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First Quarter 2020 Commentary

This year at Founders Capital Management, Inc., we celebrate our 25th anniversary in business.

We'll condense our nostalgic stroll down memory lane to an abbreviated list of some key data points, which were closely watched by investors then as they are now. We'll also offer a few polished nuggets of wisdom, born of age, experience and perspective.

Remember 1995? Yes, we and the markets were somewhat younger then.

Amid a predictable combination of optimism, pessimism and uncertainty about the future, in the year of our inception the S&P 500 opened at 465. The stock markets were still more than a year away from being described by some as being driven upwards by investors suffering from irrational exuberance.

Having just raised interest rates to 5.5%, the Federal Reserve was described at the time to be on a sustained bout of tightening. That bout would not last much longer as the Fed would soon initiate a course correction due to some concern that rate increases had been overdone.

The inflation rate was 2.8%, seemingly tame when compared to history, but still downright corrosive.

Annualized GDP growth that year was 2.7%. A very good number, and certainly a great example of what our economy is capable of delivering.

In 1995 the U.S. population was 266 million, of which 12% were older than 65. The percentage of older Americans had grown from 11% of the population in 1980.

Let us compare these numbers to today.

This year the S&P 500 opened at 3159. There is no better number to illustrate why everyone should be an investor for life.

Interest rates are at 2.25%. Money can easily be described as being dirt cheap. Remember, that these rates have been *raised* to their present level.

At the end of 2019 the inflation rate was 2.3%. The Fed pays very close attention to this number, and how much it changes.

The most recent full-year figure for GDP growth is 2.9% for 2018. The figure for 2019 is due out soon, and expectations are for continued economic health.

Today there are 327 million of us, and 15% are older than 65. There is no doubt that the growth and aging of our population present some of the greatest challenges as well as opportunities we face as a country.

As we mentioned above, being an investor for life is one of the most important recommendations we make to our clients. Clearly we differentiate a 50-year-old investor from one who is 70 years old, yet they both should position a portion of their investments for growth in order to capture some of the returns such as the double-digits the S&P 500 delivered in 2019. Let's not forget the returns we had last year helped offset down years in the markets that occurred as recently as 2018 and 2015.

Being an investor for life does not equate with taking unnecessary risk. We are frequently asked if an investor should exit the stock markets later in life and simply buy bonds. While that is one investment solution, it is probably not the best one. Entirely forsaking the potential for growth is most often a mistake. It is indeed a rare investor who can contend with taxes and inflation by earning 3% on a shrinking portfolio.

During periods when interest rates are as low as they are today it can be difficult to invest purely for competitive income. You may recall our decreasing reliance on Treasury bills relative to the most recent four to six quarters. Within the past two years it made good investment sense to own 3-month T-Bills. Now the landscape is different.

Much of the work we do for you revolves around providing qualified dividend income. Being qualified means the dividend is taxed at a lower rate than an ordinary dividend. Consider that the dividend yield on the S&P 500 is about 1.7%. We usually invest in companies that pay more than that, and by doing so we have solid growth and income potential. Remember that dividends have comprised up to 25% of the historic long-term performance of the S&P 500, so their importance as a contributor to an investor's total return cannot be overstated.

So being an investor for life covers multiple facets: managing risk while simultaneously investing for growth and income, as well as recognizing challenges and opportunities with your best interest in mind.

Our outlook for the year ahead is upbeat primarily because the strength of the U.S. economy continues. Inflation is still very low and stable, as are interest rates. Unemployment is the lowest it has been in decades, which supports positive consumer sentiment.

When viewed broadly, stock valuations are moderately higher than their historic averages. However, our research suggests that within some market sectors there remain companies whose stock is still attractively priced. As we stated above, dividend income is equally as important as a stock's price and appreciation potential in our on-going search for investment opportunities. Managing portfolio risk continues to be one of our primary objectives, thus our disciplined approach to investment selection consistently results in broadly diversified holdings.

We thank you very much for being our client. We look forward to providing wealth management services to you and your family for many years to come.

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