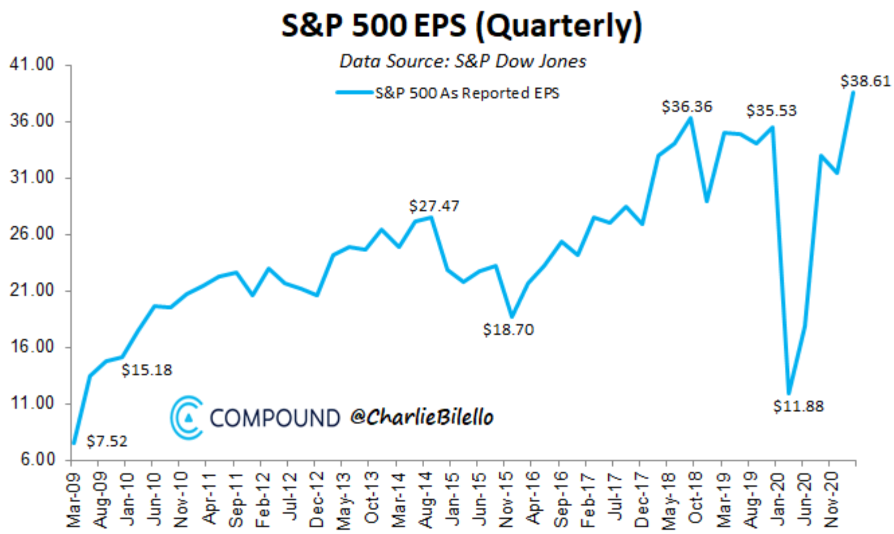
MARATHON INVESTMENTS Newsletter, April 25, 2021

The S&P 500 closed at 4,180.17 on Friday, down 0.1% for the week and up 11.3% year-to-date.

Driven by a surge in consumer spending, US corporate earnings are on pace to hit a new high in Q1, surpassing the prior high reached in the 3rd quarter of 2018. This is an incredible feat given where things stood just one year ago. Note: combination of actual and estimated earnings for Q1 2021.

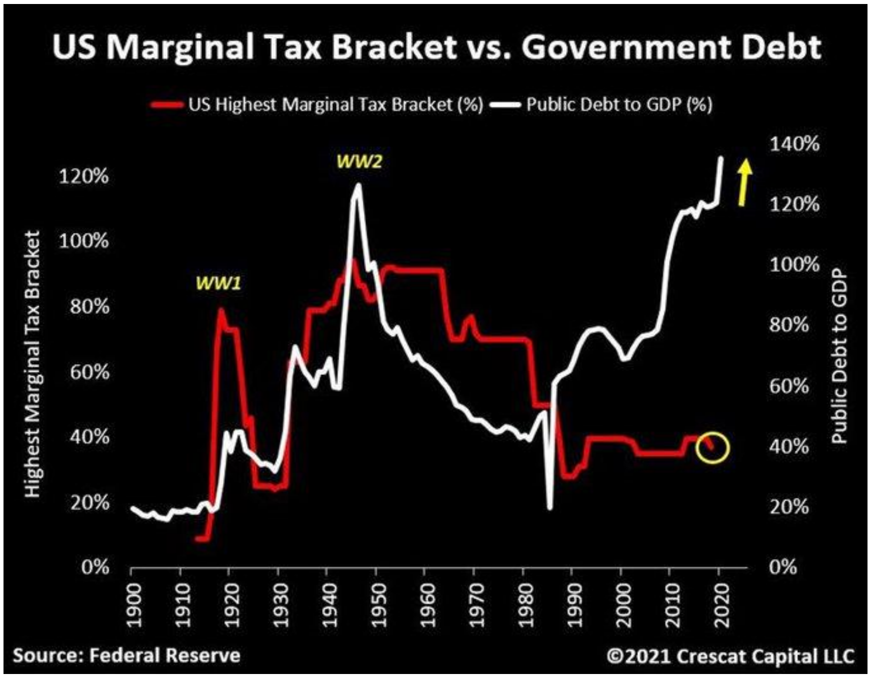


Investors are bracing for a busy week of first quarter earnings. More than a third of the companies in the S&P 500 are expected to report earnings, including tech giants like Apple, Microsoft, Amazon, Facebook and Alphabet.

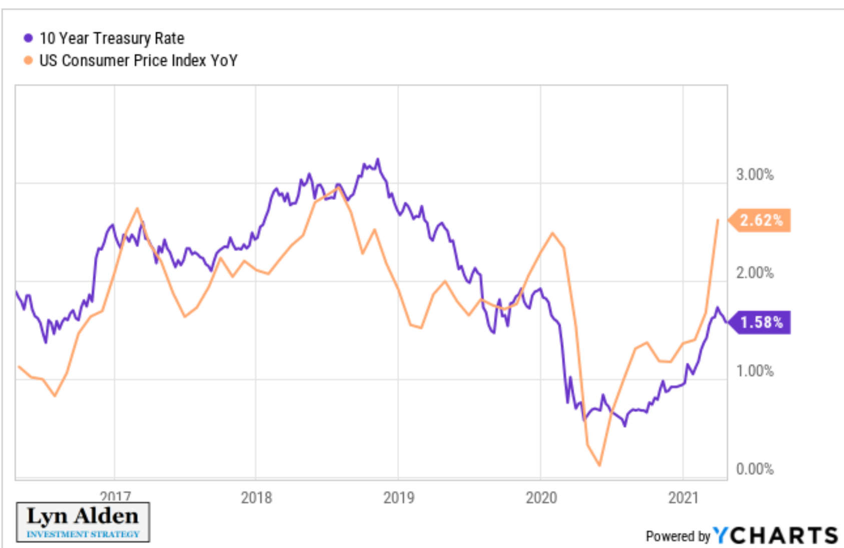
Johnson & Johnson (JNJ) increased its quarterly dividend by 5% to $1.06 a share. This dividend king has increased its quarterly dividend for 59 years. A dividend aristocrat is a company in the S&P 500 that has paid and increased its dividend every year for at least 25 consecutive years, so JNJ certainly makes that list. Dividend aristocrats will do everything to keep that streak going. Additionally, JNJ is one of only a few companies with a stellar AAA credit rating.
Other well-known dividend aristocrats are AT&T, Procter & Gamble, Colgate Palmolive, PepsiCo, Coca Cola, Abbott, Abbvie, Medtronic, Target, Chevron, ExxonMobil, AFLAC, Illinois Tool Works, Caterpillar, ADP, etc.

Tax proposals
The Biden administration has proposed raising the US corporate tax rate from 21% to 28%. There is support between policymakers in various countries to partially unify corporate tax rates, to make it tougher for corporations to flee to tax-haven jurisdictions. Last week, a proposal was posted to raise long-term capital gains tax rates from 20% to over 40%, for people making more than a million dollars per year.
According to data collected by the Federal Reserve, 53% of US equities are owned by the top 1% of the population, which is the group that would face these higher capital gains tax rates. The probability of getting these proposals through the tightly divided Senate is low. There may be some tax increases over the next two years, but probably not at this scale.

It is inevitable that the ballooning government debt and fiscal disorder will lead to higher taxes.



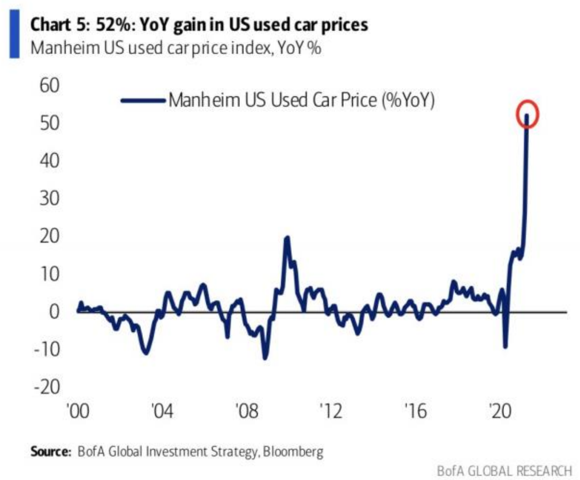
Inflation is currently running a bit hot (+2.6%), partially due to easy year-over-year comparisons from the same period in 2020, while 10-year Treasury rates have corrected down slightly (1.58%). We're likely going to get official consumer price inflation (CPI) prints of over 3% in April and/or May.



I passed a billionaire on the road this morning.

Lumber prices are soaring, up +265% over the last year. These increases add on average $24,000 to the construction costs of the average home.

In the U.S., used car prices are up 52% year over year.



The Growth-Value Cycle - These charts (long-term and 3-year versions) show the Russell 1000 value index divided by the Russell 1000 growth index. When the line is going up, it means value stocks in aggregate are outperforming. When it's going down, it means growth stocks are outperforming. A growth to value rotation started last fall.

In the first quarter of this year, the Russell 1000 Value Index was up 11.3% while the Russell 1000 Growth Index was up 0.9%. Since the advent of each index in 1979, the Russell 1000 Growth and Value Indexes have nearly identical annual returns through March 2021:12.1% for growth and 12.0% for value. However, the path to get to those returns was different for each.

7 principles for long term investing – J.P. Morgan Asset Management

- Plan on living a long time
- Cash isn't always king
- Harness the power of dividends and compounding
- Avoid emotional biases by sticking to a plan
- Volatility is normal; don't let it derail you
- Staying invested matters
- Diversification works

7 immutable laws of investing – James Montier

- Always insist on a margin of safety
- This time is never different
- Be patient and wait for the fat pitch
- Be contrarian
- Risk is the permanent loss of capital, never a number
- Be leery of leverage
- Never invest in something you don't understand

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

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