

TRANSITIONS

INVESTING IN A WORLD OF OPTIMISM

When listening to the daily news it seems hard to be optimistic. Hospitals are overwhelmed. The total number of citizens infected with Covid-19 reaches new milestones. Cooped up and isolated, most everyone is dealing with Covid fatigue. Yet the stock markets seem to relentlessly trend higher. Why?

The answer is a combination of optimism and knowing when to mentally mute the news. Today's blended entertainment and news programs are completely different than the news reporting of consummate pros like Walter Cronkite and Harry Reasoner. The path to optimism requires us to stop watching the sensationalized news shows whose real objective seems to be keeping viewers riveted to their seats. We already know we are in a Pandemic and that people are sick.

I am optimistic, especially on the future outlook for our economy. Our collective ingenuity and resourcefulness are getting us through this Pandemic. Within a very short time frame of a year, Covid-19 vaccines have been created that are over 90% effective. We should be optimistic as this is terrific news. We now have the ability to slow or even stop the spread of this Pandemic. The markets share this optimism, and have assumed that in the coming months, 100 million citizens will be vaccinated and return to work, bringing the economy roaring back.

Yet the markets have already baked all this good news into today's valuations. There will be distribution challenges ahead. It will be difficult to convince 100 million to not only take the vaccine but be compliant enough to return for a second shot a month later. As this is not a seasonal flu, we may need multiple Covid-19 vaccinations



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each year, which further complicates both distribution and patient compliance. Interruptions like this are not priced into the markets.

As we collectively become more optimistic, everyone expects the virus to be in the rear-view mirror, and everything will turn out great with a return to normalcy. Today's stock prices reflect the belief that we have this Pandemic under control and the economy will rapidly recover. If our optimism of today is warranted, then there really is no reason why stock prices should collectively move much higher, as this recovery is already baked into prices.

If markets are nearly fully priced to perfection, then there is no need to rush in to become fully invested, for this would mean we have to buy fully priced stocks. Investing because of the fear of missing out is not a prudent strategy. The way markets work is there will continue to be times where unexpected events occur, or company expectations are not met. There are many great companies to invest in, but we want to buy them when they are not priced to perfection. This is the reason why we continue to hold higher cash while we remain optimistic about our future.

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