

# TRANSITIONS

## WHAT'S GOING ON?

2020...What a year with unprecedented scenarios that were ever-changing. To keep score, a deadly virus is spreading unchecked throughout the country. A government-mandated shutdown caused a brutal recession that triggered widespread layoffs and sharp declines in corporate profits. The result was the fastest bear market in history.

With barrels of oil selling at negative prices, sellers were paying buyers to take their oil. There is widespread civil unrest that is larger than displayed for the TV news cameras. Political uncertainty reins across much of the government. With the largest number of votes ever cast during a presidential election, a clear result is, we have become a divided country. On top of all this, the stock market has valuations as rich as the tech dotcom bubble days of 2000, with the price/earnings ratios increasing from 15 to 25 within the current calendar year.

Professional investors typically look ahead six months at economic indicators. Thus far, they have been investing as if the virus is in the rear-view window. Yet Covid-19 cases are soaring throughout the country and government restrictions on commerce are returning, which sparked another decline in the markets. Then Pfizer announced very promising results from their vaccine, which singlehandedly caused the markets to soar.

However, unlike an ordinary flu shot, Pfizer's Covid-19 vaccine requires two shots spaced a month apart, which reduces patient compliance to complete their vaccination. There are questions of distribution, especially since it must be stored at -70 degrees Celsius, and then it must be thawed and used within five days. Moderna has developed a similar vaccine that has different distribution methods, but this will be their first drug ever brought to market. Lacking several years of usage data, medical doctors are understandably concerned about the



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effectiveness of these vaccines among differing demographics. Although this is a big step in the right direction, it is naive to conclude the Pandemic is now cured.

Should stocks move higher or sell off on all this groundbreaking news? Depends on which day it is. Risk on....then risk off....then on again. This explains the volatility we are observing. Some blame the large market swings on cheap money, thin liquidity in stocks, and fast-money herding where everyone rushes into the same stocks at once. But the culprit is the changing headlines that keep switching the direction of the economy.

Even the hedge fund guys are now learning that their reliance on “stress tests” to their computer modeled portfolios have become useless. When this was first rolled out on our Bloomberg terminals nearly twenty years ago, I immediately saw the glaring weakness of these Monte Carlo simulations. They modeled everything on past scenarios that may never reappear. In 2020, these investors are finding that “gut feelings” are more important than computer models when dealing with a Black Swan event as unquantifiable as Covid-19.

I see our investment community moving back towards investing using a combination of “art” and “science”, where a seasoned investment perspective is imperative. As a “student of the markets” with over five decades of market experience, it is reassuring to see our viewpoints continue to remain timely in these volatile times. By separating the emotion of the news headlines from actual decision making, our portfolios will continue to perform over time, which is the very reason we invest in the markets.

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