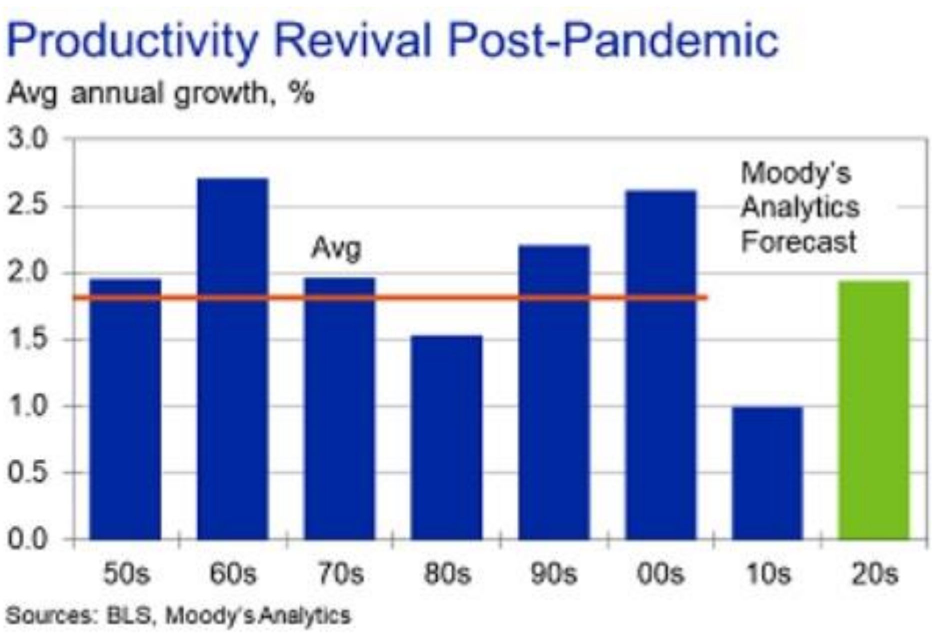
MARATHON INVESTMENTS Newsletter, April 18, 2021

The S&P 500 closed at 4,185.47 on Friday, up 1.4% for the week and up 11.4% year-to-date.

The **banks** kicked-off the earnings season. In general, the results were strong, helped by reserve releases they had expanded a year ago. Despite growing deposits, the banks curtailed loans. 25 leading U.S. banks reduced their loan holdings by 8% during the first quarter to $5.5 trillion. Deposits rose 16% to $10.1 trillion, which led to the lowest loan-to-deposit ratio (54%) since data collection began 36 years ago.

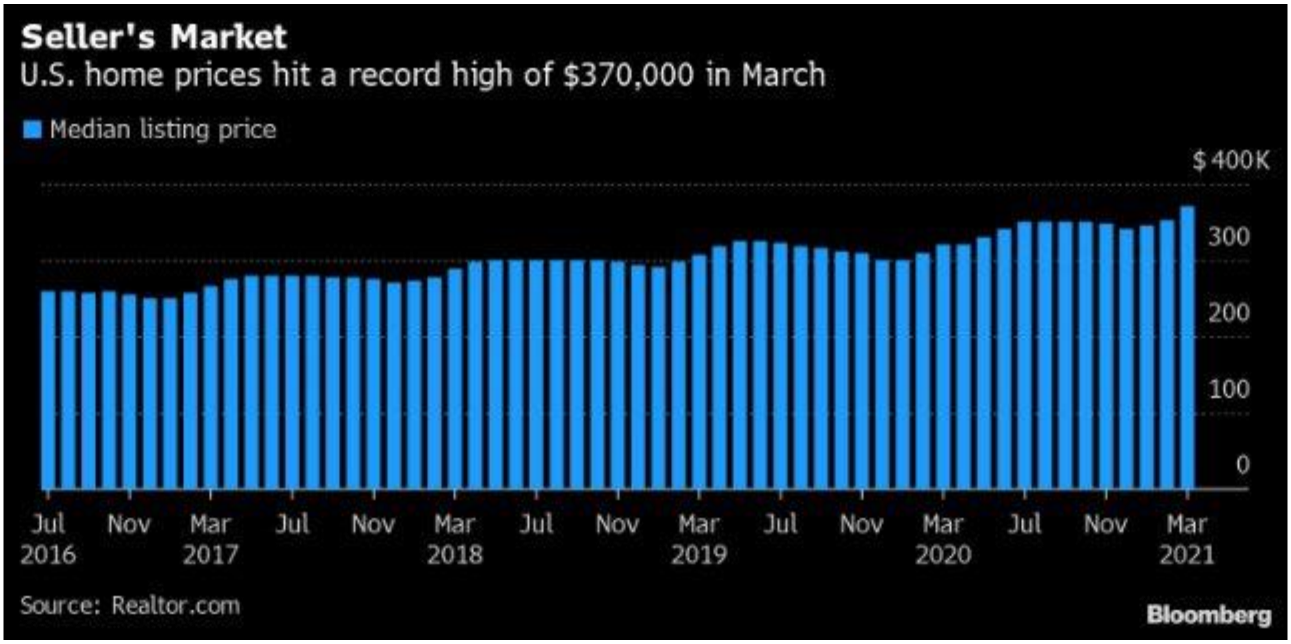
The **U.S. budget deficit** grew to a record $1.7 trillion in the first half of the fiscal year (since October 1st) as a third round of stimulus payments sent federal spending soaring last month. The budget deficit is now more than double what it was for the same period a year ago. The federal deficit is now at levels not seen since the end of World War II as a proportion of the economy. What will the long-term consequences be? How will debt be paid? Few people in Washington, DC seem to care about the long-term burdens of debt and dependency.

Productivity
Economists are predicting fast economic growth over the next year or two. Credit the reopening of the economy and a tsunami of stimulative government spending. The shock of the pandemic forced companies to become more efficient, including more widespread use of technology, such as machine learning, cloud computing, etc. The pandemic gave productivity growth a boost, at least as measured by output per hour. It was up 2.5 percent last year, the best performance since 2010. As Moody Analytics economist Mark Zandi explains: "The pandemic crushed lower value-added industries such as brick-and-mortar retail and travel and lifted higher value-added online and technology businesses."
Trend productivity growth was stuck in the post financial crisis expansion at just over 1% per annum, almost a percentage point below the 2% growth experienced in the previous 60 years since World War II. Expectations are for trend productivity growth to re-accelerate to 2%.

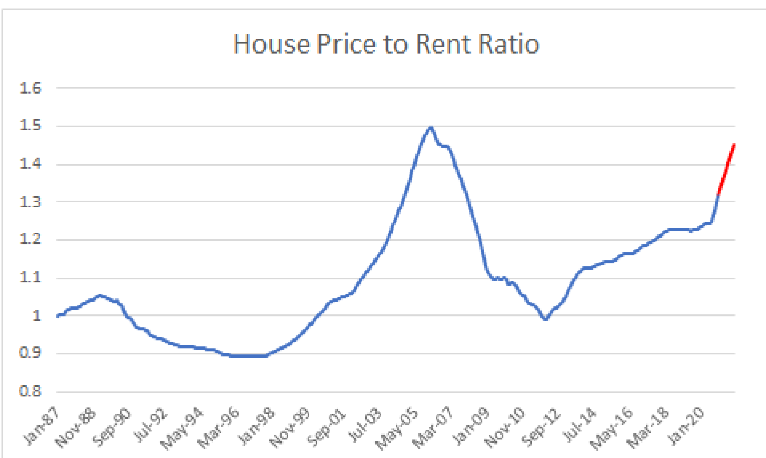


The **U.S. housing market** is hot. The Case-Shiller U.S. National Home Price Index was up more than 11% year-over-year in January. We've all heard anecdotes of houses selling as soon as they get listed with multiple offers over asking. A combination of low mortgage rates, low supply, demographics, and the pandemic has made things increasingly difficult on buyers in this sellers' market. Contrary to the previous housing boom in 2007, home loans are going almost exclusively to borrowers with pristine credit histories and sizable down payments.

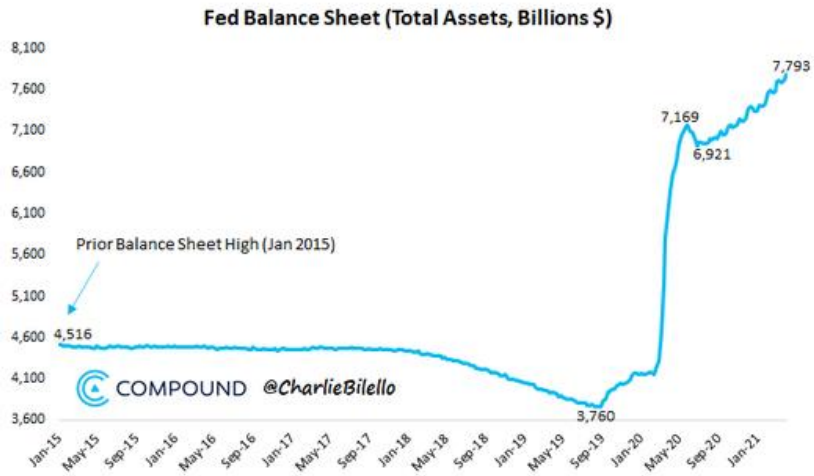
The U.S. housing market is 3.8 million single-family homes short of what is needed to meet the country’s demand. The shortage is especially acute for entry-level homes, which makes it much more expensive for first-time home buyers to enter the market.
Since the beginning of the pandemic, the median sales price of U.S. homes has jumped $50K to a record $370K. Servicing debt each month is $100 more now than a year ago, assuming 20% down-payment.



Housing prices and rents are going in a different direction. The house price to rent ratio has been in an uptrend and the expectation is that this trend will continue in the foreseeable future.

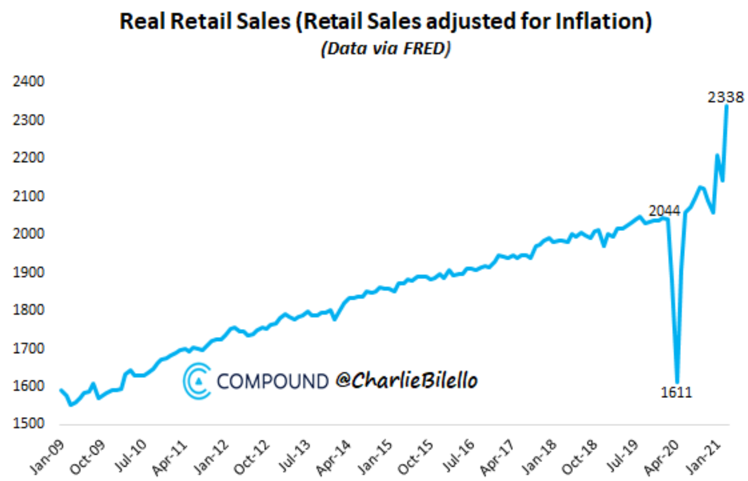


At $7.8 trillion, the Fed's balance sheet hit another new high this week. The Fed's total assets have increased by $3.6 trillion since the beginning of 2020 and they plan to keep buying bonds at a rate of $120 billion per month going forward. 2018 was the only year that the Fed made a serious effort to reduce their balance sheet (see table).

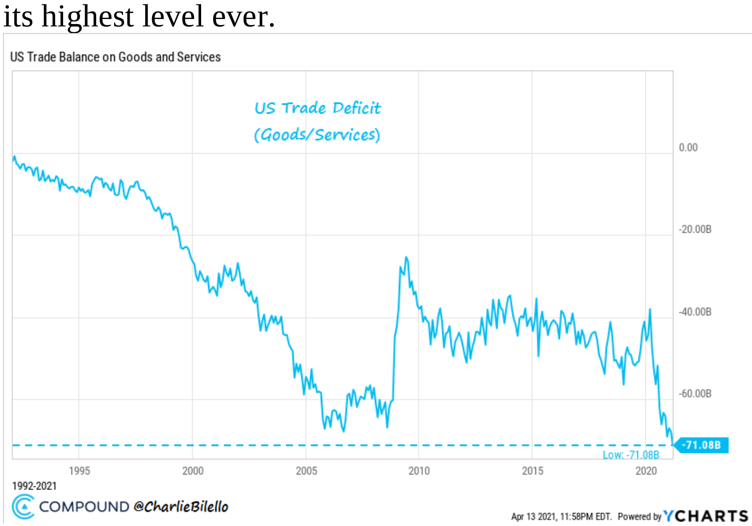


US Federal Reserve - Total Assets			
Year End	Assets (in Billions)	$ Increase (in Billions)	% Increase
2002	732		
2003	772	39	5.4%
2004	811	39	5.1%
2005	848	37	4.5%
2006	870	22	2.6%
2007	891	21	2.4%
2008	2,239	1,349	151.4%
2009	2,234	-5	-0.2%
2010	2,421	187	8.3%
2011	2,926	506	20.9%
2012	2,907	-19	-0.6%
2013	4,033	1,125	38.7%
2014	4,498	465	11.5%
2015	4,487	-11	-0.2%
2016	4,451	-35	-0.8%
2017	4,449	-3	-0.1%
2018	4,076	-373	-8.4%
2019	4,166	90	2.2%
2020	7,363	3,197	76.7%
2021 YTD	7,793	430	5.8%
	Period	$ Increase (in Billions)	% Increase
	2002-21	7,061	965%
COMPOUND			@CharlieBilello

US Retail Sales surged to new highs in March after the third round of stimulus checks took hold. Sales are now 14% above levels pre-Covid-19. March retail sales rose 9.8% versus February and 30.4% compared to March a year ago. This will be followed up by a very strong GDP report for the first quarter. Expectations are for 7% growth annualized.



With US consumers on a buying spree, the demand for imports has surged, with the US Trade Deficit moving to its highest level ever.



2008: Google buys YouTube for $1.65 billion.
2021: YouTube generates $1.65 billion in ad revenue every 3 weeks.
Name a better acquisition.

Deli's bubble valuation

There is a deli in NJ, which is trading on the Pink sheets of the NASDAQ under the name Hometown International (HWIN) and it is valued at $100 million. The only asset is the deli with annual sales of less than $20,000 per year. That's the equivalent of a price-to-sale ratio of 5,000. By comparison, the price-to-sales ratio of the S&P 500 companies is 3. The pastrami must be very good at this deli. You probably can buy all the delis in the U.S. for $100 million. The CEO is a high school wrestling coach.

Potential reason for the high valuation? According to their 10K, which is a financial report, Hometown International plans to use its public listing to seek out a combination with a private business and Hometown could serve as a vehicle for a reverse merger transaction. This is an easy way for a totally unrelated business to go public, taking over the Hometown name and public listing, without proving any fundamental financials initially.

Tulip mania again

The tulip craze in the 1600s is often cited by financial market analysts when discussing speculative manias. For irony lovers, there are now non-fungible tulips, illustrations of tulips, for sale on the blockchain.

Examples of fungible assets on the blockchain are bitcoin and ethereum. They can be readily interchanged for another of like kind. Non-fungible assets are not interchangeable, such as art, music, collectors' cars, etc.

April 19th is the 300th birthday of **Roger Sherman**. Sherman is one of America's founding fathers and was the official founder of the state of Connecticut. He was the first mayor of New Haven and the only founder to help draft the Declaration and Resolves, the Articles of Association, the Declaration of Independence, the Articles of Confederation, the Constitution, and the Bill of Rights.

April 19th will also be the 246th anniversary of the battles of Lexington and Concord, which marked the beginning of the American revolution.

Building wealth in the stock market requires patience and discipline. Marathon Investments selects quality companies with strong balance sheets which generate above average cash flows and dividends. The company is expanding and interested in new clients and referrals. Portfolios are personalized, there are no investment minimums and costs are low to ensure that you benefit the most in the ***long run.*** Convert your income to assets or you will work forever.

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Thank you for your interest, Hans

Hans Dijs – President
Marathon Investments, LLC
hans@marathon-investments.com
hansdijs@aol.com
(203) 984-4534
www.marathon-investments.com
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