Paragon Capital Management, LLC

July 2020

Main St. vs Wall St.

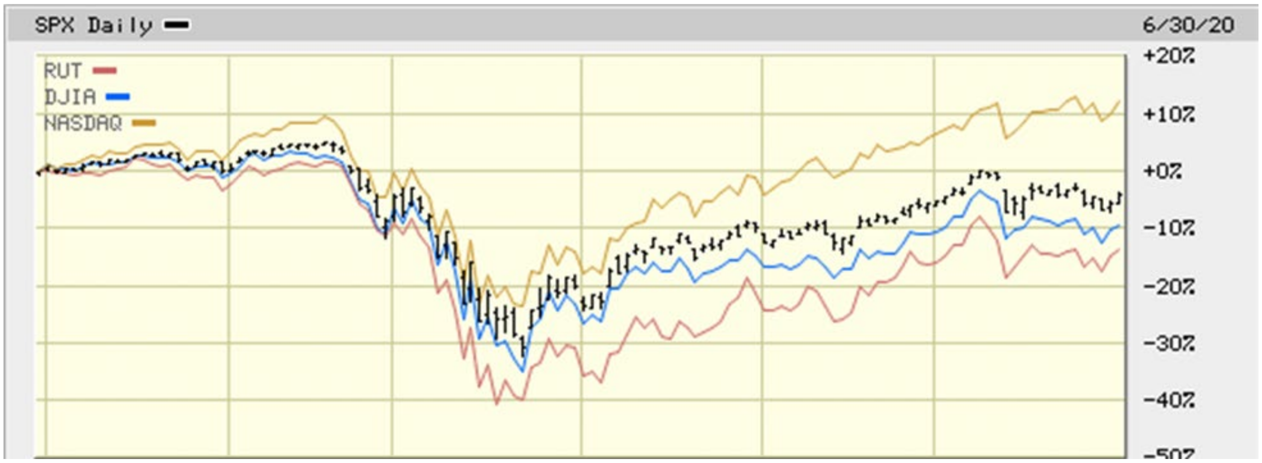
2020 has become a year we will never forget. So much has happened during the last three months and so many things have changed quickly. In this quarters newsletter we will look back at what has occurred, put some perspective on it and give our thoughts on the second half of this crazy year.

At the time of publication of the first quarter newsletter, Covid-19 was spreading across the World and the markets were down sharply. We started the newsletter with the statement "to say we are in totally unchartered waters would be a tremendous understatement." Three months later we could not agree more, and we are still navigating those waters! We went on to caution our readers that throughout history we have overused the statement "this time is different". Our message to our readers on page 3 of the newsletter was that it is impossible to time the market and getting out and back in does not work. We preferred to trade the markets, selling stocks that we do not think will perform well in the current market conditions and buying companies that will either benefit currently or benefit during the recovery. Finally, we cautioned against counting on a retest of the market bottom, showing a chart of 2008/2009 Financial Crisis and how the S&P 500 did not retest the lows and went on to a 11-year bull market.

The title of this newsletter is Main St. vs Wall St. The title represents the disconnect between the Economy (Main St.) and the Stock Market (Wall St.). Throughout the quarter we continued to see unemployment numbers skyrocket, businesses file bankruptcy and cities across the US shut down completely. Retail sales were down 16.4% in April as stay at home orders shuttered retail stores. Over 36.5 million people filed for unemployment between mid-March and April. Existing home sales fell 17.8% in April- the largest monthly drop since July 2010, which was the expiration of the Homebuyers tax credit. Airlines went from 2 million passengers per day to just over 100,000 passengers per day in one month. In June, the National Bureau of Economic Research (NBER) made the announcement that the 2020 recession officially started in February, ending a 128-month economic expansion.

Reading the last paragraph would lead you to think the Stock Market crashed and we were headed for a depression. However, the markets reacted just the opposite and began an historic rebound leading to a new all-time high for the Nasdaq and near high levels for S&P 500 and Dow Jones Industrial Average.

See chart on next page:



Jan Feb Mar Apr May Jun July

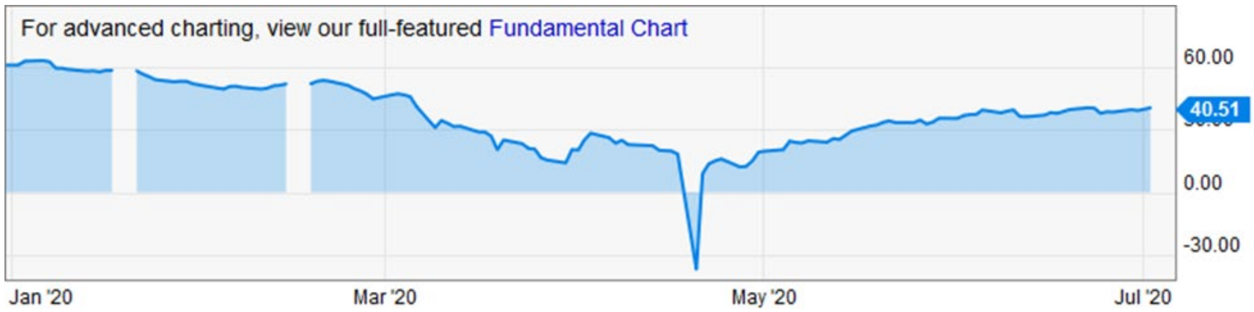
Black- S&P 500/ Gold- Nasdaq/ Blue- Dow Jones Industrial Average/ Red- Russell 2000 (small cap)

So what happened, there was optimism that the virus was not as bad as expected, other than NY the rest of the country seemed to be seeing a daily decrease in new cases and death rates slowed dramatically. On May 17, Federal Reserve Chairman, Jerome Powell, appeared on 60 minutes and said the Fed will do whatever it takes to prop up the stock market. The Dow Jones was up 911 points or 3.85% on Monday May 18th. Throughout May cities across the country began reopening in phases. This gave more optimism to the markets. Heading into June optimism hit a new high as unemployment was expected to be 19% but came in at 13.3% for May. The same day, June 5th, marked the strongest 50 day move since 1952, with the market +39.3%.

Throughout the quarter we have seen a power struggle between the economy and the markets. In May retail sales surged 17.7% vs expectations of 8.4%. But that number was announced in June, the same time a second wave of the virus was spiking in Texas, Florida and California. Like a game of chess, the Federal Reserve announced the details of its plan to purchase a diversified portfolio of Corporate Bonds. June added 4.8 million new jobs. Unemployment fell to 11.1% vs. expected 12.5%, led by hiring in the Leisure and Hospitality industries. The announced continuing unemployment numbers of 19.522 millionwas seen as a positive- but was probably a low number. Unemployment is backward looking data, the second wave spiked the last week of June, many of those leisure and hospitality jobs might be lost again. Also, States froze applications while investigating fraud, not expanding benefits as allowed under the CARES act and system problems in many states as they dealt with inadequate staffing.

We saw major retailers like Macy's announce 3,900 layoffs at the end of June and bankruptcy announcements like GNC. Robinhood, an online trading platform, became a daily topic on CNBC for the effect on stocks like Hertz and Nikola. Hertz announced that they would need to file for bankruptcy and saw their stock drop from $3/sh to about $0.54/sh. In bankruptcy, common stock should go to $0. However, traders jumped into the stock driving the price to over $5/sh before eventually settling between $1-$2/sh. Nikola, an electric truck manufacturer achieved a Market Cap greater than Ford. This despite not only having never built a single vehicle, and they do not even have a factory yet!

The Stock Market wasn't they only market creating headlines.   The big story in April was Oil.



As you can see in the chart above, Oil dropped to -$46/barrel in April.   Most experts were unaware that it could even trade at negative prices. Interest rates on bonds and money markets remain at all-time lows and Gold has surges to new highs on fear of inflation. The National Debt has soared to above $26 trillion. Of the $26 trillion, $20 Trillion is interest bearing (the other is debt the government owes itself). The US is paying an average of 1.983% on its interest-bearing debt today. Every 1% rise in interest rates, the debt service cost increases by $200 billion. (source: Treasury Dept.).

At Paragon we took our own advice from the first quarter newsletter and we stayed invested. We sold our financial stocks because we thought that loan loss reserves would rise and possibly dividend cuts could occur before year end. We trimmed some of our stocks that had done well during the 11-year bull market and had become larger positions than we were comfortable with. We also looked for opportunities, using the cash from trimming to buy new positions in Amazon, Apple, Visa, Bausch Health and Fuller and Thaler Behavior Small Cap fund.

Second Half Outlook

The remaining half the year will see more action by the Federal Reserve, COVID-19 news and an Election.   Congress is working on another round of Stimulus, possibly before the August break if they can agree on the amount and who will benefit. As of this publication we are thinking $1.5 trillion benefitting local and state governments, possibly schools, perhaps another round of checks for those that qualify and another round of PPP loans (Paycheck Protection Plan).   COVID-19 is causing states like Texas and California to begin shutting back down, other states to mandate masks in public, and major businesses like Walmart to require masks in all stores nationwide. We have no less than 150 pharmaceutical companies working on some form of a vaccine. If a vaccine is announced, it will create a positive reaction by Wall St. as an indication the economy can re-open and business resume normal operations. Then there is the election. We have a Presidential election between Donald Trump and Joe Biden. We also will have a battle for control of the Senate. Will the Democrats have a Blue Wave and take control of Congress, the Senate and the White House or will the Republicans keep the Senate and/or the White House?

We will continue to monitor the progress of the vaccines and the spread of the virus. How different states handle shutting down for a second time and reopening too soon. We will be monitoring the election and which way the polls are headed. Finally, we will learn a lot from CEO's of companies reporting earnings and their outlooks for the second half of 2020.

How to stay informed

For up to date news and thoughts from Paragon, plus interesting articles on topics like saving and investing for children, taking care of elderly parents and their finances and other timely topics- we encourage you to follow us on LinkedIn and/or Facebook. We have company pages for both and would appreciate you liking or following us.

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Also, please share your experiences with friends and family, we would love to help those you know with their financial success.

Even though Paragon's offices remain temporarily closed due to COVID-19, we are all working from home and staying in contact with each other daily. We are meeting with clients at the office by appointment only and are also available to schedule a video or phone conference/account review.

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