

July 2020

2020 has been an exciting year. A few of the highlights in no particular order:

- Pandemic - COVID19
- Forced shut-down of the economy
- Brexit
- Hong Kong Riots
- United States riots
- United States protests
- Chinese Trade War
- Brief Trade dustup with Canada, Mexico, & Europe
- Went through a Bear market and started a Bull market
- Impeachment of Trump
- Acquittal of Trump
- Evan Sanford graduated high school and will be attending NCSU (class of 2024)
- Narrowly dodged a murder hornet invasion

In spite of all of this, the S&P 500 is down 2.34% and the Dow Jones Industrial Average is down 8.5%(07/14/2020) for the year. Given 2019's performance, being down a few percentage points would be expected. Only being down less than 10%, given the list above, is fabulous.

Valuation Measure	Description	Latest 06/30/2020	25 year average
P/E (forward)	Price to Earnings	21.72	16.39
P/B	Price to Book	3.32	2.97
P/CF	Price to Cash Flow	14.89	10.64
Div./Price	Dividend Yield	1.93%	2.07%

*Data as of 06/30/2020 - Current price divided by consensus analyst estimates of earnings, book, cash flow, sales and earnings growth for the next 12 months. Data provided by J.P. Morgan Asset Management

Equity

The 2019 year-end letter stated that 2020 will likely be a boring year. Wow, I don't think that I have been more wrong in my career but the premise of the statement is still valid. We finished the year with the market a little stretched and needed a real surge in earnings to justify a higher move in the markets. The S&P 500, as of June 30, 2020, is down 3.1% year-to-date. This number is surprising to many given the COVID-19 pandemic and the social unrest across the country. It is also a little misleading. The S&P 500 is a market weighted index. The companies with the largest market capitalization have the largest impact on the performance of the index. (Market Capitalization = Stock price * number of outstanding shares) The largest companies in the index are also the ones having the best year. ie. Netflix, Apple, Amazon, Microsoft, and others. When we back out the market capitalization weighting the S&P 500 is

down 11.28 year-to-date.

The unweighted S&P 500 is trading at 18x earnings (as of 06/30/2020). When you pull-out the high-flying names, the stock market is reasonably valued and down a little over 11% for the year. This is a better reflection of the realities that we are currently facing but there is still the uncertainty of what earnings will be going forward. When the economy was shut down, everything was in working order and I fully believe that as we are able to get back to normal earnings will rebound quickly. There will be sectors to avoid but the majority of the economy will rebound quickly.

Fixed Income

The Federal Reserve injected a ton of liquidity into the markets in an effort to preempt some of the pain that was coming from the pandemic. As part of those efforts, they started buying corporate bonds and corporate-credit ETFs. The Federal Reserve's moves have distorted the market and this distortion will persist for many years to come. It took more than 10 years for the actions taken during the Financial Crises to be undone and it will take longer for this liquidity to be pulled out of the system.

Economic Overview

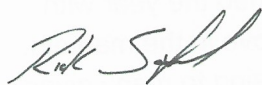
What is the condition of the United States economy? That is the \$22 trillion dollar question. We know that it was in good shape when we turned it off. We know that it was in decent shape when we tried to turn it back on but we won't know anything for sure until we lift the quarantines and see what happens. We can't do that until COVID-19 infection rates, death rates, and so on are at a level that scientists, politicians, the media and everybody else feels is acceptable. It is my belief that unemployment will fall below 10% quickly and get to 5-7% in less than 18 months. Gainful employment drives the consumer and that is the horsepower of the U.S. economy.

Credit card debt is the lowest that it has been in 30 years. The household debt service ratio, debt payments as % of disposable income, is at its lowest point since 1980. Interest rates are low and household net worth is just a blip below its record high. Government debt/spending is still the anvil hanging over our head. It can be fixed and it is manageable but it will have to be addressed and the short-term focus of our politicians isn't aligned with tackling unpopular problems.

Conclusion

2020 has started off like a swift kick in the pants. I assume that it will get better because it always does but it is difficult to compare this to other situations. The fact is that we will figure out how to move forward in a normalish fashion. Some industries are hurting while others are thriving and that is why we pay close attention to diversification. We will continue to buy great companies at good prices and we will avoid the temptation to chase performance. Your strategic plans and long-term goals shouldn't be scrapped because of short-term and intermediate-term difficulties.

Drinks on me when we get this mess behind us. Enjoy your summer and thank you for your business.
Sincerely,



Richard "Rick" L. Sanford, II
President

P.S.- Whitener Capital Management has moved. The mailing address is the same but our new physical address is 3993 Sunset Avenue Rocky Mount, NC 27804