Argent Capital Management LLC

RE: **INVESTMENT COMMENTARY FOR PERIOD ENDING JUNE 30, 2019**

FROM: **ARGENT CAPITAL MANAGEMENT**

DATE: **JULY 18, 2019**

"There are two kinds of people who lose money;
those who know nothing and
those who know everything ."
- Henry Kaufman

It has been an interesting and rewarding first half for stock market investors in 2019. Following a decline of nearly 20 percent in the fourth quarter of 2018, stocks flourished in the early part of this year, stumbled in May, but followed that with a surge in June, the third-best performing June since the end of World War II. Indeed, as we write this, virtually all stock indices are positive, most reflecting double-digit gains. At Argent, we are particularly pleased with first half performance of our four investment strategies.

To be sure, there have been worrisome issues in recent months. Investor Ray Dalio of Bridgewater fame recently used an equation to summarize his thoughts: **"Populism + Weakening Economies + Limited Central Bank Power to Ease + Elections = Risky Markets and Risky Economies."** We agree, although *risky* might be too strong a word, and *uncertain* may be more apt.

"I don't get it. First you can't sleep because you're not in the market and now you can't sleep because you are."

As for us, we remain relatively bullish over the next few years – corporate earnings should resume growth, interest rates are at remarkably low levels, banks and most businesses are healthy and unemployment is at its lowest levels in 50 years. It is a good recipe for stock market gains. However, as noted by Dalio, *there is risk.* Many politicians today seem to have never learned, or conveniently forgotten, financial history and basic economic theory. Despite overwhelming evidence of the failure of non-capitalistic systems to produce sustained economic growth and prosperity, some are touting strategies that seem almost certain, if implemented, to cause more harm than good. Winston Churchill captured it beautifully when he said, "The inherent vice of capitalism is the unequal sharing of blessings. The inherent vice of socialism is the equal sharing of miseries." As Carl Sagan noted, "You have to understand the past to understand the present."

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In that same vein, we would welcome a return to a more diversified approach to international diplomacy, as opposed to what, at times, seems a singular focus on trade to solve long-standing frustrations. We have spoken and written frequently on tariffs, and perhaps some might have a different view of things if the word *tax* were used in its place. If we impose a 25% tariff on goods that are imported, that is a 25% tax, most of which is going to be paid by U.S. consumers. Certainly not all taxes are bad, and some tariff-related taxes may be necessary for a time. But, studies have shown that the imposition of such a tax generally helps some industries, while hurting others, and the trade-off tends not to be equal. Usually, those hurt by such a tax number significantly outnumber those who benefit.

"Sorry, sir, but none of our food is very good. It's the chef's way of punishing the rich."

We have one other thought on this. While the tariffs implemented to-date may serve a legitimate purpose, we have to acknowledge the fact that they have negatively impacted the stock market over the past year. We firmly believe the slowdown in industrial production that we are currently seeing is partially a result of tariff concerns. If you are a CEO, how difficult is it to plan investments in new plant and equipment when you are not sure about the costs of production and labor down the road? In addition, if you are a businessman needing to build a new $1 billion plant today, would you build it in China, Vietnam or the United States? The answer to that would obviously depend on the economics, and those are currently unknown.

Finally, the Fed must wrestle with the thorny question of whether they need to provide new stimulus in order to support growth that might otherwise be negatively impacted by trade negotiations. They are weighing how trade uncertainty is impacting corporate spending and investment decisions, and seem to be leaning in the direction that more stimulus, i.e. lower interest rates, is needed. Just a few weeks ago Chairman Powell said he will do "whatever is necessary" to keep the economy moving, and laid groundwork for such a rate cut, perhaps as soon as the July 31st Fed meeting. With the economy doing well it would normally be deemed an unusual move, but perhaps a necessary one.

We wish we were smart enough to peer into our crystal ball and have confidence that we had the answer to all this. We do not. Fortunately, times are good and we have faced far more serious threats than those we see on the horizon. As a result, we remain optimistic about the outlook for stocks – probably not with the magnitude of the market gains experienced in the past six months, and especially the last ten years, but upward moving nonetheless. With interest rates likely to stay very low, stocks remain the best game in town.