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PERSPECTIVES

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Resist Negativity

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Is it only July? Though the calendar year is barely half over, our country has already experienced enough health, financial and social upheaval to last several years. In the space of five months, we have encountered a global pandemic not seen since the 1920s, financial market volatility not seen since the 1930s and social unrest not seen since the 1960s. A contentious election season overlays this unprecedented mix. Succumbing to excessive negativism could be an issue for anyone in this environment, not only capital market participants. To have a certain level of concern and weariness after what the world has endured so far in 2020 is entirely understandable.

However, negativity can turn into a default position unless one guards against it. Excess negativity can also make it harder to accept change and thus investors can overlook any positive opportunities created by change. As professional investment advisers responsible for counseling investors and stewarding their assets, these types of environments spotlight our highest responsibility, creating peace of mind. In that spirit, we offer a few thoughts on how one may resist negativity.

Timely Advice

We read another investment commentary recently that offered some of the best investment advice we have seen. In effect it said this: *Take a break from the news. Give yourself a respite from the internet and social media.* The commentary correctly explained what many know and feel. In the COVID-19 environment, unproductive and unhealthy consequences often result from having more time *on* our hands with our devices (phones, laptops, tablets, TV remote controls) *in* our hands. This environment creates the urge to "scroll". That is, we find we have a free minute at home that would not have existed in February. Today, we can fill that minute, which turns into five minutes, then ten by scrolling the news, surfing Twitter, Facebook, Instagram or some other internet site. We look up and thirty minutes of time have evaporated and we are no less anxious or more informed.

A News Hiatus

We are recommending investors consider a "News Hiatus." It does not mean we are recommending people be uninformed. Quite the opposite, we are proponents of objective, unbiased information and insightful reporting and analysis that leads to improved investment outcomes. However, it strikes us that obtaining that type of information and analysis is more difficult right now through many mediums. Therefore, one has to be extra intentional in their efforts. An intentional self-imposed media limitation, if only for a few days, seems like a wise and beneficial prescription at the moment.

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Consider a news hiatus. No watching, listening or reading of the news for 24 hours. If you can do that, try to stretch it to 48 hours. It may be habit forming. The news will still be there when you choose to return. The media outlets desperately want your eyes and ears. Be intentional about giving them to these attention seekers.

You may well find the hiatus time can be used more productively. I recently filled some news hiatus time by reaching out to a cousin across the country with whom I had not connected for several years. I learned one of his best friends moved into my neighborhood last year. We have made plans for a get together once we're on the other side of the current environment.

Gratitude Helps

An attitude of gratitude can also be an antidote to negativity. First and foremost, FCI is grateful for the health and wellness of our clients and our team serving our clients during this challenging time. From an investment standpoint, we are thankful for human ingenuity. Out of sight of nearly all of us, an immense effort by the best and brightest scientific minds in the world is underway to develop a COVID-19 vaccine. An effort so massive that it likely surpasses the Marshall Plan in scope.

In addition, we are grateful for the steps taken by the Federal Reserve Bank that have stabilized the capital markets. While their actions are always open to critique, we believe their efforts have been necessary and timely. The old investment adage, "Don't fight the Fed" is certainly a valid and prospectively profitable view at this time, in our opinion.

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We are also thankful for transparent, trusted capital markets because they can help us gauge the probabilities of future outcomes. Markets are discounting mechanisms that constantly look ahead. With its buoyancy off the March 23 low, the stock market in particular is telling us there is a time limit on the pandemic. The stock market will also provide some clues to the November election results as we get into August, September and October. A rising stock market in these months has historically corresponded with an incumbent victory and a declining stock market has foretold a challenger victory.

Market Thoughts: Innovation, Creativity and Adaptability

A positive case for owning stocks is anchored by the recognition that innovation, creativity and adaptability persist in human beings, even in global pandemics. In fact, challenges can accelerate these powerful forces. It is said "necessity is the mother of invention." For example, I know of one large restaurant organization that became operational in delivery in two days after discussing it for years. Like people, companies adapt.

An additional positive argument for stocks rests on the level of interest rates. Valuation measures are based on the level of interest rates. Lower rates equal higher valuations. Stocks may perform for a longer time than many expect if interest rates stay as low as they are now. For perspective, high interest rates in the past have been tough competition for stocks. Why take the risk in stocks if guaranteed U.S. government bonds can return 15%, as in 1981? Or even 5% bonds in 2005. Today, with 10-year Treasuries yielding less than 1%, they offer minimal competition relative to the long-term return potential of stocks.

However, that does not mean bonds should not be owned. Bonds still provide excellent downside protection. Author Ben Carlson makes the point that in the future we may see more instances of sharp downturns but then quick recoveries as we saw in December of 2018 and March of this year. Why? Because "hiding out" in 5% to 6% bonds while the stock market goes through a soft patch for a prolonged length of time is not an option any longer. People will have greater incentive to get back into stocks more quickly after downdrafts with rates so low.

Full Circle

All successful investors in the capital markets must have the ability to resist the urges of negativity. In 1968, another volatile year in American history, Chief Justice Earl Warren gave an interview to Sports Illustrated magazine. He said, "I always turn to the sports section first. The sports page records people's accomplishments; the front page has nothing but people's failures." Wise advice then and another reason to consider taking a news hiatus today. With no current sports page accomplishments to balance out the front page, seek to create your own "sports page" by remembering to take a long-term perspective, invest without emotion and maintain a positive focus.

We are not Pollyanna in our approach. Without a doubt, there will continue to be unforeseen challenges in the economy and markets over the near term. However, we should not underestimate our abilities as human beings. We are adaptive, creative, innovative and industrious. Our collective resolve and ingenuity has risen to the challenge time after time over the course of history. As investment advisers, we will continue to be focused on unbiased, objective, clear-eyed analysis. Experience has taught us this approach produces the best investment results.

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Thank you to all of our valued clients. We are with you and committed to faithfully serving you.

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