutions become new shareholders
- a dramatic slowdown in American oil drilling
- a lot of lost jobs across the supply chain and in oil services

Eventually, you will see oil prices rise to around $60 per barrel because the new management will have a more vested interest in the outcomes. No longer will stealing from shareholders be the thing to do since they will be the shareholders. I wrote about ***Shale Oil's Final Theft From Shareholders here***.

Ultimately, this was all going to happen anyway. Here are two projections of oil's life path going forward. One from McKinsey and one from me:



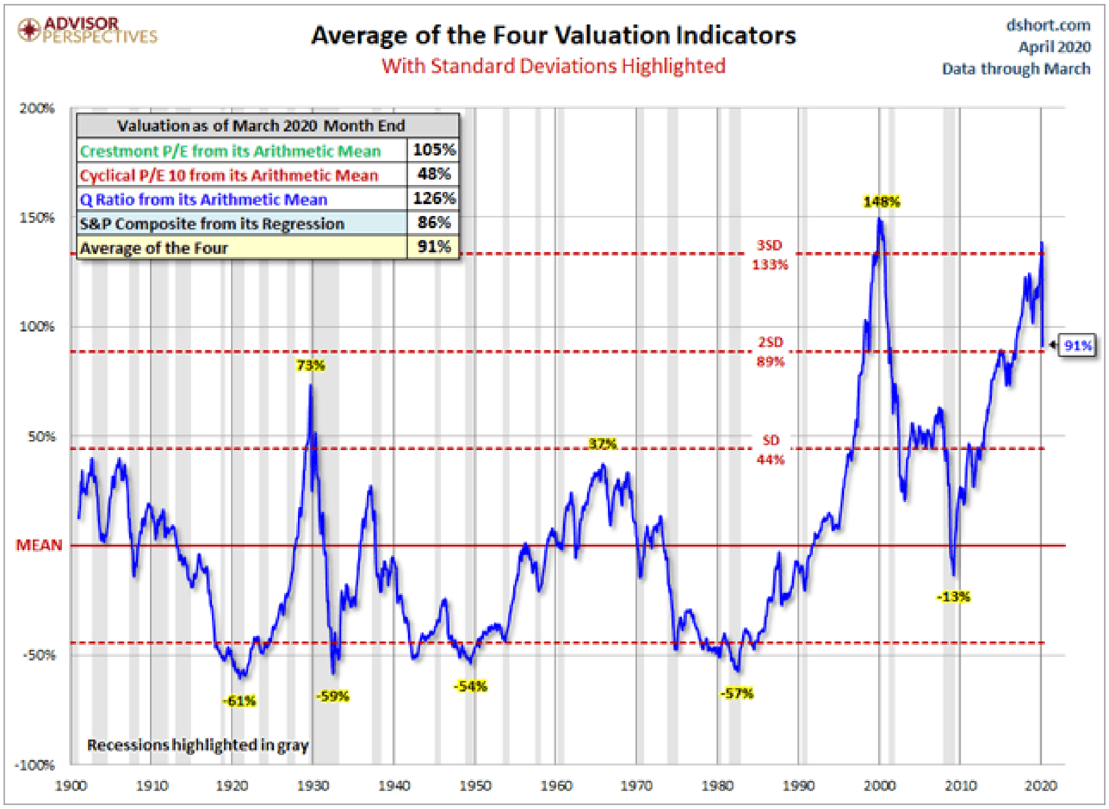


In the long-term, transitioning off of oil will make America a lot of money and provide great jobs. In the short-term, the transition period, there will be pain.

The Stock Market Is Still Overvalued

Despite the stock market correction so far, the stock market is still overvalued by historical measures. A forward look at earnings does not give much hope that the stock market will even be fairly valued at today's prices until we see a dramatic rise in earnings, which is not likely until 2022. That means a lot of volatility until then.

Advisor Perspectives makes this easy to get and if you haven't seen it before. This is a combined measure of 4 different valuation measures.

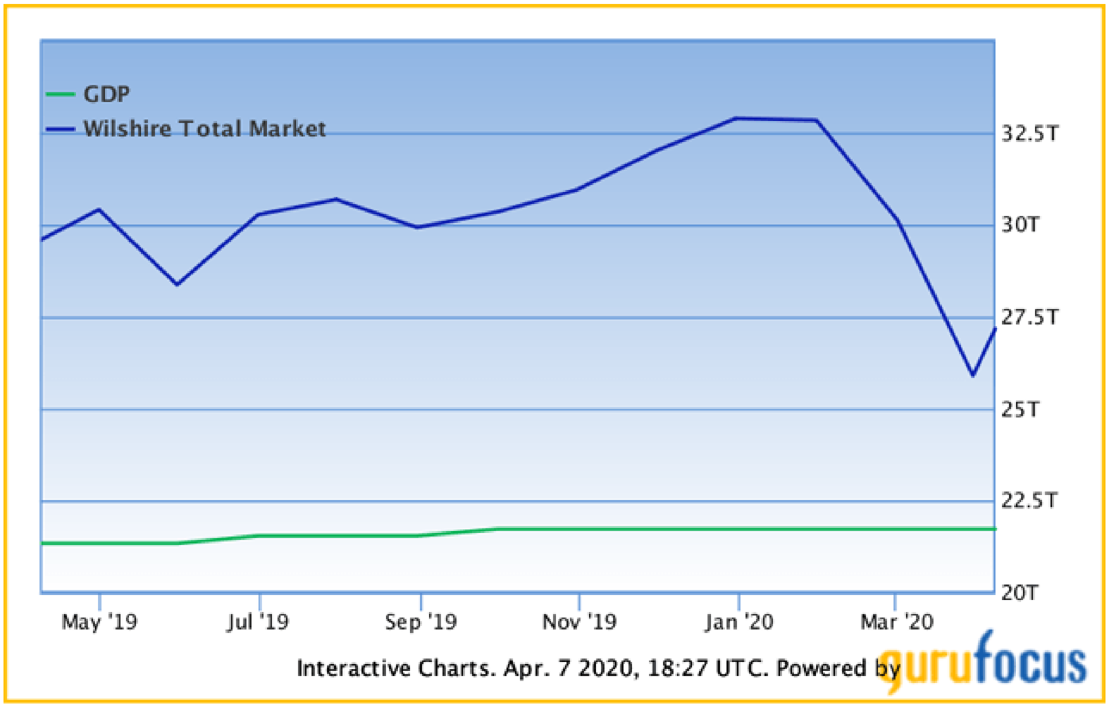


Of the four valuation measures, the one that is the most friendly suggests stock can roughly halve from here. The others suggest a bigger correction could happen. Given the speed at which the corrections moved recently, do you want to chance being "just in time" with your portfolio pruning?

While this is not a great short-term signal, it should put into context where in the valuation world we are. The stock market is still trading above a second standard deviation valuation. That means expected returns for investors here for the next decade or so are not going to be very good.

Warren Buffett has said he believes that Market Cap to GDP "is probably the best single measure of where valuations stand at any given moment."

Here I borrow from GuruFocus which has the Buffett Indicator in real time:



As you can see, the difference has narrowed between market cap and GDP. But, that chart is only one year. What does the long term chart tell us below:

We can see that is a rarity for market cap to be so high compared to GDP and for such an extended period. What this means is that you are literally better off starting a company than buying stock in a similar company. Private equity and other investors do just that, creating companies to compete with the companies of the stocks many buy. More competition is not a good thing for a stock.

Something else to consider in the midst of Coronavirus: what are the odds that GDP doesn't come all the way back to 2019 levels by 2021 (we'll throw out 2020)? I think there is a zero chance that we see 2019 earnings in 2021. In fact, I do not think we see 2019 earnings again until the year after there is a vaccine for COVID-19. When will that be?

Valuation Math

Earnings for the S&P 500 in 2019 were $162.97 for essentially no improvement versus 2018. According to Yardeni Research, and closely followed by many investment banks, S&P 500 earnings are tentatively estimated at $120 for 2020. Goldman Sachs (GS) put their earnings estimate for 2020 at $110.

My own proprietary estimate of earnings is at $91-92 for the year. This takes into account a slowdown I already believed was coming and COVID-19 on top. If we "open the economy" too soon and get a second wave of infections and deaths, earnings will close in on zero.

Let's set aside 2020 earnings because nobody really knows and take Yardeni's 2021 estimate of $150 in S&P 500 earnings. If we apply a 20 multiple, high by historical standards but reflective of today's easy money, then the S&P 500 should be roughly fairly valued at 3000. This is a best case scenario in my opinion if the markets allow for rational price discovery at all.

I believe the reality is that earnings in 2021 are closer to $120-130 and that we are still struggling with many parts of the economy that matter to earnings. In that scenario, with optimism bidding up stocks less, say only to a normal 16 P/E then the S&P 500 fair value is 2080 at the high-end.

From optimistic to pessimistic, the range of fair value for the S&P 500 in 2021 is 2080 to 3000. The S&P 500 is around 2700 now.

Zombies, Disruption and Disruptors

My research shows that between 100 and 150 companies in the S&P 500 have almost no growth or are shrinking, yet carry large debt burdens. Even with the bailouts, these companies are virtual zombies and their share prices are not likely to recover. As they fall below about $10 billion in market cap, they will be removed from the S&P 500.

New companies will replace the companies in the S&P 500. Many of those are companies that are helping build the smart everything and alternative energy world that is coming. Many are 4th Industrial Revolution companies. Some are in biotech. The linkage is innovation.

Before the novel Coronavirus, I believed that the stock and bond markets were headed for a great split. It was my contention that growing, low debt, "smart everything world" companies would lead, while, low/no growth industries with high debt There had been a glide path to these changes, now it is a race track with speed bumps.

Our very simple strategy is to avoid the disrupted companies the best we can and invest in the innovative disrupters. This can be done in portfolios using ETFs, ETFs plus stocks or pure stocks.

Trading Strategy For Volatility

While volatility persists or until we see the stock market closer to fair value (meaning a deeper correction), we will have to remain nimble. In an easier to navigate investment world the signals would be much clearer. However, so much depends on the ability to control Coronavirus and hopefully an eventual vaccine, that we do not have much clarity now.

Here is an analysis that I think is likely to at least approximately play out. It suggests a lower low in the stock markets will happen in coming months.

This next analysis by Avi Gilburt, one of the best technical analysts I know of, and whom I spent some time with him in New York and Florida last year, shows a similar likelihood, but with an alternative.

You'll see that the stock market for a day, did hit within the blue support rectangle in the bottom of the chart. Since then, the stock market has rallied. This rally is indicative of traders trading, not investors investing. I'll get to that a bit with my charts below.

There are two scenarios that could play out in the next week or two with the markets according to Avi (and me with my tools). The more likely is a retest of the lows. A retest is common in these scenarios. However, what we do not know and have a hard time quantifying is whether investor sentiment strong enough and the amount of money being poured into the system by the Federal Reserve is big enough to prevent a retest? If those two things can overcome the economic downturn, earnings fundamentals and the end of the stock buyback boom, then the stock market could merely have a small pullback and then resume the rally.

Here is a look at Avi's long-term outlook:

What you can see above is a blue box near the top of the chart. That is the path for another sustained bull market. We will get that someday. The question is: when? The answer is: we should know soon.

My technical analysis adds money flows to the investor sentiment that Avi and many others rely on. Why? Because if there is more money heading into the stock market, prices trend up. If there's more money flowing out of the stock market, prices trend down. Econ 101 supply and demand.

In recent years, there were two major flows of "non-organic" money into the stock market that were not typical investor money. The first was the money that the Federal Reserve pumped to primary dealers (big banks and brokerages) that found it's way into stocks (including an expansion of margin). The second was corporate share buybacks which were largely funded with borrowing and not free cash flow - that is as dangerous as it sounds.

Right now we know that there is trillions funneling to primary dealers. Much of it is a lifeline to keep American and even foriegn corporations from defaulting on debt. So, I don't believe it has quite the same impact as earlier QE - quantitative easing programs that we saw from 2009 to 2014.

Apparently, a lot of retail investors disagree with me. Bloomberg just reported that inflows to ETFs by retail investors and advisers was off the charts the past few weeks. In the past week alone, equity ETFs took in nearly $17 billion. This is a continuation of the first quarter when professionals were selling $27 billion and retail (ma and pa, their financial advisers and now Millennials on their own mostly) was buying $41 billion of equity ETFs.

With unemployment rising rapidly and retirement plan contribution season now over, we will see if retail can continue to hold the stock market up. Typically, when the little guy buys from the big guys, the little guys get stepped on soon after.

Goldman Sachs is reporting that corporate stock buybacks will decline by about 50% this year or around $400 billion. Stocks of companies that lose their ability to buyback shares will suffer. Many of those companies are in the S&p 500, hence, why we do not use that index to actually invest in.

Here is my long-term chart for the S&P 500 (shown as a broad measure of the stock market):

What you see is that we are *"hard to know land."* We simply do not know whether or not the bear market is over.

I suspect the bear market is not over because the recession is not fully appreciated yet. Earnings are crashing. The economic comeback will take well over a year, most likely two.

What I think we are experiencing is a bull trap where people who didn't buy near the first market bottom, feel compelled to chase the stock market higher. I believe that will turn into the biggest bear trap in history when people refuse to sell when the correction resumes.

It seems most people are buying on the hope that Fed money will hold the stock market up. Their limited understanding is based on recent memories of the bull market and previous Fed actions.

But, this time, the Fed and government actions are about 3x more than the financial crisis because the COVID-19 crisis is about 4x as bad as the financial crisis.

As I mentioned, initially most of the "relief" money is to bailout bonds and support small business. The easy way to understand that is there will be a lag on the Fed's new QE Infinite programs while the economy settles and then starts to rebound.

There is also the major impact of corporations dramatically cutting share buybacks this year. This is no small item. Stock buybacks represented 100% of marginal buying in the stock market from 2017 to 2019. What happens with half of that gone?

Stock market investors might not care about time lags and share buybacks reductions. Institutions, family offices, hedge funds, ma and pa investors, Millennials and investment creatures unknown could just decide to buy and bet on the future - prices, valuations and volatility be damned.

To a heavy degree, the stock market is subject to investor sentiment regardless of the fundamental realities of the day. How do you feel?

I believe that people who buy today, before the next correction, are destined to be under water at some point. They will then have to decide whether to cut losses or ride it out. Time does heal most market wounds, but as I will cover below, a large part of this stock market is going to be crippled permanently.

A Simple Strategy For Going Long Again

Bluemound Asset Management, LLC investors have been very heavy in cash and gold related holdings since January. I wrote extensively in my 2020 Outlook about why a major stock market correction was coming in 2020.

2020 Outlook & Game Plan: Navigating Overvalued Markets And Uncertainty - Bluemound Asset Management

I also went public about a valuation and slowdown led stock market correction it on Seeking Alpha:

> **Expect Major Stock Market Challenges in 2020**
>
> **Coronavirus Is A Match That Lit The Overvaluation Tinder**
>
> **Coronavirus Will Spur Much Deeper S&P 500 Correction**

The goal now is to avoid as much of any remaining pain as possible. However, we must also start accumulating *"smart everything world"* and *"4th Industrial Revolution"* related industries and companies. It is my intent to pick 2 or 3 spots, depending on downward momentum driven by sentiment and money flows, to start accumulating the Invesco QQQ ETF (QQQ) and other favorite assets.

These ideas are in addition to our substantial position in the Van Eck Gold Miners ETF (GDX) which we are using in place of most bonds with interest rates at historic lows. Remember, gold miners correlation to the broader stock market is relatively low and I feel the downside is no more than bonds at this point, so, more upside, similar downside as bonds.

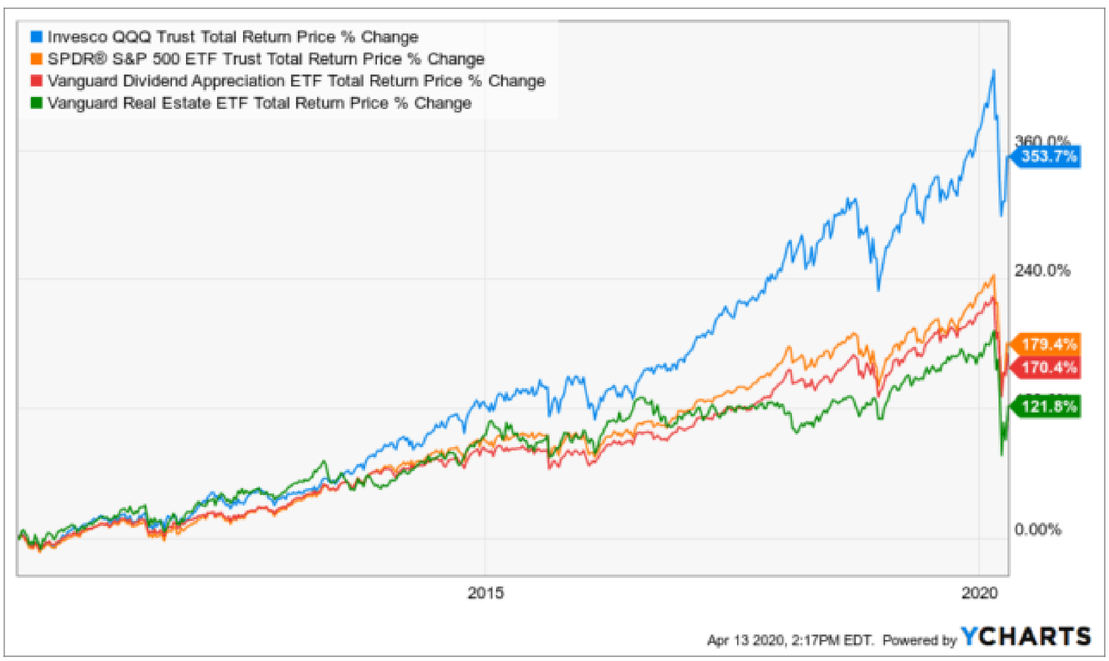
I have discussed QQQ before. It is a better index than the S&P 500 ETF (SPY). QQQ contains many of the smart everything world leaders, and in fact, the Nasdaq 100 companies in that index hold around two-thirds of all cash on American corporate balance sheets. The QQQ is loaded with the 2020's blue chips.

My favorite ETFs to add/buy now are:

> Invesco QQQ (QQQ)
>
> Ark Innovation (ARKK)
>
> iShares Semiconductor (SOXX)
>
> Invesco Solar (TAN)

I rate all as buys right now and long-term investors should be taking starting positions of several percent of total portfolio NAV.

In the charts below, I have included QQQ, SPY and two popular Vanguard funds, their Dividend Appreciation ETF (VIG) and Real Estate (VNQ). The Dividend Appreciation fund invests in companies What you will see is that QQQ beats them all from just before the financial crisis and just after.



I included the dividend and real estate funds to dispel the widely spread narratives that somehow those are better strategies than investing in the innovation and disruption that the Nasdaq 100 largely represents.

Don't get me wrong. Dividend generating stocks can have exceptional returns when picked individually. However, as a broad group, given the borrowing done my many companies and many with no real free cash flow growth, dividend investing does not stand out on its own. Dividend investing requires careful company selection.

Real estate certainly has tangible value, but, many real estate investment trusts [REITs] are challenged. Think about retail and malls in the age of Amazon. Consider what is going to happen to office REITs as more and more people work from home. I love real estate investing at the local level and among certain REITs, but broad REIT investing is not a market beating strategy. Investing in REITs is also very company specific, therefore we are building our own personalized Real Estate ETF. Favorite names include:

American Tower (AMT)

EPR Properties (EPR)

STAG Industrial (STAG)

Store Capital (STOR)

VICI Properties (VICI)

I rate all as buys now and long-term investors should be taking starting positions of about 1% of total portfolio NAV.

Accounts that hold stocks will add certain dividend stocks, though dividends are a secondary consideration to all other company fundamentals. The same is true with REITs. Many accounts will own dividend stocks and REITs via the ETFs we hold.

A Note About Your 401k

I have had investors fairly conservative in 401k accounts for a couple years. This is because we know that the market was becoming more and more overvalued and riskier. This correction is an opportunity to become more aggressive. The same 2 or 3 step scaling in should be employed.

Typically, you do not need more than 2 or 3 funds in a menu based 401(K) plan. Here are what I would be looking for:

A large cap growth or blend fund that is heavy in tech, communications, biotech and consumer discretionary stocks. Names like Alphabet (Google), Apple, Amazon, Microsoft, Cisco, Nvidia, Amgen, Broadcom, Adobe and

Qualcomm are among those to look for. In essence, you want a fund that looks as similar to QQQ as possible as your core large cap fund. Here is a list of top QQQ stocks to look for. I think you can put 40-70% of your balance and contributions in such a fund.

A mid cap growth or blend fund that is heavy in tech, communications, biotech and consumer discretionary stocks. These are growing companies in general and many will get added to the S&P 500 in coming years. Companies that get added to the S&P 500 benefit from having S&P 500 index funds invest in them. I think you can put 20-40% of your balance and contributions in such a fund.

An emerging markets fund if there is one. Emerging markets stand to have the highest growth in the next decade given their starting point. Technology allows them to leap frog phases of economic growth that we had to muddle through in the 1900s. I think you can put 10-20% of your balance and contributions in such a fund.

That's not cut in stone, but I think is a good guideline for most folks. If you are close to retirement, you might want to add 20% to a stable value or short-term bond fund. Consulting your advisor is a good idea.

Disclosure: I am/we are long QQQ, ARKK, TAN< SOXX, GDX, EPR, STAG, STOR, VICI.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

Comments (5)

Sort by Newest

six-oh 14 Apr. 2020, 5:43 PM

Premium Marketplace

Comments (3.07K) | + Follow

It seems that market bulls are willing to buy now and ignore the next 2 years of negative economic information. Nearly ever major investment bank is calling a bottom to this correction and advising the public to buy the dips. Generally the market does what it does, but it sure seems like the processes for buying: buy the dip, ETF inflows from 401k plans, and the masses who follow the financial advisor mantra of "dollar cost average" are the drivers for the continuing rise of the market.

Reply Like

Kirk Spano 15 Apr. 2020, 9:04 AM

Marketplace Contributor Premium

Comments (8.24K)

Author's Reply remember seasonality. It matters. Especially this year.

Reply Like

kindkath 14 Apr. 2020, 11:39 AM

Comments (602) | + Follow

Love the crocodile jaws that echo the spread on the chart. How clever. Had me chuckling. Thanks.
Katharine

Reply Like

U

U99109437 14 Apr. 2020, 9:48 AM

Comments (1.22K) | + Follow

Excellent!

Reply Like

M

mosi_miso 14 Apr. 2020, 4:56 AM

Marketplace

Comments (5) | + Follow

Oh and good writeup! Very useful.

Reply Like (1)

+ Add a link

Embed a link

Investing Resources

- Welcome Message & MoSI FAQs
- Investment Philosophy
- Investing In The 2020s
- Global Trends ETF - May 2022
- Q2 2022 Plug & Play Stocks
- Very Short Lists
- Weekly Webinar Details

- What I Read & Use
- Cash-secured Put Selling Basics
- Covered Call Writing Basics
- Free Financial Planning Software

Tools

- Reviews
- Settings
- Marketplace FAQ

Contact Support

Launch Chat