

*“You miss 100 percent of the shots you never take. I skate to where the puck is going to be, not to where it has been. A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be.”*

-Wayne Gretsky

*“In the midst of chaos, there is also opportunity”*

-Sun-Tzu

Last Friday we paused to remember the horrific events of 19 years ago, now known as 9/11. Working for a New York based firm we witnessed those events through a different lens as we knew many people who were directly affected, some who lost their lives and others affected to this day. We paused to remember those lost and celebrate the brave heroism of the thousands of police, fire and other first responders who did a remarkable job that dreadful day.

We look back in order to gain perspective today. We came through the Crash of 1987, Y2K, the Dot Com meltdown, 9/11, the Financial Crisis of 2007 and other crises in-between. And here we are now in 2020 with a pandemic of epic proportions. It has caused the most sudden and severe recession in our country's history as well as around the world. No one has been left unscathed. The pandemic changed the rules. There's no playbook to model outcomes. The Fed, economists, and analysts are all playing by new rules.

And while the economy is in recovery mode, it has been very uneven. We're seeing a strong stock market, which has been supported by unprecedented liquidity supplied by the Fed, rock bottom interest rates, and an improvement in the overall economy. Buoyed by low mortgage rates, a lack of supply and lots of buyers, housing activity has surged. Retail sales have surpassed pre-COVID levels.

While companies have been recalling furloughed workers, total employment remains well below the pre-COVID peak, but has been improving month over month. The enormity of the downward economic shock due to the virus is without modern precedent, but the same is true of the scope of the monetary and fiscal policy response.

Federal Reserve Chair Jerome Powell summarized the shock succinctly: “We went from the lowest level of unemployment in 50 years to the highest level in close to 90 years, and we did it in two months.” Globally, the decline in annual GDP is estimated to be more than -5%, the worst outcome since the Great Depression”.

New market realities come out of the accelerated adaptation of new technologies as a result of employees working from home.

Despite the tremendous circumstances, optimism is growing. As the global economic recovery gains traction, we need to balance the fear of missing out with the fear of staying invested.

This brings us back to the two quotes at the beginning of this letter; one from Wayne Gretzky, arguably one of the best hockey players ever, and Sun-Tzu, a Chinese general, military strategist, writer and philosopher. When we are in the middle of a crisis, we need to find the opportunities that lie within and as Wayne Gretzky said, you miss 100% of the shots you never take.

Markets are forward-looking discount mechanisms. The optimism on both the medical and economic fronts, combined with ongoing policy commitment, has caused global markets to rally meaningfully; Crisis = opportunity. Traditional asset allocation consisted of a mixture of stocks, bonds and cash. Generally, when stocks fell, bonds went up and the reciprocal was true as well. The reason was the “correlation” of returns among different investments. As markets have shifted, correlations have too.

We continue to look at your portfolios for diversification opportunities to potentially reduce risk. Adding new or different asset classes beyond stocks, bonds and cash might provide portfolio diversification through exposure to assets with no or low correlation to traditional investments. This is something we continue to search for.

While we remain bullish on the long-term prospects for the U.S. economy, we are also monitoring short-term risks.

Outsized gains in a few technology shares leave the market vulnerable to a pullback. When we see certain stocks priced at lofty levels, any unexpected surprises can create volatility. While markets don’t always get it right, they attempt to price in the future. Markets are made up of millions of investors that have a financial stake in their decisions. Current price movement suggests the economy will continue to improve, though the pace of improvement is uncertain.

We really appreciate hearing how you and your family are doing. Please keep us updated. And, if you would like to share your thoughts or have questions, feel free to reach out. That’s what our team is here for.

*As always, we’re honored and humbled that you have given us the opportunity to serve as your financial advisor.*

*Jim, Rob, Larry & Launa*

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“The highest compliment we receive is a referral of a friend or family member”.

**Thought of the day:**

“An investment in knowledge pays the best interest”  
- Benjamin Franklin