FORMAN INVESTMENT SERVICES

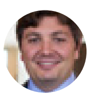
20th Anniversary · 1999 - 2019 ·

Weekly Wrap Up • September 9-13, 2019 • formanis.com

Mark your calendar

- **Tuesday, October 1:** Last day to establish a SIMPLE IRA plan or a Safe Harbor 401(k) to be effective for 2019.
- **Tuesday, October 15:** Open enrollment for Medicare Parts C and D begins. Make any changes to your coverage by December 7.
- **Tuesday, October 15:** The final day to file a 2018 income tax return for those issued an extension.
- **Tuesday, December 31**: New Year's Eve is the year-end charitable gift deadline for check and wire transfers.
- **Tuesday, December 31**: Last day to take 2019 required minimum distributions for those who turned 70½ in or before 2018

What happened in the markets last week?



by David Abuaf - Investment Manager, RJFS

News for the Week

General Markets / Economic

1. China will exempt purchases of US soybeans, pork and other agricultural products from punitive tariffs
2. The UK is signaling it wants to step up the pace of talks to secure a deal over its departure from the EU
3. San Francisco said it had offered $2.5B for PG&E's electrical lines serving the city, a potential first step toward separating from the utility
4. US manufacturers are investing less in their factories and workforces as the trade dispute with China makes it harder for executives to anticipate costs and demand
5. Sales of insurance products have ballooned into the biggest scandal since Japan Post's partial privatization a decade ago
6. Purdue Pharma has secured support from 23 states and thousands of local governments for a multibillion-dollar deal that could enable the company to resolve much of the opioid litigation it faces
7. Trump renewed his pressure on the Fed, calling for the central bank to cut rates to zero or less
8. The ECB cut its key interest rate and launched a sweeping package of bond purchases that lays the groundwork for a long period of ultraloose monetary policy, halting European financial markets

Company News

1. Disney CEO Iger quit Apple's board, as the firms prepare to launch competing video-streaming services
2. Moody's cut Ford's bond rating by one notch to junk status, citing weak cash generation at the company
3. Trump said the US plans to pull most vaping products from the market, citing growing concerns about health hazards and rising use by teenagers

Interesting Stories

1. Wineries, in an attempt to get adults to spend more and stay longer, are becoming "Disneyland for adults." Some things include climbing walls, submarines, bird's nest sleeping quarters, etc!

Weekly Commentary

So that's what Wile E. Coyote feels like after the Road Runner is through with him.

We're not referring to the overall market, which had what appeared to be a rather calm, if only slightly productive, week. The Dow Jones Industrial Average gained 422.06 points, or 1.6%, to 27,219.52; the S&P 500 index rose 1%, to 3007.39; and the Nasdaq Composite advanced 0.9%, to 8176.71.

But those numbers entirely miss the point. It was a week when everything that had been working stopped working, when losers were suddenly winners. Value stocks, the market's cheapest, had underperformed growth stocks by 14 percentage points since the start of 2018.

Pity those betting that recent trends would continue. This past week, value gained 2.4%, while growth dropped 0.5%. The battered small-cap Russell 2000, meanwhile, gained 4.9%. It was as if the meek had inherited the market.

That high-momentum stocks would suddenly reverse wasn't all that surprising, explains Chris Harvey, head of equity and quant strategy at Wells Fargo Securities. "Typically, momentum 'takes the escalator up and the elevator down," he writes. "In our view, momentum investing requires a tacit deal with the investment devil: A [portfolio manager] usually wins with a higher frequency for some time, but when they lose, payback is painful."

Yet this might not be just another momentum reversal. Doug Ramsey, chief investment officer at the Leuthold Group, notes that the MSCI USA Momentum index hit an all-time high on Aug. 29 relative to the MSCI USA Value index, and has been falling since then. That ratio also peaked in March 2000, Ramsey notes, at the height of the dot-com bubble—just as the S&P 500 did. That peak began the transition out of highflying momentum stocks into value and ultimately helped trigger a recession.

"In this cycle, stock market resilience is the main factor dissuading us from predicting imminent recession," Ramsey writes. "But the 2000-01 experience reminds us that stock market trouble can sometimes precede a recession with an extended lead time."

Of course, there are big differences between the dot-com era and today. One is the massive amount of pessimism today versus the optimism of nearly 20 years ago. "Then there's the fact that the cost of capital, as signaled by the level of real rates, is far lower today than it was in 2000," says Michael Arone, chief investment strategist at State Street Global Advisors. "That fact makes companies with fast growth but no profits attractive to investors today," he says, "and is the reason that value stocks will continue to lag behind as long as real interest rates remain near zero."

Given that the Federal Reserve is getting ready to cut rates again on Sept. 18, that doesn't look likely to change. "The comparison to 2000 is unfair," Arone says. "In a zero cost-of-capital environment, companies operating at a loss can grow to incredible size."

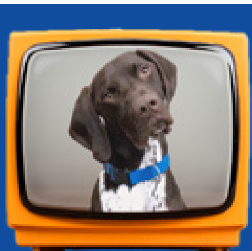
The sheer number of those companies could be pointing to problems ahead. Nearly 15% of the fastest-growing companies by sales in the S&P Global Broad Market index are money losers, says Jason Williams, a portfolio manager at Lazard Asset Management, while more than 80% of initial public offerings coming to market are also profitless, equaling the peak of the dot-com bubble.

That doesn't mean the market has topped, but it does make him worry. "Of course, no one can ring the bell," Williams says. "All you can do is signpost it." Remember: chasing road runners can be hazardous to your health.

THANK YOU to all who attended our Social Security Workshop on Sept 10, 2019! It provided a great opportunity for attendees to ask questions regarding their unique situations. Here are a few of the highlights discussed:

- **Taking Longevity into Account when Taking Benefits**
- **Collecting Benefits Earlier or Later**
- **Cost of Collecting Early**
- **Spousal Benefits**
- **Survivor Benefits**
- **Collection Strategies**

Because of well-attended workshops and positive feedback, we will continue to periodically provide educational opportunities for our clients. Find details in our Weekly Wrap Up and in your email inbox from our office (make sure our emails aren't going to your junk folder).



Turning Back the Clock to 1999

September 20, 1999" TV crime procedural "Law & Order: Special Victims Unit" created by Dick Wolf, starring Mariska Hargitay and Christopher Meloni premieres on NBC.