

This Time Is Different (or is it?)

In 1933, Sir John Templeton, wrote, "The investor who says, 'This time is different', when in fact it's virtually a repeat of an earlier situation, has uttered amount the four most costly words in the annals of investing".

This time is different. The current epidemic has most people around the world on edge, and understandably so. Most people cannot recall a similar situation. In the past when we would get sick, we would go to the nearest primary care doctor's office and go through a series of tests or prescriptions to include anti-biotics, and we are on our way. We could still go on vacation, head off to college, travel to see family, go to a place of worship etc. This time, we feel stopped in our tracks. Most people know of someone that has been affected and/or someone that has passed away. Some of our phone calls have been tough, as loved ones have been lost to this novel virus. While most that have been affected, the antidote is to stay home, quarantine, and all is well after two weeks.

Further, there were several scary days at the end of March and early April. When the world economy came to a grinding halt at the end of the first quarter this year, it scared people, governments, and just about everyone else. We are in a global economy. The United States and the European Union depend on many other countries for part of the supply chains to feed our ever increasing appetite for more goods and services. Across six of the seven continents, tourism is relied on as a major part of economic growth and even simply survival. All of this, on top of the individual fear and health effect have caused and continue to cause various behaviors that have led to serious economic disruptions. This has caused several 100 plus year old retail companies to go bankrupt. For some companies, this was the last straw. It has been tough.

From an investment standpoint only, 'this time is different' can be dangerous thinking. 'This time is different' often results in making major changes to investment strategies or simply drastically reducing exposure to equities and liquidating into cash. This can be costly. Economies expand, peak, contract, and then bottom out in the trough. The markets are forward looking and do not always follow the perfect textbook economic cycle. By June, the markets had started to recover. By the end of July, balanced portfolios without many or any changes were back to where they were in early February. However, changing strategies, liquidation may well have reduced the portfolios dramatically

So, why did the market recover so rapidly? For starters, the world realized this is a virus. We have had many viruses and this is just a new (and more dangerous) one, but it is still a virus. It too will have its own life cycle, and it too will end. Business and individual behaviors changed but did not stop. Market economies can adjust and sometimes do it quicker than we realize. People could work from home that never intended to or in some cases never wanted to. New computers, printers, and headsets have to be purchased NOW! This has caused a pop in demand for anything related to the home office. I do not know why, but with all of this home isolation (and perhaps fears of food supply issues), many people have turned to expensive organic food. This has been another unanticipated boon. Along with it, there has been a similar demand for

home exercise equipment, bicycling, and new backyard pools! Good luck calling a pool person to visit your house. Recreational Vehicles (RVs) that are pretty much guaranteed to lose 30% of their value after year 1 of purchase have had a demand that has outstripped the supply. They are even called 'COVID Campers'. Good luck in finding a camping spot if you get an RV. Again, more people are hitting the road at the same time. You could not sell a barrel of oil on April 20, 2020. This was a strange day as storage had peaked for a 24 hour period. Now, as more and more folks hit the road, the price of oil is normalizing at over \$40 a barrel. Has anyone been on I-95 lately? Traffic is reminiscent of most summers. During the first two weeks of August, we processed more withdrawals for college than I can remember. School is on for Fall of 2020. Whether you will be home or in the classroom, school is underway. Retailers have struggled. However, some have found a way to survive three ways: order online, curbside pickup, or now show up in the store with your mask on. This trifecta of innovation has been huge.

The last two areas that have contributed to exponential growth have been the lowering of interest rates and massive government stimulus. I can be a fan of refinancing if you continue to pay the same amount as before the refinance or change to a shorter term. Everyone is different and has their own philosophy, time horizon, and risk tolerance. Regardless, most people take cash out or 'spend' the new savings because of the new much lower monthly payment. This additional spending is an economic boom as cars, second homes, and other big expense items get purchased. The massive government spending has also softened the blow for reduced income on individuals, families, businesses, and non-profits. This newfound money has allowed for business as usual and/or possibly extra spending, as in some cases people are making more than they did before.

Not to end on a negative note, but all of this spending will eventually have to be paid back. This will most likely lead to higher taxes. Increased taxes can lead to lower growth if not done slowly or properly. It is a balancing act that to date, no political party has figured out. Many have decided to already look past this virus to the election in November. Remember, fear sells, and good news does not. There will probably be an unprecedented amount of funds spent on political Ads this fall trying to sway us. I have heard several people say they will wait for the election for one reason or another to do XYZ. However, when it comes down to it, if your car breaks down, you will replace or buy a new one. You will send your kid to college, go on vacation, visit family, go to the doctor, go out to eat (or order in!), watch a movie, and perhaps relocate. All of these are the reasons the world economies prevail. Take care of what you can control and try not to worry or fret about the deluge of headlines.

So, in the long run, the term 'This time is different' should be considered in the context by the long term investor.

Be safe.

Sincerely,

Andrew D. Wade, CFP®

President