

Markets Up But Drivers Shifting

U.S. equity markets continue to reach new highs as trade progress and better-than-expected economic news encourages investors. The appearance of trade talk progress has been the highest profile driver of market gains despite China's recent threat of retaliation against the U.S. after Trump signed two bills supporting Hong Kong protesters. China's outburst rattled markets a bit on November's last trading day, but the S&P 500's 0.40% decline still left markets up over 9% for the past three months.

Possibly the bigger and more meaningful story, however, remains the underlying strength of the U.S. economy. Third quarter GDP rose at an annual rate of 2.1% rather than the 1.9% estimated. The growth rate reveals an economy that is not teetering on a cliff as projected just a few months ago, and fears of a near-term recession have almost completely dissipated.

Consumer spending drove growth during the quarter, which is hardly surprising given record low unemployment rates and strong wage increases over the past few years.

Beyond consumers, most news is less positive. Business investment dropped at a 2.7% annual rate as businesses responded to lower third-quarter profits, rising labor costs, the trade war and disappointing data from Europe and Asia. China and Japan continue to slow while Europe is hoping for an end to their slowdown and Brexit uncertainty lingers. Taken as a whole, it seems unlikely that a trade deal – if it occurs – would ignite strong capital spending here or abroad, and future expectations by U.S. consumers are declining, possibly indicating problems to come. U.S. CEO confidence is also down dramatically.



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Yet, despite the challenges, investors appear to be discounting weak data in many sectors and lack of solid trade progress that would have roiled markets just months ago. Widespread easing by central banks across the globe has also instilled enough investor confidence to keep markets marching higher.

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has been extraordinarily unique, and not just for its length.

During the more than 10-year old bull market, value stocks have trailed the performance of growth stocks at a rate that falls in the worst decile in history according to Research Affiliates. (Value stocks trade at a lower price relative to their fundamentals, such as dividends, earnings, or sales while growth stocks are expected to grow faster than the market average and are therefore priced higher based on their fundamentals.) In the U.S., this large of a disparity between value and growth has only existed twice before – a short period during the 2008 financial crisis and at the peak of the dot-com bubble.

Historically, the evidence and intuition underlying value investing has proven itself across cycle after cycle according to many studies including conclusions published by notable Chicago professors Eugene Fama and Kenneth French. Simply, value companies have historically generated higher returns than growth companies.

Yet, the past decade has shown a very different pattern with returns uniquely driven by the FANMAG stocks. These include the usual FANG stocks (Facebook, Amazon, Netflix, and Google/Alphabet) plus prior-generation tech highfliers Apple and Microsoft. As of September 30, 2019, these six companies represented 14% of the U.S. stock market's total capitalization with a combined value of \$4.3 trillion. To put this into perspective, the stocks of these six companies carry a higher combined valuation than the entire publicly traded economy of United Kingdom, China, France, or Germany.

Within the U.S. their size is also incredible. Apple is worth more than the entire

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MARKET COMMENTARY

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S&P 500 energy sector which includes behemoths such as Exxon and Chevron. Apple and Microsoft are worth more than the entire Russell 2000 Index, the small capitalization index containing 2000 companies.

Their tremendous size results largely from their incredible growth over the past decade. FANMAG stocks have delivered a fantastic 10-year cumulative return of 720% or over 23% per year. Over the same time, the market has generated an extremely attractive 246% return, or over 13% yearly. Amazingly, depending on assumptions, approximately 40% of the market's total return results from the six FANMAG stocks.

Since 2008, the tremendous performance of these few stocks has been the primary reason that value and fundamentally based strategies have underperformed growth strategies since value strategies substantially underweight FANMAG companies if they hold them at all.

Not surprisingly, the FANMAG stocks' incredible growth now makes them somewhat expensive. All the stocks except Apple currently trade at higher price-to-earnings (P/E) multiples than the richly valued market, and two are in excess of 50 times earnings, more than double the broader market's price to earnings ratio.

Yet past experience suggests that continued outperformance of today's most dominant companies will not continue. Of the 10 largest US market-cap tech companies in 2000, two companies disappeared entirely and only three remained in the top 10 over the next decade. Amazingly, none of the companies outperformed the S&P 500 Index in the ensuing 10 years, and the average underperformance of that top 10 list was 5.3% a year for the subsequent 18 years.

As the bull market grows older and economic fundamentals grow weaker investors appear more focused on fundamentals, and if the market reverts to its mean, value should outperform growth. Similarly, if history repeats itself and the recent market FANMAG stars fall back to earth, value strategies should outperform. Notably, the S&P 500 Value Index Fund outpaced its growth fund counterpart for the third straight month in November.

The numbers have motivated Wall Street firms such as Bank of America and Sanford C. Bernstein to advise greater allocations to the style. Even Cliff Asness of AQR Capital Management, known for warning against factor timing, published a paper this month arguing that investors should consider upping their holdings of value stocks.

Overall, as the very old bull market continues and future growth grows increasingly less certain, investors appear to be focusing more on fundamentals. The result could be ongoing market gains despite somewhat rich valuations, but the gains may come from different sources than have powered the S&P 500 to its recent highs. It seems likely that fundamentals will grow increasingly important, and value-based strategies could again outperform if past patterns revert to norms. Given current conditions, we remain neutral on equities with an increasing emphasis on more value-based strategies.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. This and other important information is contained within the Fund's Prospectus, which can be obtained by calling (888) 889-8981 or by visiting the Fund website www.wildermuthendowmentfund.com. The Fund's Prospectus should be read carefully before investing.

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The value of your investment in the Fund at any point in time may be worth less than the value of your original investment, even after taking into account any reinvestment of dividends and distributions.

You should consider the shares to be an illiquid investment. Even though the Fund will make periodic repurchase offers to repurchase a portion of the shares to provide some liquidity to shareholders, only a limited number of shares will be eligible for repurchase by us.

You should carefully consider that you may not have immediate access to the money you invest for an indefinite period of time. An investment in our shares is not suitable for you if you need immediate access to the money you invest. Certain investments in the Fund are illiquid making it difficult to sell these securities and possibly requiring the Fund to sell at an unfavorable time or price. The value of certain Fund investments, in particular no-traded investment vehicles, will be difficult to determine and the valuations provided will likely vary from the amounts the Fund would receive upon sale or disposition of its investments.

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