Bi-Partisan Issues - Executive Summary 11/2020

Now that the election is over, Washington can get back to work on tackling the issues that face the country. Besides the virus, here are a few fiscal issues that are neither Democrat or Republican. They are problems for the whole country.

The National Debt – Currently over $27 trillion, it has tripled in the past 12 years, with about $4 trillion being added this past year. An increase in debt is not in and of itself a problem. It is the relationship it has with the economy that makes it an important issue. And the fact that it has to be paid back at some point.

The Debt/GDP Ratio – Currently over 137%, this means there is over $1.37 of National Debt for every $1 of GDP (economy). Debt can weigh down an economy. Research by Harvard economists Reinhart & Rogoff show that as the debt to GDP rises past certain points, economic growth is hampered. Economic stimulus is funded by increases in Federal debt. Instead, what our own research shows is that over the past 50 years, and especially the past 11 years, GDP growth required more and more stimulus, increasing in the National Debt.

The Federal Reserve – The Assets at the Federal Reserve are now above $7 trillion, according to the St. Louis Fed. Since 2009, the Fed has been actively adding liquidity to the system by buying assets. From 2009 through about 2014, the Fed added about $3.5 trillion to the system. Many believe they were responsible for the stock market recovery since 2009.

As bad as that was, the Fed added about $3 trillion to its balance sheet in *just 3 months* this year. What is the Fed to do with $7 trillion in assets? It eventually has to sell them or let them mature. Either way, that is money coming back *out* of the economy. If they were responsible for the market move up by buying assets, was what will happen when they reverse their course?

The Dollar – Why should anyone care about the Dollar? When the Fed buys assets, it creates money. This dilutes the value of the Dollar. When the Dollar declines, the Fed has to raise interest rates to protect the Dollar. Now we go back up to the first problem, what happens to the cost of carrying $27 trillion of debt when interest rates go up? The interest cost goes up and the government has to borrow more money just to pay the interest on the debt. And the cycle goes on and on… You can see how debt can be a drag on the economy.

The Stock Market – Already overvalued, some indicators show it is more overvalued than the tech peak in 2000. It is very fragile and the drop in March of 2020 may have just been the warning shot. The potential for rising interest rates and taxes, and a slow economy do not add up to a high-flying market.

We believe stocks and bonds are in bubbles. There is an old saying, "You can't let the air out of a bubble slowly." But as long as nobody has any needles around, the Fed will keep on inflating.

So what does this mean for investors? Buying undervalued stocks is the only thing that makes sense to us. They may stay undervalued while all the cool kids play with fire. So be it. We are already seeing the beginnings of a shift from growth to value stocks. Unfortunately, the biggest part of the shift may happen in a bear market, which could re-start at any time. Investors could dump the high fliers that burned them to buy up the value stocks that we are already holding.

To get the full 10 page version of this report, complete with charts and more data, please click here and write "send report" in the subject line.

"It is well enough that people of the nation do not understand our banking and money system, for if they did, I believe there would be a revolution before tomorrow morning." - **Henry Ford, founder of the Ford Motor Company.**

Disclosures:
Cornerstone Investment Services, LLC (CIS) is a registered investment adviser located in Rhode Island and Texas and may only transact business in those states in which it is registered, or qualifies for an exemption or exclusion from registration requirements.
This presentation is limited to the dissemination of general information regarding CIS's investment advisory services. Accordingly, the information in this presentation should not be construed, in any manner whatsoever, as a substitute for personalized individual advice from CIS. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Any client examples were hypothetical and used to demonstrate a concept.
Past performance is not indicative of future performance. Therefore, no current or prospective client should assume that future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by CIS, or product referenced directly or indirectly in this presentation, will be profitable. Different types of investments involve varying degrees of risk, & there can be no assurance that any specific investment or investment strategy will suitable for a client's or prospective client's investment portfolio.
Links to any article or report is not an endorsement of the article or report. Nor is it an endorsement of any further links or commentary found on the site. CIS does not endorse 100% of the content on any of the links. Some links may require the user to create a log in or subscribe to the service. CIS is not involved in any of that and does not benefit from any subscriptions or log in requirements. Since the quotes are taken from the linked source, the link serves as the footnote of the source of the quote.
[Various indexes were chosen that are generally recognized as indicators or representation of the stock market in general. Indices are typically not available for direct investment, are unmanaged and do not include fees or expenses. Some indices may also not reflect reinvestment of dividends.]

Past performance is not indicative of future performance.

Cornerstone Investment Services, LLC
245 Waterman St, Ste 301
Providence, RI 02906
Pvd: 401-453-5550 Texas: 972-563-8990
jr@cornerstoneri.com www.cornerstoneri.com