

July Commentary

Is the stock market over valued? That is a question we debate a lot at Summit Capital. Even with double-digit unemployment, a global pandemic, and lots of uncertainty the S&P 500 Index is up almost 11% since April 30th.

If we look at stock values through market capitalization, we find some baffling realities. Market capitalization (or market-cap) is just the total number of shares of stock multiplied by the current stock price. Another way to think of it is that if you wanted to buy 100% of a company the purchase price would be its market capitalization. Consider two examples.

Let's compare brick-and-mortar Walmart to Amazon. Amazon has a market-cap of \$1.6 trillion (yes trillion!) which is about 5 times more than the market-cap of Walmart which is \$372.8 billion. However, Walmart's 2019 revenue of \$523.964 billion was almost double that of Amazon's revenue of \$289.5 billion and Walmart's profits were about 30% higher than Amazon.

Another example is Tesla. It would cost \$291 billion to purchase 100% of Tesla. For *only* \$239 billion you could own 100% of Ford, GM, and Toyota *combined*. Last year, Tesla sold a bit over 365,000 cars worldwide, while Ford, GM, and Honda sold a combined 7.5 million cars in the U.S. alone.

We are not arguing that Amazon or Tesla are not outstanding companies, and both have drastically disrupted their respective industries. However, these companies seem to be selling at extremely lofty market valuations compared to their mainstream competitors.

We hope you continue to enjoy summer and we are here if you have any questions.

Best Regards,

Jim Onorato & Dave Yormick

David Yormick

E: dave@summit-capital.com

C: (216) 849-8753

Jim Onorato

E: jim@summit-capital.com

C: (440) 725-3864

www.summit-capital.com

W: (216) 539-8444