

Unconventional

It was a quieter week in the earnings reporting cycle with only 16 companies in the S&P 500 Index reporting earnings. The last big announcements come this week with some major retailers reporting earnings. With 457 companies in the S&P 500 having reported second quarter earnings to date, 81% have reported results above consensus. This is better than the long-term average of 64.9%. The average surprise factor has been 17.6% to the upside. Sixteen percent of companies have reported earnings below expectations. Projected earnings for the second quarter retreated this past week with current consensus for 2Q20 S&P 500 earnings to down 33.6% year-over-year versus -31.7% last week on a 9.4% revenue decline versus -10.5% last week. Expectations were for earnings to be down 44% year-over-year a little over a month ago when the reporting season kicked off. An additional 18 companies in the S&P 500 Index are scheduled to report this week. Looking ahead, current consensus for full calendar year 2020 earnings is a decline of 20.3% and for earnings growth of 28.3% in calendar year 2021.

Congress recessed until Labor Day without a bill for a next round of stimulus. Negotiations between leadership in both houses and the administration are continuing remotely. The political focus shifts to the two major parties' conventions over the next two weeks, although with many events virtual some of the fanfare may be muted. We are 78 days from Election Day 2020.

The employment situation continues to improve. The week of August 8th had initial unemployment claims at 963,000. This is the first week that initial unemployment claims were below 1 million since March 14th and compares to a peak of 6.867 million the week of March 28th. Continuing claims for unemployment for the week of August 1st declined to 15.486 million versus 16.090 the week prior. This compares to a peak of 24.912 million the week of May 4th.

In our *Dissecting Headlines* section, we look at recent stock split announcements.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	0.7%	4.4%	Aggregate Bond Index	-0.8%	5.2%
Dow Jones Industrial Average	1.9%	-2.1%	U.S. Dollar Index	-0.4%	-3.4%
NASDAQ 100	0.2%	27.8%	WTI Crude Oil	1.9%	-31.2%
Russell 2000 (Small Cap Index)	0.6%	-5.4%	Gold	-4.5%	28.1%
International Stocks (MSCI ex-US)	1.5%	-5.1%	Real Estate (US REIT Index)	-1.7%	-17.0%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Stock Splits

Two well known companies, Apple and Tesla, recently announced they were splitting their stocks. The announcements were greeted with a positive impact in the market. Apple, which also announced quarterly earnings the same day, rose 10.5% and Tesla, which announced its stock split a few weeks after its earnings report, rose 13.1%.

In a stock split, a company increases its number of shares outstanding and distributes them to shareholders in a ratio proportional to ownership. Apple's 4-for-1 split means a shareholder who owns 100 shares will now own 400 shares. Since the shares are the denominator in the earnings per share ratio, the earning per share will also decline by 4-times. While the share price moves each day, the share it will also decline by approximately the same amount when the distribution occurs. Apple's share price of \$460 should decline to approximately \$115 after the split, leaving a shareholder with the same value of holdings.

Conventional wisdom in the past has been that a stock split makes the shares of a company more marketable because the per share price of the stock is lower. Now with most individual investors investing via mutual funds and exchange traded funds, as well as through investment platforms that allow fractional share ownership, marketability is less of a reason for a company to split its shares. We think the positive reaction is more a sign of optimism from company management that investors have embraced in these recent cases.

Note: NovaPoint Capital owns shares of Apple (AAPL) in its Dividend Growth Strategy

The NovaPoint Capital Team



Joseph Sroka, CFA, CMT / Chief Investment Officer / jsroka@novapointcapital.com

Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



Jeffery Wright, CFA / Managing Director & Portfolio Manager / jwright@novapointcapital.com

Jeff has 10 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Christina has 25 year of accounting experience. She earned her CPA license in 1998 while working as a Senior Accountant for Bennett Thrasher PC. She has also worked in accounting roles in the financial services, public relations, and manufacturing industries. She earned her BS in Accounting at Miami University in Oxford, Ohio magna cum laude. She is a member of the American Institute of Certified Public Accountants (AICPA) and a member of the Georgia Society of CPAs.

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