

The Crème de la Crème of Investing for Christians

When you think of the finer things in life, you may think about a luxury home in your favorite vacation spot, an aged Grand Cru claret, a rare Van Gogh or maybe a classic Corvette. The “best of the best” and the creamiest of the cream is sometimes impossible to come by in life. When it comes to investing, the best is nearly as hard to get our hands on. When things are going well in the economy, the markets are like a vat of homogenized milk, with the cream molecules broken up under the high pressure, then suspended and dispersed throughout the milk. Every investment is somewhat “creamy,” but the *crème de la crème* eludes most of us. Finding the best opportunities in such an environment is tough even with a keen eye for scanning through some of the best run, most profitable companies in the world.

In 2020, however, market volatility is allowing some of cream to rise to the top. Of the 500 companies in the S&P 500, only 97 companies are in positive territory as of May 8, 2020. The top 20% of companies in the Index are up 12.1%, on average, while the bottom 20% are down -47.7%, on average, showing that not all stocks are created equal. The technology, health care and consumer staples sectors have been strong in 2020, while financials, energy and industrials have been weak.

Finding the *crème de la crème* is certainly easier, when that cream is rising to the top. For our team, quickly sifting through the layers of cream with a methodology tested in a “homogenized” market appears to be proving effective. Our weighted F-E-V-R-R method, which stands for Financial Health, Earnings Trends, Valuation, Relative Strength and Risk, gives the team a systematized approach to finding some of the best companies in the world.

As the investment field narrows, stock selection becomes that much more important. During the 2020 pandemic, broad-based/"homogenized" investing has had its set of challenges:

- Large cap stocks in the S&P 500 are down -9.3%.
- Mid cap stocks in the S&P 400 are down -18.8%.
- Small cap stocks in the Russell 2000 are down -20.3%.

In times like these, focusing on quality is essential. Just like selecting the parts for building a high-end automobile, the materials used to create a classic piece of art or the grapes for a fine wine, what you invest in matters. Some companies are prospering during this health crisis (think health care and technology related companies), while others are having an extremely difficult time (think airlines, oil companies, restaurants and cruise lines).

We are nearly halfway through the first-quarter earnings announcement season, and the results have been mixed. FactSet Research recently provided an update showing that, of the 55% of S&P 500 companies that have released results, 65% have topped analysts' earnings forecasts. Additionally, 63% of these companies have exceeded sales forecasts. Overall, S&P 500 earnings have declined by an average of 13.7% in the first quarter, while revenue has grown by just 0.7%, on average. That is not a good blueprint for future success.

Many companies have now suspended forward guidance, so it will become increasingly difficult to assess the full economic impact on a majority of companies for the second quarter. As you can imagine, second-quarter earnings forecasts have been lowered significantly due to the impact from COVID-19. In fact, analysts have lowered second-quarter earnings estimates by an average of 28.4% over the past 30 days alone.

This means the stock market (and the opportunity to get the cream) has narrowed. As stocks have climbed higher and higher

from the March 23 market “bottom,” investors are becoming much more selective, like connoisseurs. This flight to quality should continue throughout 2020, as COVID-19 appears to be a threat for the foreseeable future.

Companies that are able to sustain strong earnings and sales growth are like having the finest ingredients in your favorite meal. To help ensure that we continue to hold some of the *crème de la crème* in client portfolios, we continue to employ our F-E-V-R-R metrics and reposition the ingredients to thrive in the times ahead.

We remain committed to seeking out the best investments for this new market environment, where the cream is becoming increasingly separated from the rest of the vat. We pray for discernment and the Lord’s blessing on the assets of those we help and all of His faithful stewards, everywhere.

Listen to my podcast to learn more!