

Have and Have-Nots

It feels like whiplash. During the first quarter of 2020, the stock market as measured by the S&P500 dropped just over 20%. During the second quarter, the market nearly rallied back to its earlier highs. The S&P500 finished the quarter down 3.08% for the year. As we enter the third quarter of the year, we will likely be seeing more of the same.

With the long-term effects of the pandemic still in question, a weakened US economy, unemployment at record levels, and the threat of a second wave of COVID-19 infections, the stock market's speedy recovery seems bewildering. A quick look at how the individual S&P500 companies have performed, however, helps to clear up any confusion. What you find is an S&P500 made up of 'haves' and 'have-nots' and much more understandable market action.

The 'haves' are represented by the stocks that rebounded the most. These were companies like Microsoft, Facebook, Amazon, and PayPal who have all benefited from the current "stay-at-home" economy. These companies are up on average over 40% for the year

In contrast, the 'have-nots' are businesses engaged in industries severely hurt by the COVID-19 changes: oil, travel, consumer goods, commercial property, etc. Businesses like Exxon Mobile, US Bank, Alaska Airlines and Boeing. These companies are down on average over 40% for the year

Another reason the S&P500 does not look like it is down very much is the way the index is constructed. The S&P500 is market capitalization weighted. This means the bigger the company, the larger percentage holding in the index. In other words, the more a company goes up, the bigger percentage of the index the company becomes and the more of an impact its performance has on the index. Currently, the largest 10 companies make up over 25% of the index. The top 5 are Microsoft, Apple, Amazon, Facebook and Alphabet (Google), all of which are 'haves' in this market. If the S&P500 were equally weighted, it would be down 8.67% more than it is as a market capitalization weighted index.

Sectors also fall into the 'haves' and 'have-not' categories. Leading the way was Technology, up 14.85% for the year. One would expect Consumer Discretionary stocks to be off because of the high unemployment rate; however,

much of the sector (which includes Amazon, Home Depot, Costco, and Tesla) has benefited from the pandemic.

Sector	Return	Sector	Return
Technology	14.84%	Utilities	-10.40%
Consumer Discretionary	3.26%	Industrial	-15.33%
Communication	2.93%	Financial	-25.37%
Materials	-6.33%	HealthCare	-25.53%
Consumer Staples	-6.34%	Energy	-37.81%
Real Estate	-7.84%		

Marshall and Sullivan has been busy this year. During the first quarter we dove into the individual securities in our portfolios to see if any of them would be permanent 'have-nots'. A couple of companies might look like 'have-nots' on the surface, but we think it will be only a temporary situation. The companies in our portfolios have been steady growers before the pandemic, have plenty of cash to weather the storm and should recover. We also looked at securities to add. Being cautious and considering the speed of the market recovery, we only added a company or two depending on the portfolio strategy.

Now that the market has rebounded, we are trimming positions that have become too large of a percentage of an individuals' portfolio. We used the cash to rebalance the portfolio or added to cash positions. This way we will be poised to add positions if the market pulls back because a second COVID-19 wave hits or the market reacts negatively to the forthcoming elections.

We hope everyone is safe and healthy during this difficult time. Other than a couple of staff members working from home, it is pretty much business as usual for us around the office. Along with your quarterly report, you will find our new Customer Relationship Summary (CRS). This is a new disclosure document required by the SEC. As always, please do not hesitate to reach out to us if we can answer questions or help in any way.

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