Chief Investment Officer PWM
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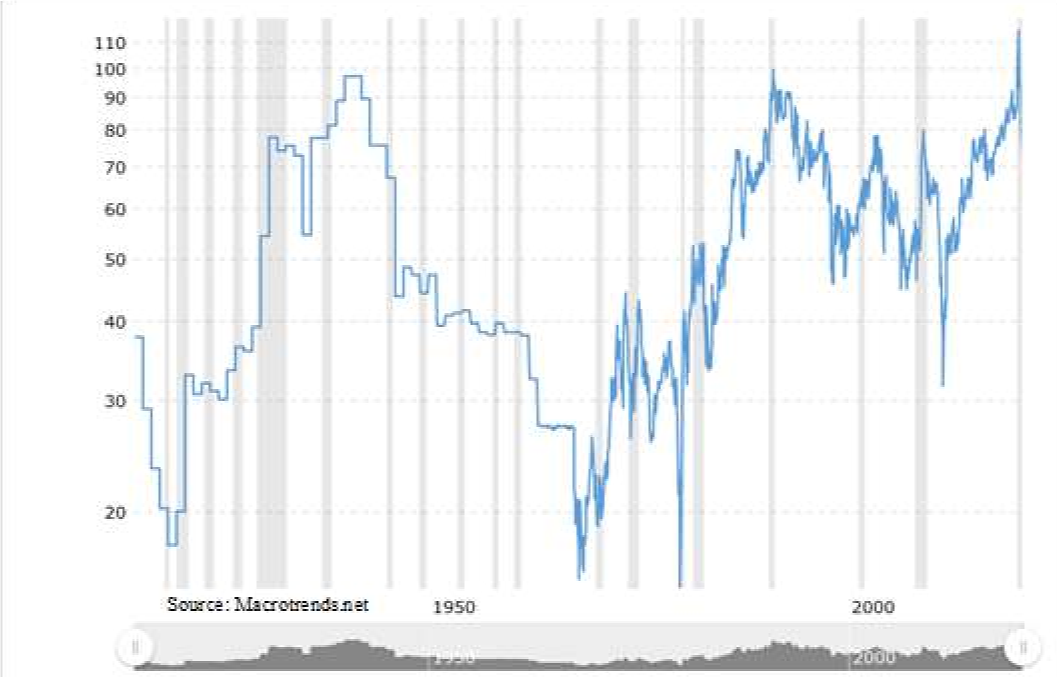
Are Gold and Silver Similar?

The short answer is yes, they are. We have spoken about the role of gold several times over the last few months. Now, silver is getting on the bandwagon.
Although silver has more industrial uses than gold, like gold, it also has an exceptionally long history of being used as money. Also, like gold, it is limited in supply. It cannot be manufactured out of thin air like a fiat currency. It is logical that silver would also regain some its luster, if the dollar continues to be debased.

The biggest knock against silver is that it is not gold. We have noted several times that if central banks hold gold to demonstrate the security of their currency, then gold is indeed money. As far as I am aware, central banks do not hold silver, so you are relying on the traditional role of silver as money to hold true. Like the central banks, we at Palumbo Wealth Management continue to own gold as part of our long-term portfolio allocation. Silver is a small part of our commodity allocation.

Because they are both precious metals, the ratio of gold and silver is often used to determine the relative value of each. Here is a chart of the long-term relationship. The higher the ratio, the greater the premium placed on gold, or conversely, the greatest discount placed on silver. **Recently, the gold/silver ratio hit a new high over the 100+ years as shown on the chart. The recent silver rally has brought that ratio down to about 73, which is still historically high. This has many prognosticators projecting the silver rally to continue.**

Gold/Silver Ratio from 1915 to Present



Were you a little disturbed by the report that second quarter GDP declined by 32.9%?

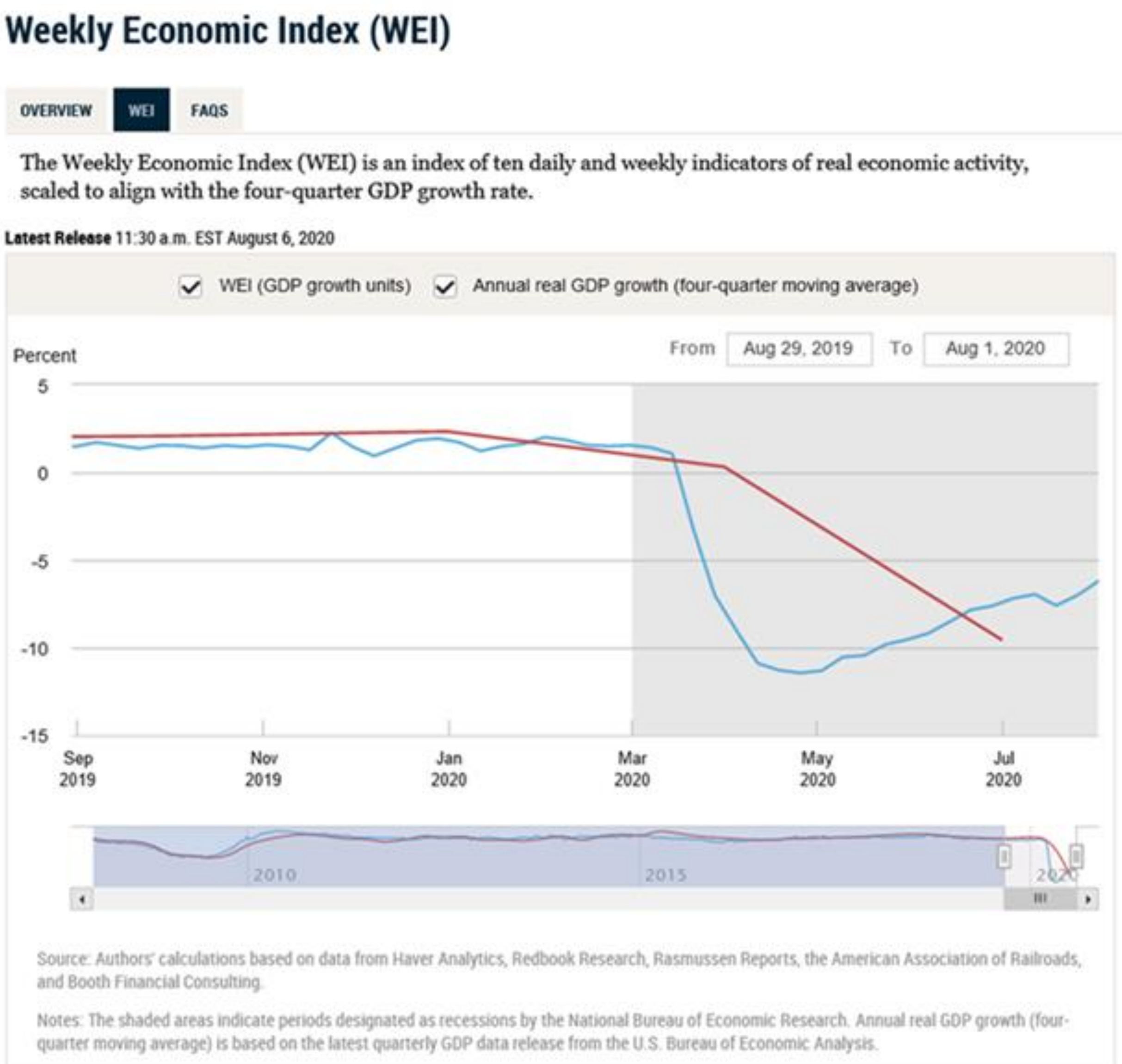
Economic statistics can be very confusing because there are so many ways to look at the same numbers. **Quarterly GDP statistics are typically reported on an annualized basis, meaning how the number would look if we had the same result for the next three quarters.** Most of the time, this is an excellent way to view the data, because GDP typically does not change much quarter to quarter and the annualized number gives you a sense of the path we are on. Not today.

Recall last week that we discussed how this cycle was unlike any other, that is, not being caused by general business conditions, but rather by an event. Reading GDP statistics requires some perspective too. **The actual GDP decline in the second quarter, without seasonal adjustment, was 7.0%,** which is also large by historical standards. It's the annualization mathematics that produces the -32.9% annual rate. Down 7.0% is scary enough, but down 32.9% was enough to scare the daylights out of most everybody.

While we had quickly dismissed the -32.9% data, as we were reading Howard Marks most recent letter, it was apparent that even he was taken aback by the number, so it occurred to us that we should be sharing this with clients too. **When GDP is reported for the year, it should look nothing like -32.9%. In fact, the Morgan Stanley estimate that Howard Marks used in his letter calls for 2020 GDP to decline by 5.3% from 2019.**

In this unusual environment, it makes absolutely no sense to annualize GDP data, it is simply too misleading. So, take heart, the news is not as bad as the GDP headlines appear.

In more positive economic news, the **New York FED Weekly Economic Index (WEI) ticked up again this week.** WEI follows ten daily or weekly economic indicators to give an estimate of overall economic activity. After a brief downtick in July, it has resumed indicating modest growth.
The FEDs Commentary for the week was as follows: ***"The increase in the WEI for the week of August 1 was driven by a decline in initial unemployment insurance claims (the first value below one million since the week of March 14, in non-seasonally adjusted terms) and increases in rail traffic and tax withholding, which more than offset decreases in fuel sales and electricity output."***



Have you ever heard of a SPAC? If not, keep reading.

The cover of Barron's this week (August 3 edition) has a picture of Bill Ackman, the founder of Pershing Square Capital and famous hedge fund guy. But he wasn't there because of his hedge fund, he was there because he had completed **the largest SPAC offering to date, raising about $4 billion of new capital.**
A SPAC is a Special Purpose Acquisition Company. **These are colloquially called 'Blank Check' companies because when offered to the public, the SPAC has no revenue, no earnings. In fact, they don't even have a business. What they do have is a wad of cash ready to be spent on acquisitions determined by management to be attractive.**
According to Barron's: *"Fifty-five SPACs have already gone public this year, raising $22.5 billion in proceeds—with another 22 SPACs on file to IPO in the coming weeks,*

according to SPAC Insider. That compares with 59 IPOs and $13.6 billion in proceeds in 2019—both previous records. More than 100 SPACs are currently on the market, with close to $40 billion in their war chests."

The details of each SPAC are different, but they generally follow the same formula. The SPAC sells units, which consist of one share and a warrant, which is essentially a call option. These units are typically split shortly after the initial offering and the shares and warrants will trade separately. The cash from the offering is very conservatively invested until an acquisition target is identified and a deal is closed. If management fails to close a deal within a specified time (typically two years) the cash is returned to the shareholders.

While the sponsors (management) invest along with the new shareholders, these founder shares typically come at little or no cost.

It's easy to see why management likes the structure. **What's attractive for new investors is the opportunity to invest with some great investors,** like Bill Ackman. As Barron's says: *"For retail investors, it may be the closest thing to being a venture-capital or private-equity investor—without knowing what the target company will be."* **These are not investments for the faint of heart, there is plenty of risk, but also the potential for significant reward.**

Ackman's SPAC is called Pershing Square Tontine Holdings and is trading under the symbol PSTH-UN. For now, Ackman has the largest war chest, as his $4 billion SPAC is by far the largest to date, and if Pershing Square Capital invests alongside, that war chest can grow even larger. This is a SPAC to keep an eye on.

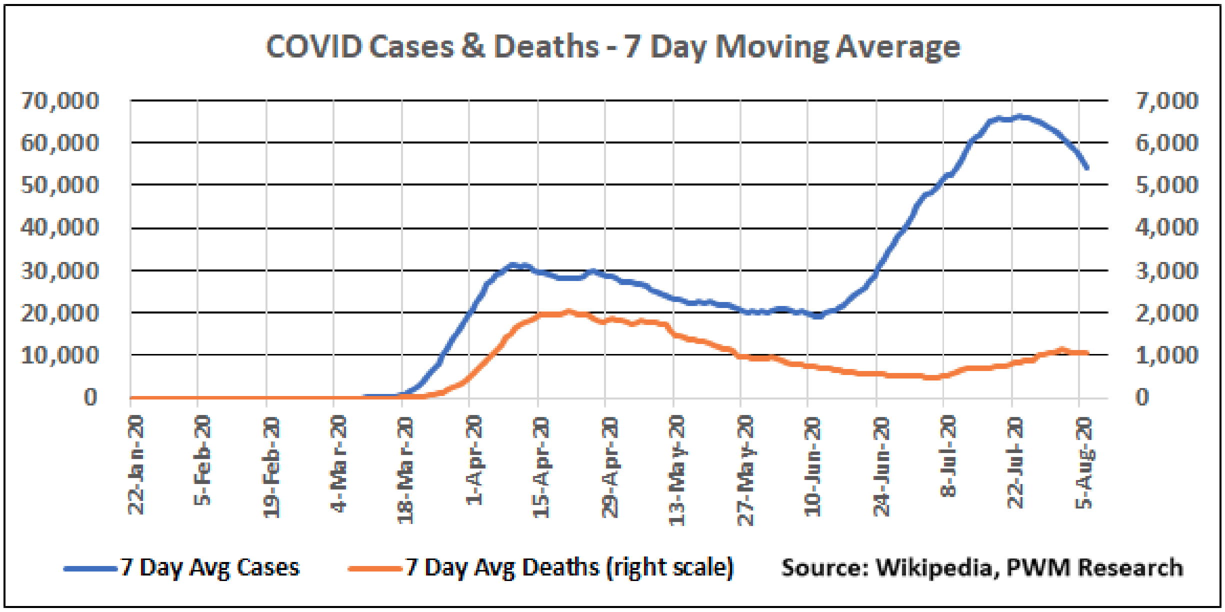
Is the Market Up or Down?

It would appear that the answer is Yes. We discussed the market concentration (that is, markets driven by a few stocks) several times, but we came across a chart that makes the whole picture clear. As of the August 1 date of the article, **the top five stocks in the S&P 500 (Apple, Microsoft, Amazon, Alphabet and Facebook) were up 33%, while the other 495 stocks collectively were still down about 5% YTD.** That is an example of market concentration and it is generally not a sign of a healthy market. This level of concentration is seen as unsustainable.

Related to this, Goldman Sachs published some research this week (see the links below for the full article) opining that **tech leadership in the stock market could come under pressure when a vaccine is announced.** The idea is that once a vaccine arrives, cyclical stocks would logically take on a market leadership role anticipating a stronger economic recovery and the tech beneficiaries of the COVID pandemic would cool off as the pandemic eases.

Update on COVID Progress

As discussed previously in our newsletters, **we remain in an improving trend. The hot spots get all the media attention, but overall, things are getting better.**


COVID Cases & Deaths - 7 Day Moving Average
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
22-Jan-20
5-Feb-20
19-Feb-20
4-Mar-20
18-Mar-20
1-Apr-20
15-Apr-20
29-Apr-20
13-May-20
27-May-20
10-Jun-20
24-Jun-20
8-Jul-20
22-Jul-20
5-Aug-20
7 Day Avg Cases
7 Day Avg Deaths (right scale)
Source: Wikipedia, PWM Research