

# Real Vision

08/09/2020

# Key Points

- Tug-of-war between themes: Fundamental Factor Overview
  - Post-Covid Recovery Hopes (SHW, LOW, DHI)
  - 2<sup>nd</sup> Wave Covid Fears (Netflix, Amazon, Kroger)
  - Blue-Wave (Solar – SEDG, Cannibas (SMG))
  - Index Craze - Creating dislocation between large and small companies, proper valuation recognition (IRRATIONAL BEHAVIOR, CONCENTRATION RISKS)
  - Macro Short Term Bullish (massive liquidity, election year, potential conversion of aid to middle class - stocks likely to rise beyond belief, probably after some consolidation)
  - Macro Long Term Bearish (debt burden, Fed balance sheet, US dollar devaluation, income gap)
- Indexing Craze:
  - RIA's, wealth management, retail investors converting their business to "model-management" based on indexing:
  - Irrational allocation of capital assumes your best investments are larger companies
  - Catalyst to pop the indexing bubble: CFOs, large investors, and private equity will begin to allocate capital based on real cash flows rather than market capitalization. CFOs monetize their expensive stock prices to acquire companies with higher return on capital and strong cash flow growth.
  - Problem: innovation is leading to newer companies that could dislocate large vulnerable companies which has led to two dislocations: 1) Capitalization-Gap, and 2) Valuation Gap
- Potential exhaustion of the common large cap leaders (Apple, Amazon, etc)
- Non-Stock Assets:
  - Current Thesis in Marketplace:
    - Continued Monetary and Fiscal Stimulus through Election and Beyond – Dollar Devaluation Risk, Precious Metals (Pause) – Asset inflation in Equities, and Desire for hard-asset protection of purchasing power. Potential for monetary stimulus to convert to consumer spending-political desire to close the wealth-gaps created from prior bail-outs.
    - Expect consolidation in the current macro narrative - thesis
    - Expect volatility to decrease in stocks versus bonds and commodities
    - Long term downtrend in commodities at some point will end. (agriculture, energy, industrial metals)
    - Stocks may begin to consolidate but probably will rise higher beyond current belief. – (Liquidity machine will not stop, political imperative to convert funds to wealth gap)
    - Small caps will come to life and bottom relative to large cap. Focus on innovative companies not tied to scenarios – blue wave, post-covid recovery,

**Monthly Q1 - Q5 Return Spread %**  
**As of 8/7/2020**

***WHAT THE MARKET IS REWARDING:***

Fundamental Factor	QTD	YTD	TTM	Favorable Characteristic
Cash Flow Return on Invested Capital	2.24	20.63	17.87	High cash flow, low capital intensity
Net Income Stability	2.03	18.02	17.56	Less volatility of earnings
Sustainable Growth	1.97	12.44	13.39	More growth, less dividends
Price Momentum	1.22	15.3	9.36	Momentum continuation
Long Term Debt-to-Equity	1.3	10.81	5.71	Less leverage
Capital Acquisition Ratio	1.09	9.66	9.79	Less capital intensive

***WHAT THE MARKET IS SHUNNING:***

Fundamental Factor	QTD	YTD	TTM	Unfavorable Characteristic
Log Market Cap	-0.17	-17.53	-20.25	Small companies
Sales-to-Enterprise Value	2.19	-17.4	-17.32	Value stocks
1Y Change in Shares Outstanding	-1.35	-11.51	-8.62	Large buy-backs/Lack growth potential

Data Source: Capital IQ/ClariFi  
Wealthnet Investments, LLC



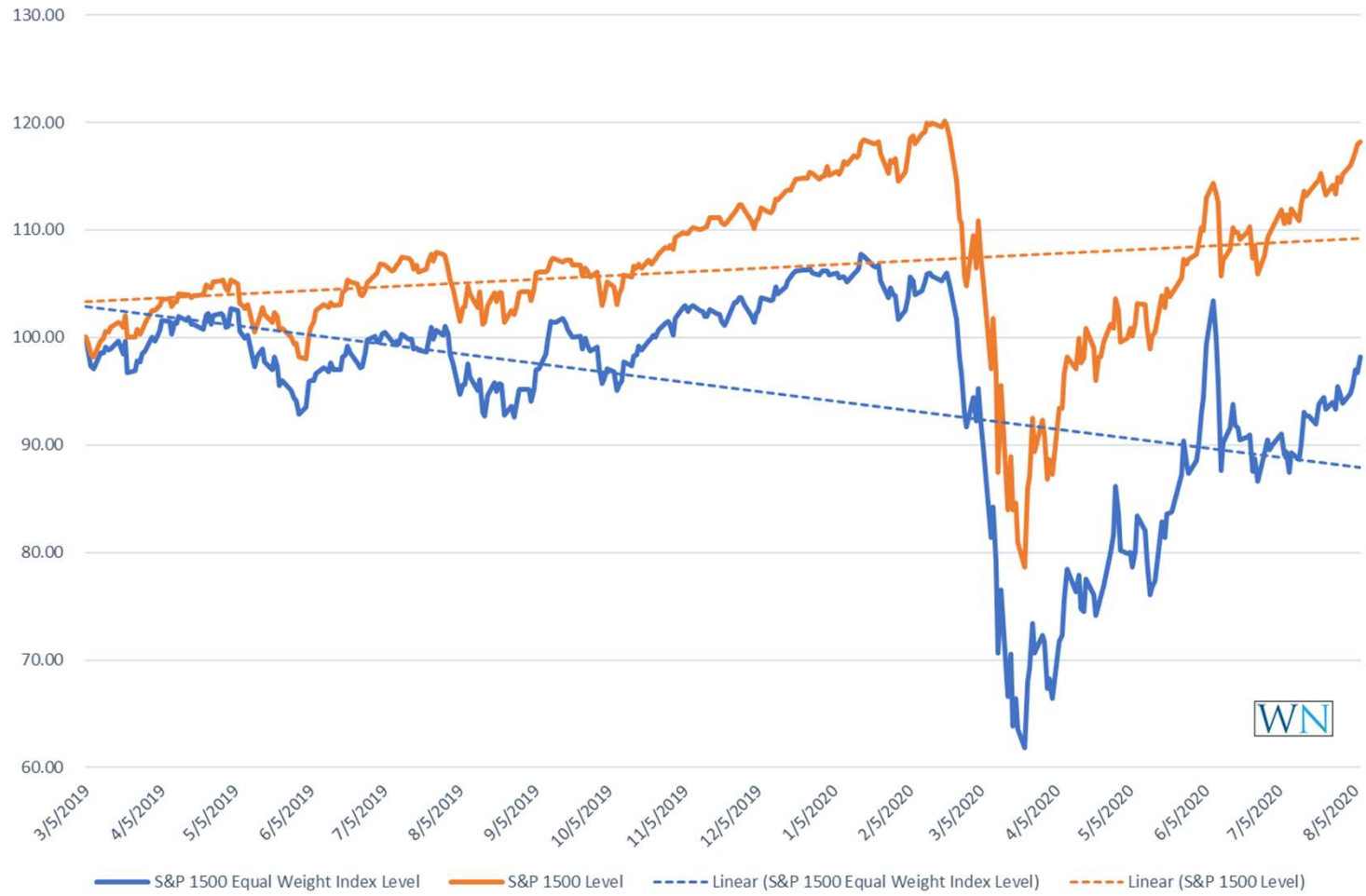
### Estimated Net Flows for the Top 10 U.S. Fund Families (by Total Assets)

	(\$ Mil)				(\$ Bil)
	Active	Passive	June Total	TTM Total	Assets
Vanguard	6,855	13,736	20,591	13,156	5,209
Fidelity Investments	5,608	5,037	10,645	12,772	1,782
American Funds	(1,541)	-	(1,541)	(26,418)	1,712
iShares	96	19,557	19,653	99,477	1,643
SPDR State Street Global Advisors	26	(38)	(12)	48,746	708
T.Rowe Price	1,238	(890)	348	(28,078)	649
Invesco	(3,438)	(3,044)	(6,482)	(39,067)	511
Dimensional Fund Advisors	(2,533)	(104)	(2,637)	(20,829)	375
Pimco	3,096	313	3,409	(9,679)	373
J.P. Morgan	2,948	6,518	9,466	21,405	357
Totals	12,355	41,085	53,440	71,485	13,319

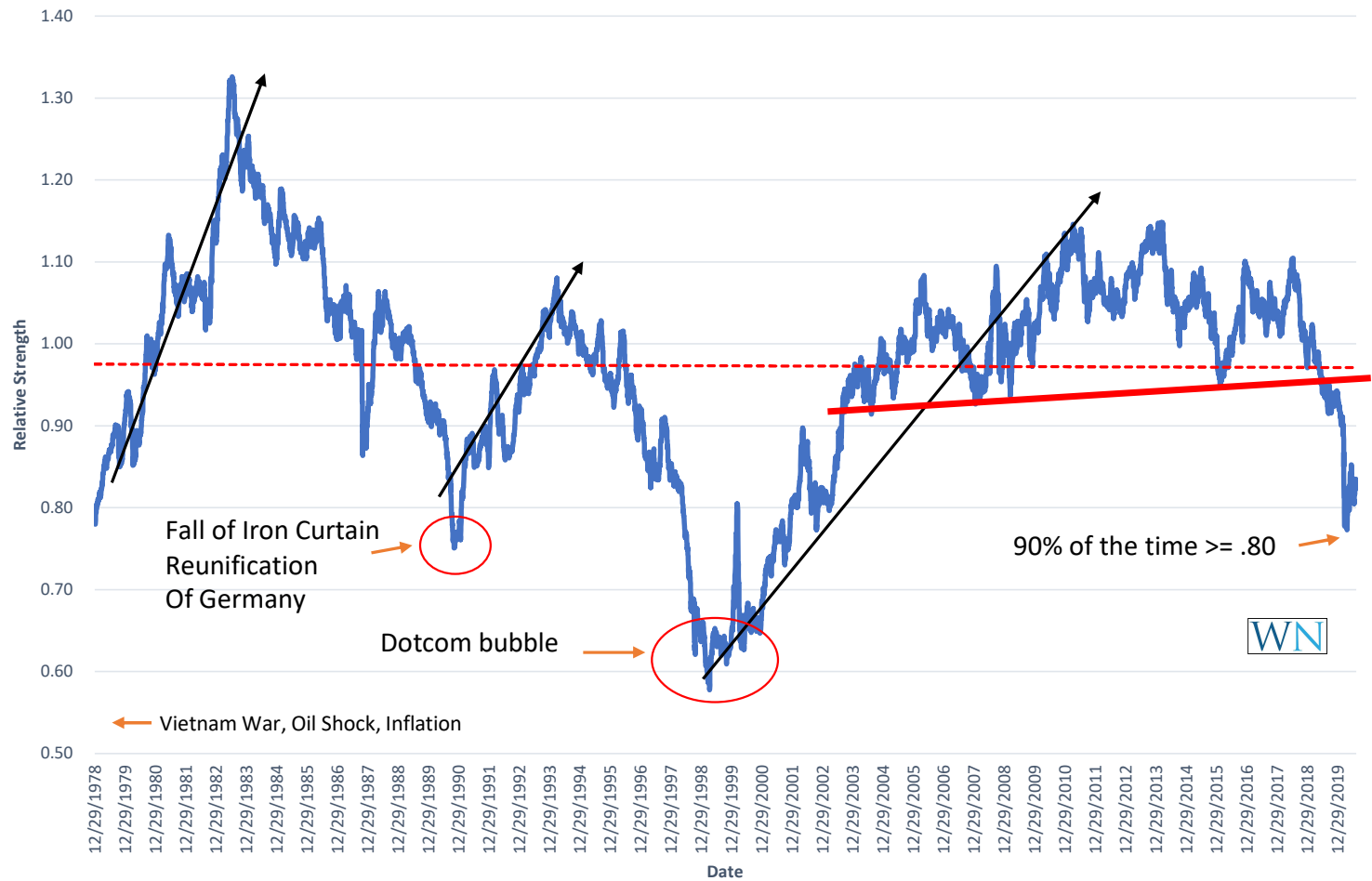
Source: Morningstar Direct Asset Flows as of June 30,2020. Excludes money market flows



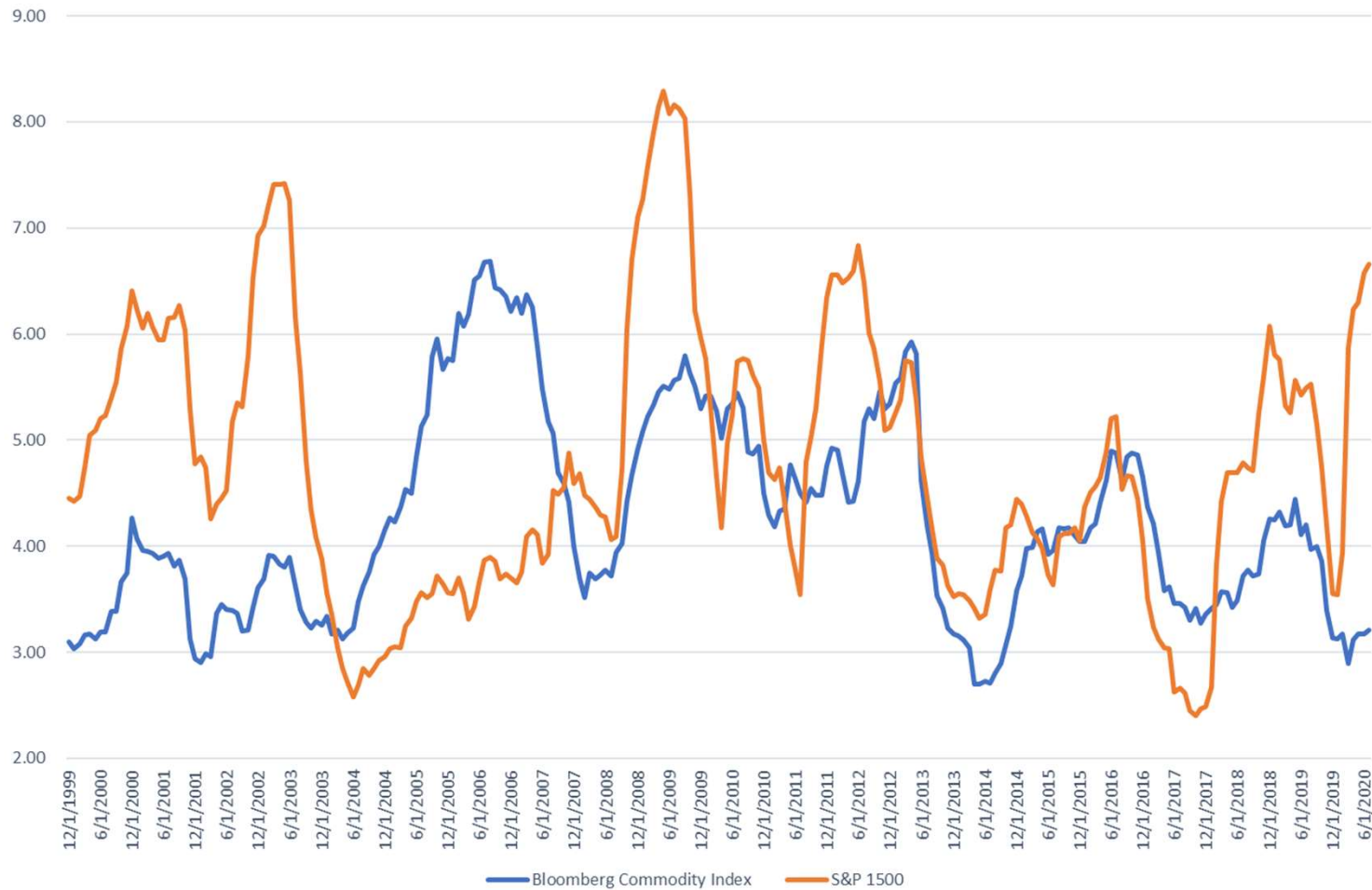
# US Stocks (S&P 1500) Equal Weight Compared to Market Cap Weight



# Small/Large Relative Strength Indicator Russell 2000/Russell 1000 (12/29/78 – 8/7/2020)



## US Stocks and Commodities Volatility Relative to US Bonds



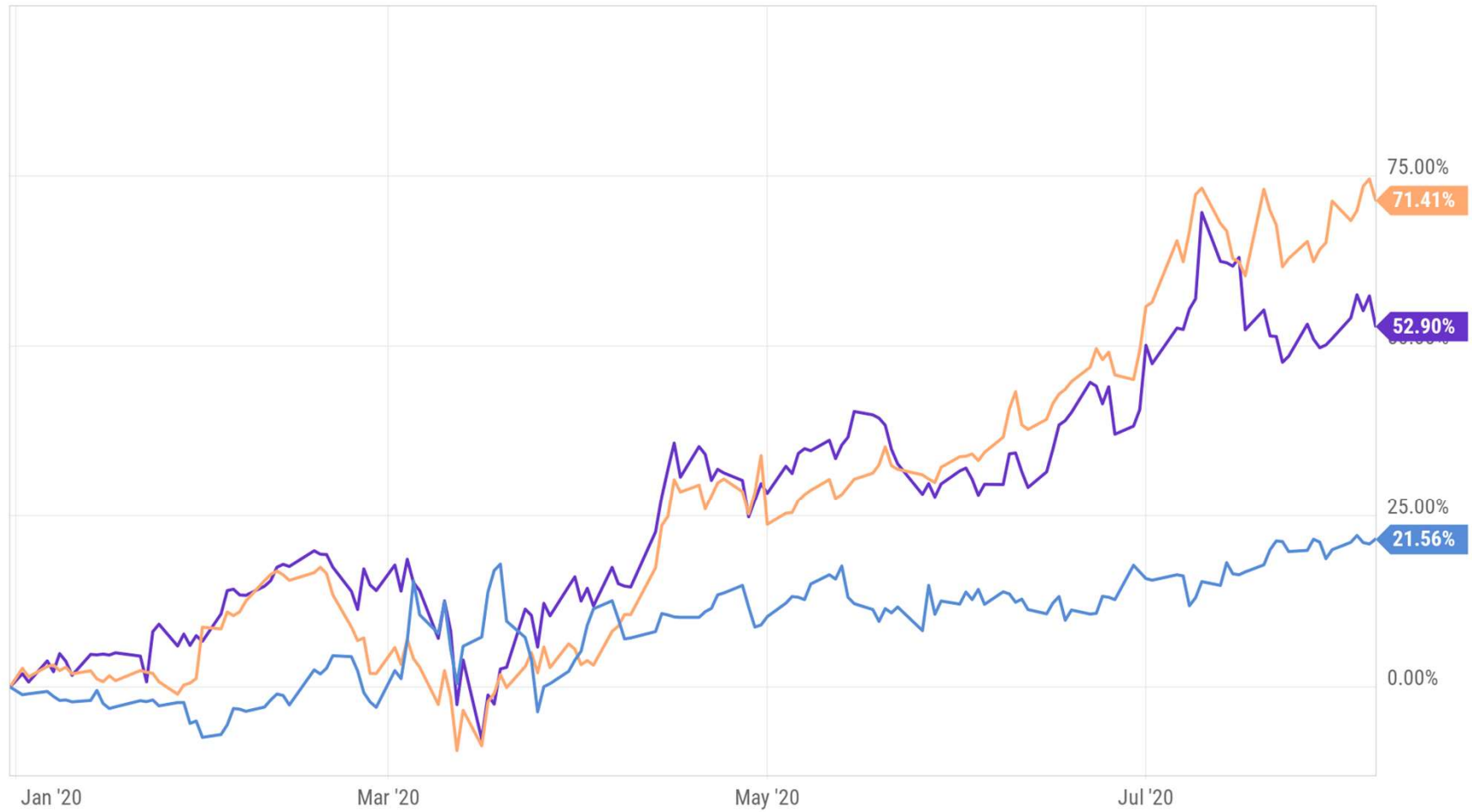
### Volatility Scalars

Compared to US Agg. Bond

12/31/1999 - 8/7/2020

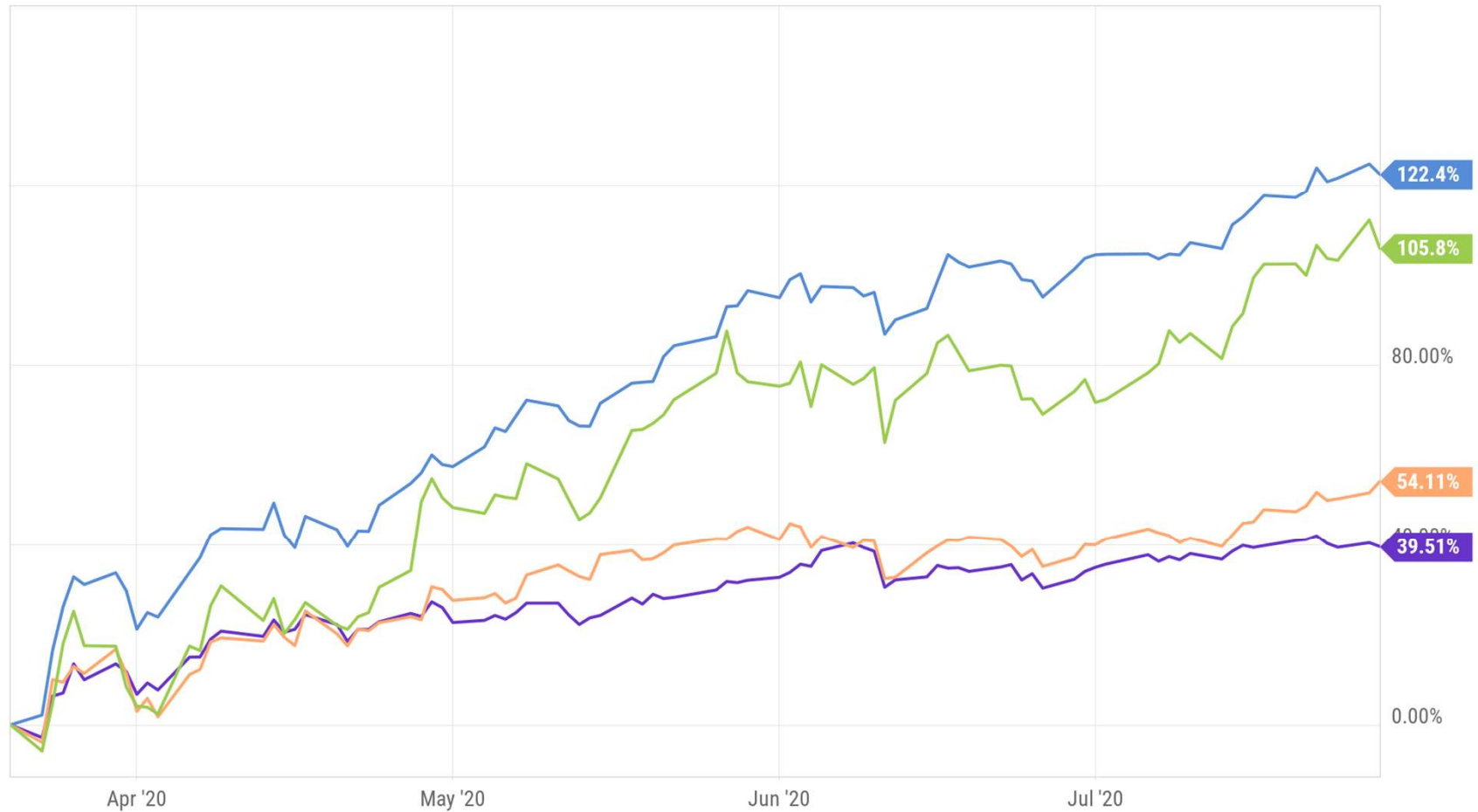
Percentile	Commodities	US Stocks
99%	6.53	8.13
95%	6.19	7.26
90%	5.64	6.54
85%	5.42	6.16
80%	5.21	5.92
75%	4.89	5.73
70%	4.65	5.38
65%	4.48	5.22
60%	4.33	4.90
55%	4.19	4.74
50%	4.05	4.61
45%	3.95	4.45
40%	3.86	4.29
35%	3.72	4.12
30%	3.59	3.94
25%	3.42	3.76
20%	3.37	3.61
15%	3.21	3.52
10%	3.17	3.24
5%	3.05	2.85
1%	2.72	2.48

- Netflix Inc Price % Change
- Amazon.com Inc Price % Change
- The Kroger Co Price % Change

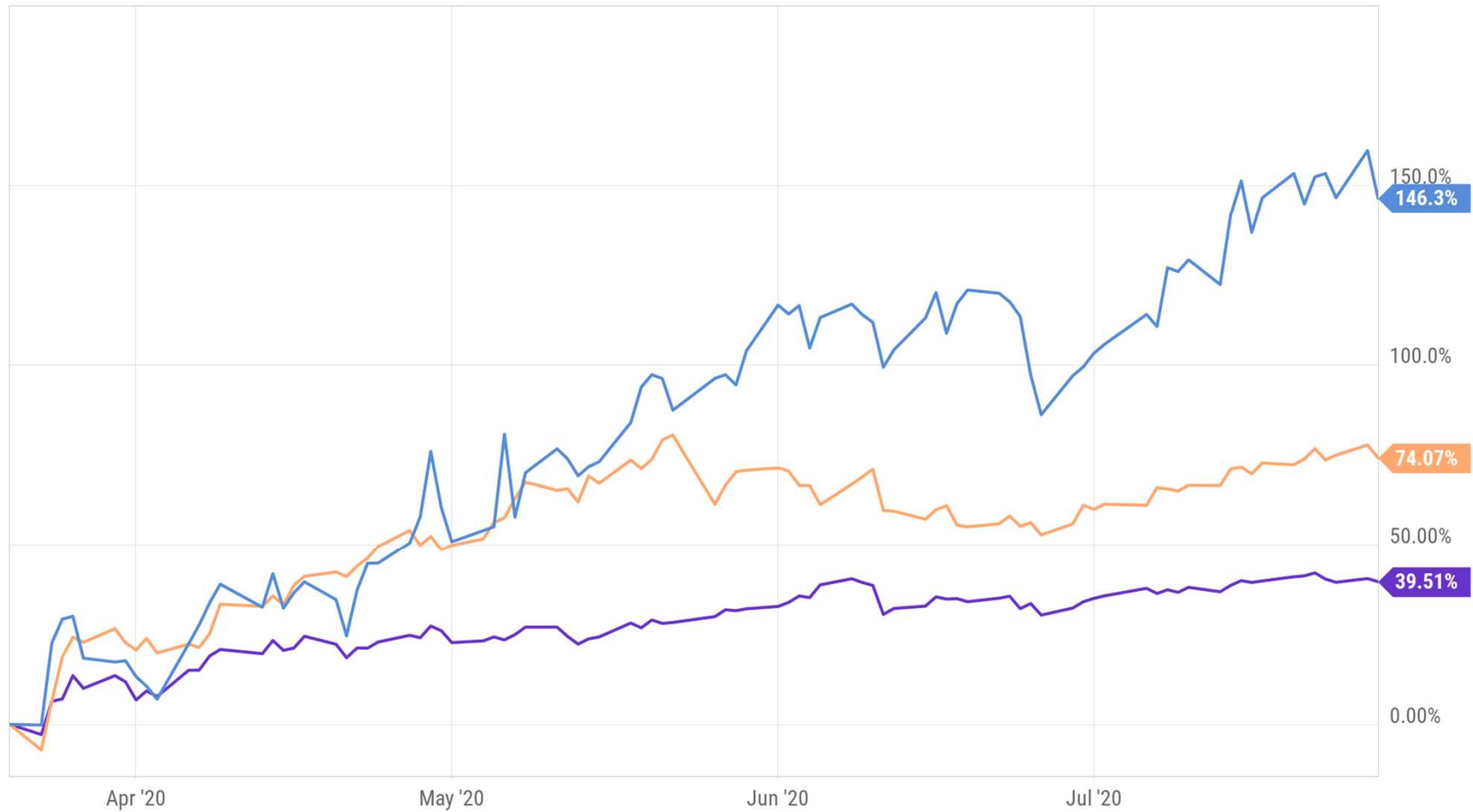




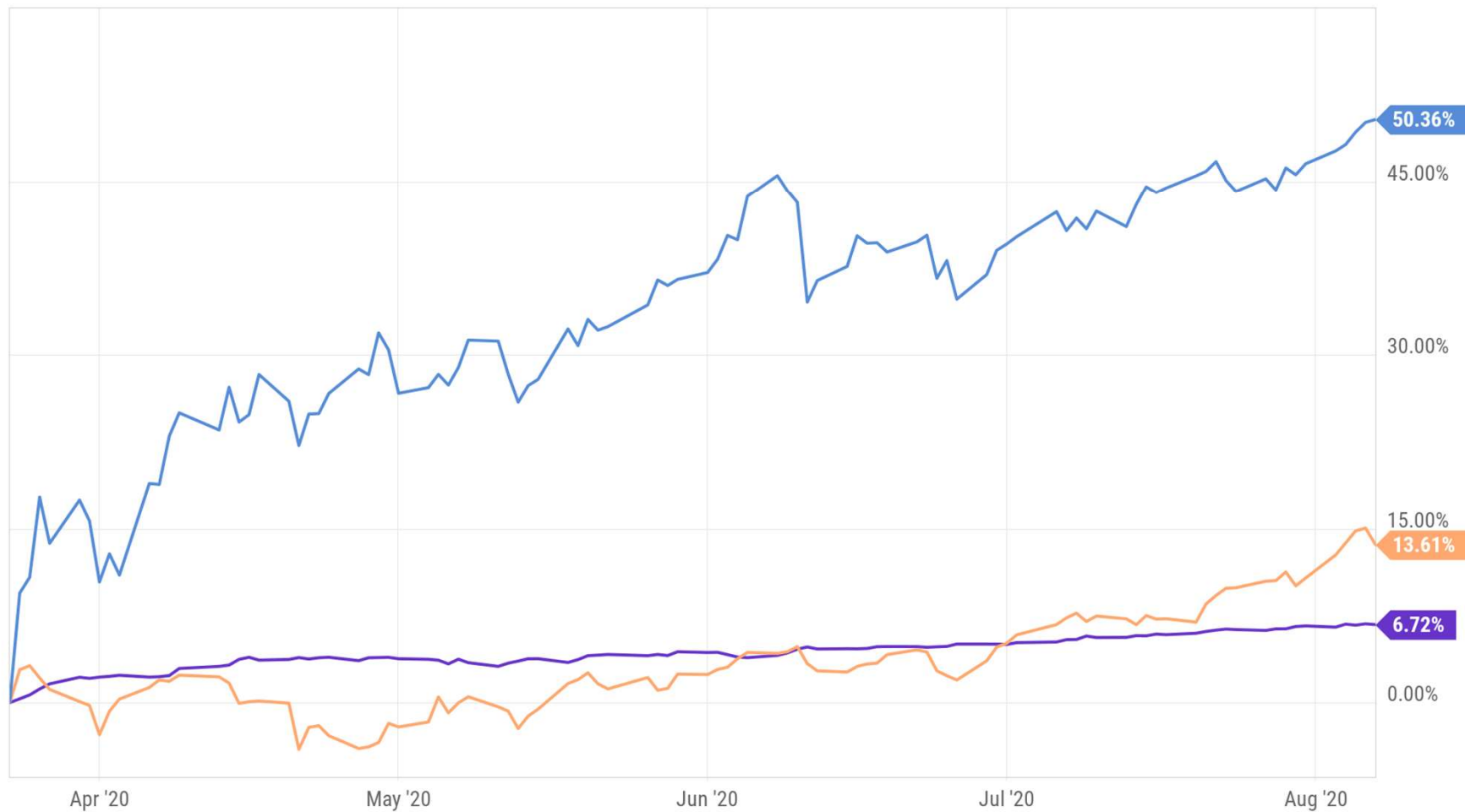
- iShares Core S&P 500 ETF Price % Change
- Sherwin-Williams Co Price % Change
- Lowe's Companies Inc Price % Change
- D.R. Horton Inc Price % Change



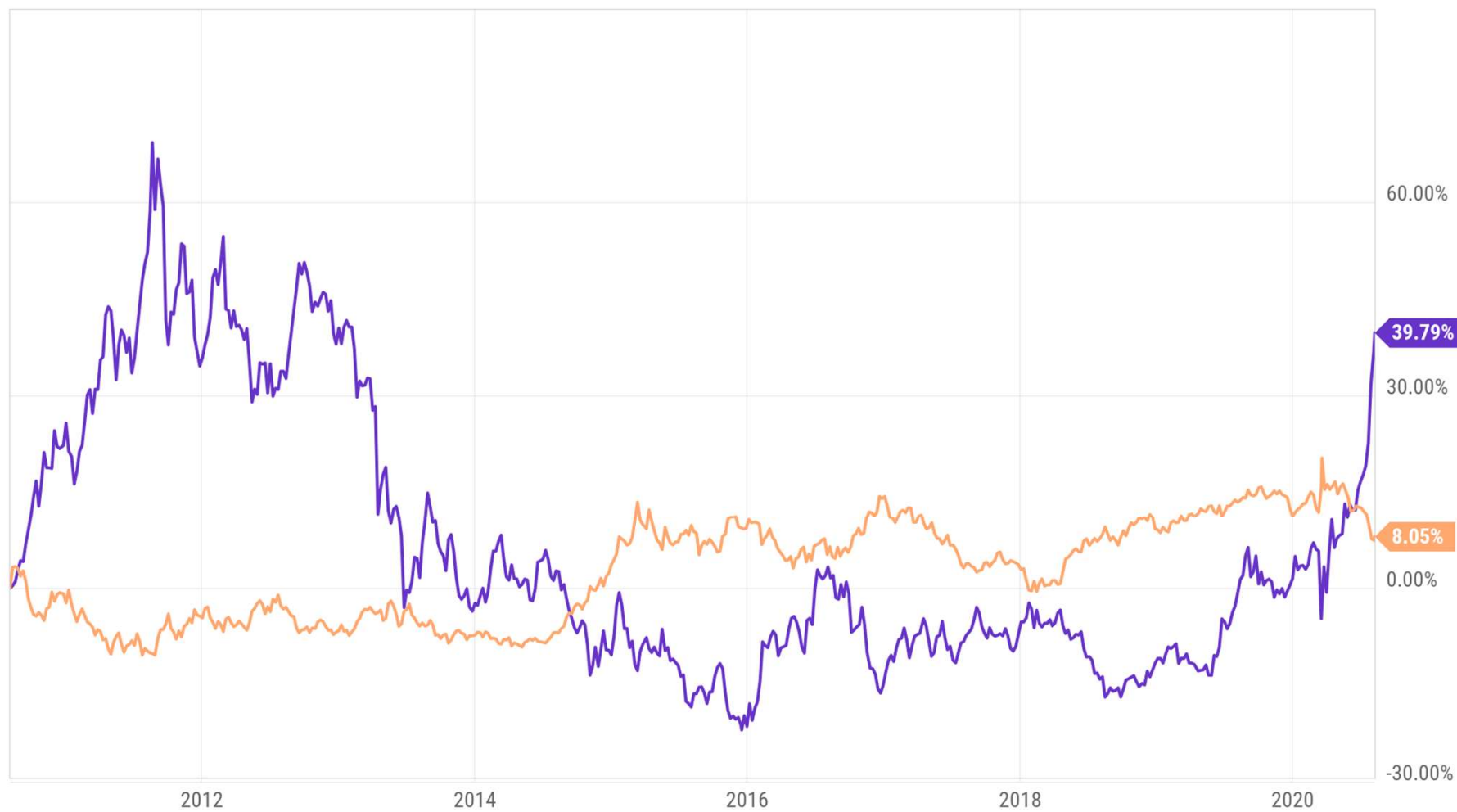
- iShares Core S&P 500 ETF Price % Change
- The Scotts Miracle Gro Co Price % Change
- SolarEdge Technologies Inc Price % Change



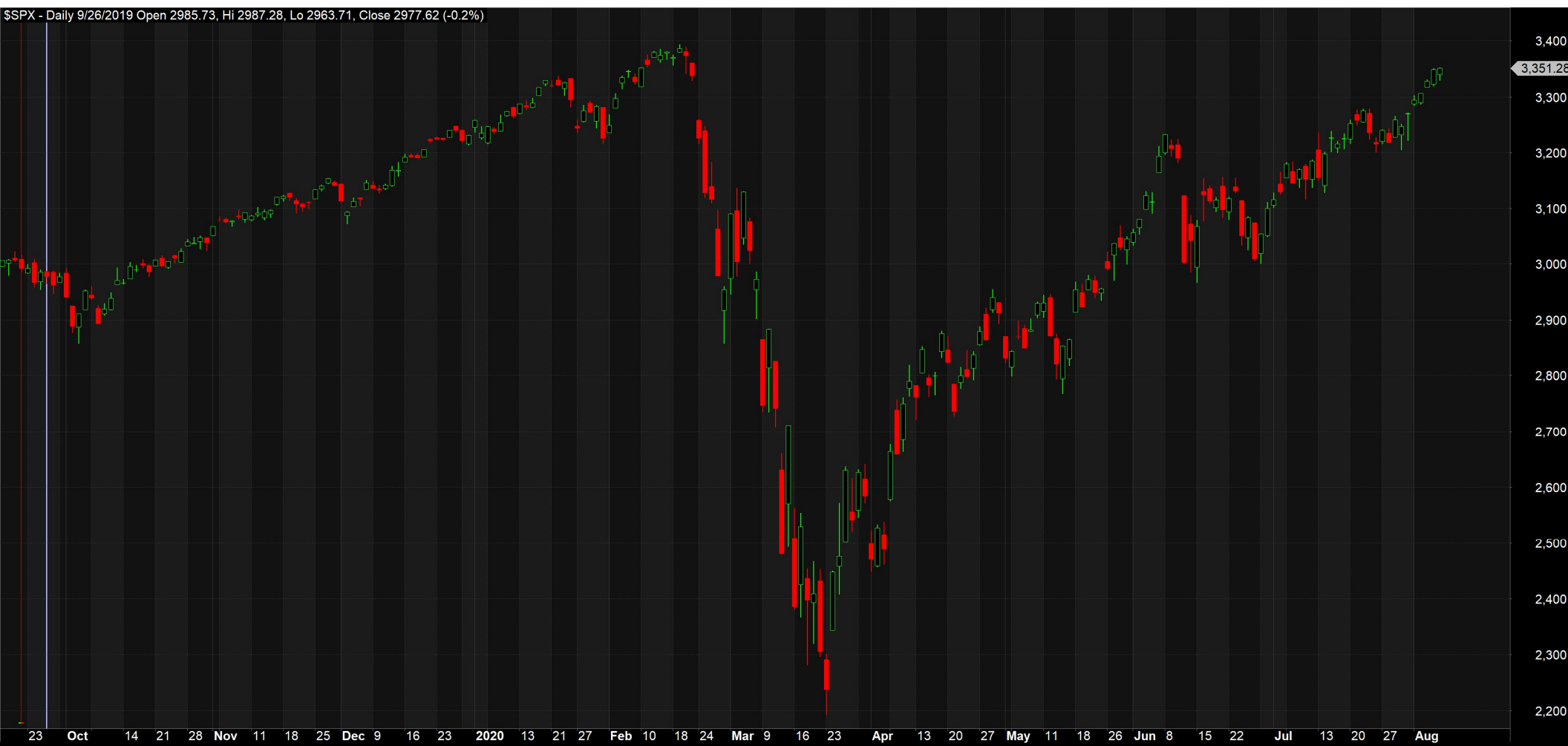
- Bloomberg Barclays US Aggregate Level % Change
- Bloomberg Commodity Index Level % Change
- S&P 1500 Level % Change



- Invesco DB Precious Metals Price % Change
- Invesco DB US Dollar Bullish Price % Change



\$SPX - Daily 9/26/2019 Open 2985.73, Hi 2987.28, Lo 2963.71, Close 2977.62 (-0.2%)



3,400  
3,351.28  
3,300  
3,200  
3,100  
3,000  
2,900  
2,800  
2,700  
2,600  
2,500  
2,400  
2,300  
2,200

NEM - Daily 9/20/2019 Open 39.5, Hi 39.9, Lo 39.3, Close 39.84 (1.1%) EMA(Close,20) = 39.13, EMA1(Close,50) = {EMPTY}, EMA2(Close,148) = {EMPTY}



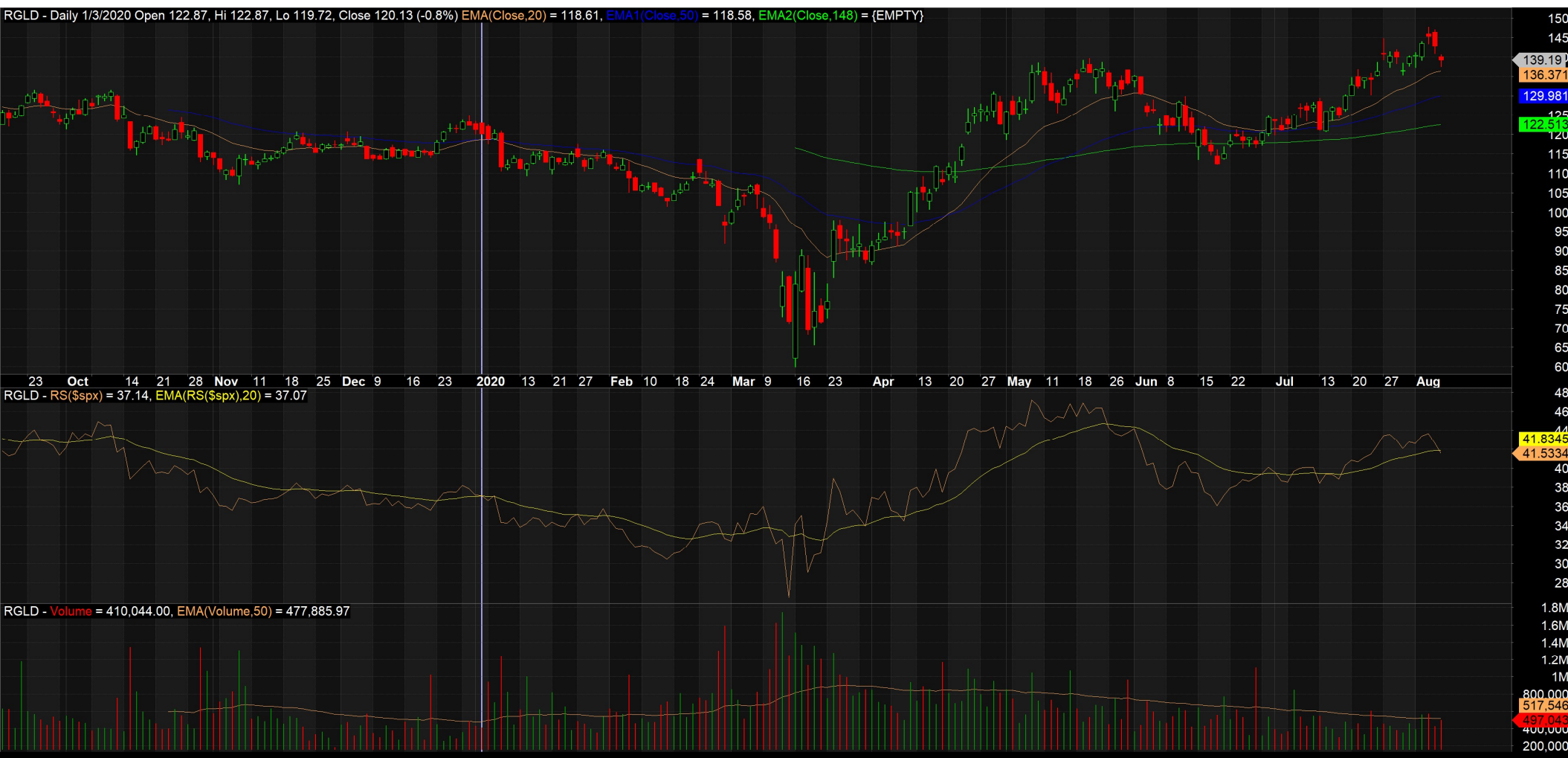
NEM - RS(\$spx) = 13.32, EMA(RS(\$spx),20) = 13.21



NEM - Volume = 8,365,819.00, EMA(Volume,50) = {EMPTY}

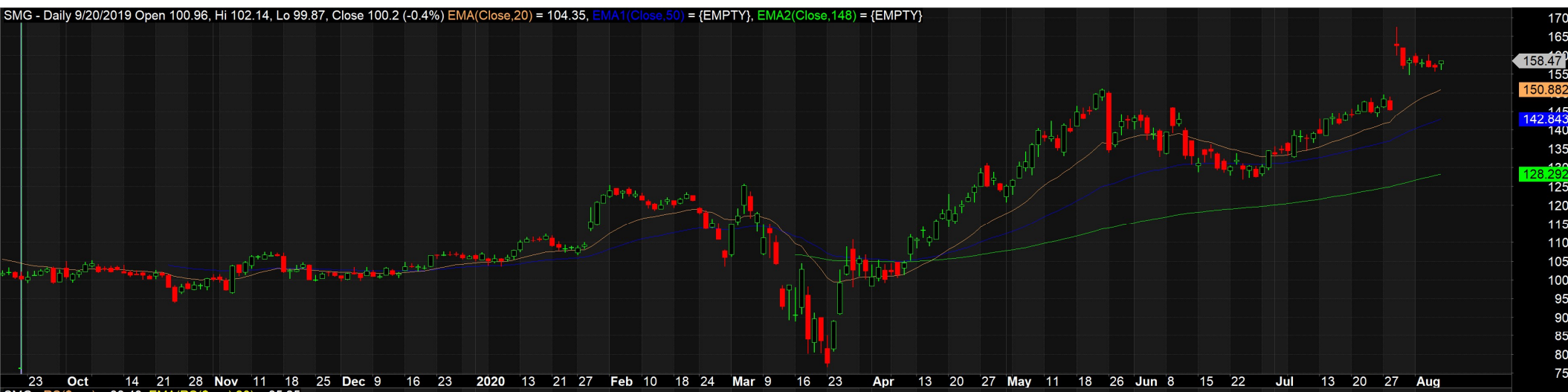


RGLD - Daily 1/3/2020 Open 122.87, Hi 122.87, Lo 119.72, Close 120.13 (-0.8%)  $EMA(Close, 20) = 118.61$ ,  $EMA1(Close, 50) = 118.58$ ,  $EMA2(Close, 148) = \{EMPTY\}$

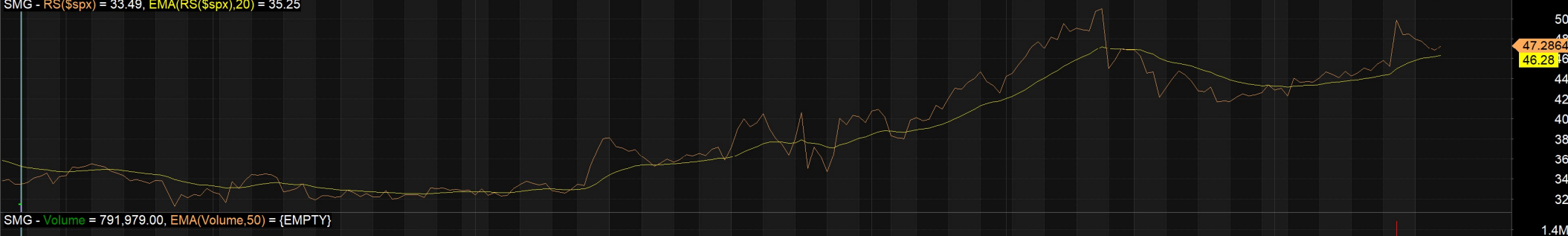




SMG - Daily 9/20/2019 Open 100.96, Hi 102.14, Lo 99.87, Close 100.2 (-0.4%)  $EMA(Close, 20) = 104.35$ ,  $EMA1(Close, 50) = \{EMPTY\}$ ,  $EMA2(Close, 148) = \{EMPTY\}$



SMG -  $RS(\$spx) = 33.49$ ,  $EMA(RS(\$spx), 20) = 35.25$



SMG -  $Volume = 791,979.00$ ,  $EMA(Volume, 50) = \{EMPTY\}$





MNST - Daily 9/20/2019 Open 58.72, Hi 59.12, Lo 58.32, Close 58.35 (-0.7%) EMA(Close,20) = 57.94, EMA1(Close,50) = {EMPTY}, EMA2(Close,148) = {EMPTY}



MNST - RS(\$spx) = 19.50, EMA(RS(\$spx),20) = 19.56



MNST - Volume = 4,239,834.00, EMA(Volume,50) = {EMPTY}



84
83.19
82
80
78
77.1979
76
74
73.1561
72
70
68
67.2867
66
64
62
60
58
56
54
52
50
24.8234
24
23.6767
23
22
21
20
19
8M
7M
6M
5M
4M
2M
2,257,410
1,824,580
1M