October 2020 – Wealth Creation Obstacles and Solutions

Seeing the mud around a lotus is pessimism, seeing the lotus in the mud is optimism.
-Amit Kalantri, Author

As we enter at least the eighth month of dealing with the coronavirus, we are all weary of it, but we have to go forward. Recent events have shown that we can never let our guard down because it is impossible to know with whom we come into contact and where they have been. As we noted last quarter, cases continue to spread, and it important for all of us to stay safe until this is over. We are very thankful to be able to work with you during this extraordinary time and for the technology that lets us all work safely. We are all safe, healthy and stir crazy, and hope you are too except for that stir crazy part.

The World Is Not Falling

Two things have happened to us as we are waiting for a coronavirus vaccine or for coronavirus to fade away. First, we have listened to many pessimistic forecasts on the world economies and we have had time to re-read some of the classic books. On this latter point it is so interesting to find that books like *Moby Dick* and *Great Expectations* seem vastly different years later. We think it shows how much life experiences give us different insights and make such books different and enjoyable.

We also like to re-read investment books that we have drawn lessons and quotes from in these quarterly letters. Such books let us put into perspective comments we hear from CNBC, Fox Business, and Bloomberg. After listening to such opinions, we receive calls from our clients that suggest we should be fearful of the market, drastically cut down on equities, pay taxes and wait until we "know" the bottom has been reached. We have addressed this several times in our letters, but one insight we got from re-reading Peter Lynch's *One Up on Wall Street*, in which he quotes an investor who said: "The bearish argument always sounds more intelligent." That ignores the simple fact that losses are always limited to your investment, but gains can go up multiple times and that no one has ever successfully timed the markets over long periods of time.

We just had the remarkable example when on the day it was announced that President Trump was infected with coronavirus, the market only declined 0.96% whereas when President Eisenhower had his heart attack in 1956, the market declined 6.57%, the equivalent of a 450 point drop in the S&P 500 or a 1,800+ drop in the Dow today. (Someone said, however, it should have gone up as we might not have to watch any more debates!)

We should always remember that the market cannot be timed and the long-term trend is up. Trying to time the market and, possibly, paying taxes will not increase your investment values over time. Rather we should do our analysis, read earnings reports, and consider new technologies and new trends. For example, Energy stocks are being sold by many foundations, endowments and fund managers because

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of perceived social aspects to the Energy industry. It is not fun to be an Energy shareholder when this is going on. People may have a genuine aversion to a group of stocks such as petroleum or tobacco, but at some time they may be real bargains as the tobacco stocks have proven. (We always ask investors if they have particular stocks or industries in which they do not want to invest.)

As an aside, everyone worries about elections. The best action we can take is to vote, but realize that over many elections the markets have proven to be neutral as to which party is in power. We believe that politicians' self-interests lie with staying in office, and, hence, they will always favor a good economy. While not a perfect correlation, good economies result in better earnings and a more positive market.

A more positive trend is the impact of the internet and technology on the market as a whole. Amazon and Microsoft are particularly striking examples. The coronavirus has had dramatic impacts on the travel business, real estate, restaurants and financial institutions. Even before the virus these trends were strong enough for the S&P to add a new sector, Real Estate, and rename Telecommunications to Communications and move particular companies like Alphabet/Google and Facebook from Technology and Netflix from Consumer Discretionary.

The point is that as your advisor we have to recognize these trends and reconsider such technologies and human behavior. This reinforces that nothing lasts forever. We have to stay diligent and continue to react to news, trends and earnings.

It is perfectly understandable that someone may want more conservative investments and allocations particularly when they are no longer receiving income from a job. That is fine, and as your advisor we can accommodate that. Otherwise, all of us should try not to react to the latest hot tip or to some market timing guru. The market always has a mind of its own and does not listen to such advice, nor should you. We are always happy to discuss your investments with you.

Please review the appendix for certain other matters.

We continue to be grateful for your support. Please stay safe and realize that we have so many things to be thankful for and are optimistically looking forward to a world without covid.