"CHINA TENSIONS ESCALATE"

It's a big deal. Or is it? The market takes in the information again yesterday that tensions between the US and China are escalating over the expanding tyrannical control by China over Hong Kong, the latest in the Communist China's efforts to expand its reach in the region post pandemic.

Investors are worried that Beijing's recent move against Hong Kong, a semiautonomous Chinese city that enjoys special trade and financial relations with the US, will create a bigger rift and put the US China trade deal at risk.

Thus far, "the Markets" (certain parts of it, see below) have just digested the news, did a quick "uh oh" and then just shrugged it off. Why is that?

Let's put it in perspective as we like to do here. The following are the 11 different sectors of the S&P 500, "the Broader Market" and their respective percentages that make up the index.

Technology	25%
Health Care	16%
Communication Services	10.5%
Consumer Discretionary	10%
Financials	10%
Industrials	7.5%
Consumer Staples	7%
Utilities	6%
Energy	3%
Real Estate	2.5%
Materials	2.5%

What is driving "the Market today? Technology and Health Care, which makes up about 41% of the total value of the overall Market, and that is where we are focusing our attention when we look at individual stocks within those sectors and take a "bottoms up" approach to investing in this "New Economy" and what is working now and what we think will work into the future of this supposed "New World economy".

Does China matter? Sure, it does. BUT, and it's a big BUT, Technology and Health Care as a group are generating about 5% in what is called "FREE CASH FLOW" in corporate earnings, while other sectors of the "Market" are losing massive amounts of money and are "in the ditch".

"**Free cash flow** is the **cash** a company produces through its operations, less the cost of expenditures on assets. In other words, **free cash flow** (FCF) is the **cash** left over after a company pays for its operating expenses and capital expenditures, also known as CAPEX."

Basically, pure cash flow profit. Apple for example is generating about $66 BILLION in free cash flow on an annual basis! This money goes into paying dividends and buying back its company stock, which creates about a 6% annual total yield on Apple stock, all things being equal. Not too shabby folks.

What does it mean again? Well if 41% of the overall "Market" can generate 5% free cash flow returns WHILE INTEREST RATES are so low, will remain low, AND there is about $5 trillion of cash floating around looking for places to go, then you begin to understand WHY a whole lot of potential negative news regarding China recently and the Pandemic for the past 2 months, have not impacted the "Market" like many think it should. For now, it's just been shrugged off.

Re-read that paragraph above again and let it sink in.

When the average investor looks around and wonders why "the Markets" aren't in the tank across the board it's largely because of the above paragraph. Fiscal stimulus, federal reserve policy and tax policy are so massively positive for the equity markets it's no wonder why the "Market" is holding up so well in the face of seemingly 24/7 doom and gloom news.

Let's put one final bit of perspective into the picture regarding the "Market". The top 10 individual stocks make up about 26.5% of the S&P 500.

And to further illuminate things, "Travel, Restaurants and Leisure" make up about 1.5% of the S&P 500 and "Airlines" make up about .5%. That is the ENTIRETY of all stocks in those categories. Thus, 2% of the S&P 500 is part of the "in the ditch" category. LET THAT SINK IN while you ponder the top 10, 26.5% of the overall "Market" that generates 5% in free cash flow:

Microsoft MSFT	5.4%
Apple AAPL	5%
Amazon AMZN	4.8%
Berkshire Hathaway BRK.B	1.9%
Alphabet GOOG	1.8%

Facebook FB	1.7%
Johnson & Johnson	1.6%
Alphabet GOOGL	1.5%
Wal Mart	1.5%
Proctor & Gamble	1.2%

So, what are we saying again? 9 of the top 10 INVDIVIDUAL stocks that make up the "Market" are larger, in and of themselves, than the ENTIRE "Travel, restaurant and Leisure" sector of our economy, which is 1.5%. Throw in "Airlines" to get to 2% and now Microsoft, Apple and Amazon are each individually more than DOUBLE the value of those ENTIRE industries.

Why does it matter again? Well the 24/7 doom and gloom media regarding the pandemic and government response thereto, negatively affects our views, creates more "fear and panic", especially how we look at going to restaurants, bars, hotels and flying on planes, etc. A big part of our daily lives AND a big part of the work force so it seems and feels worse than it really is in the longer term. The "Market" is forward-looking and it likes what it is seeing looking ahead to 2021 and 2022. For the moment.

One step further, oh by the way, we do need that 40 million people that have lost their jobs, many of which that work in the 2% sector of "travel, restaurants, leisure and airlines", to get back to work sooner than later, so that "we the consumer" can continue to drive and grow the overall economy.

Bottom line, we will continue to focus on technology and health care stocks, on an individual basis, "bottoms up" style, sectors that are generating 5% FREE CASH FLOW, while there is $5 trillion in cash looking for places to go, INTEREST RATES that will be low for many years to come, an "all in" Fed policy, Fiscal policy and Tax policy.

So, when we talk about "the MARKET", you gotta break it down and put things into perspective, every day, every week and every month, especially now.