

## Spring 2020

Last quarter's Folio, we compared long-term investing to a cross-country flight, and noted that most of the time we get to our destination with little or no turbulence. But occasionally, the bell dings, the seatbelt light illuminates, and everybody needs to buckle up. This, obviously, is one of those times.

It is, undeniably, one of risk and uncertainty. And when it comes to your portfolio, it's important not to conflate those words. They are not synonymous.

Taking a cross-country flight, for example, comes with risk, but not uncertainty. As we board, we know the possible outcomes. The overwhelming chances are we get to our destination. There is, of course, the very small chance that taking the flight, like driving to the market or riding a bike or going for a swim, ends tragically. And, importantly, with risk, we can calculate odds. The chances of not making it to your destination safely in an airplane are conservatively one-in-5 million. Which means we could fly every day for many thousands of years and not expect a major problem. (For contrast, a deadly motor vehicle crash is roughly one-in-106, pedestrian incidents one-in-541, and bicycling one-in-4,060.) Obviously, the vast majority of us believe it's worth the wee bit of risk to fly to vacation spots or visit family. There is certainly risk, but also much certainty we will arrive safely.

With uncertainty, however, we don't know the possible outcomes. So, of course, we can't assign probabilities. These days, we hear people speculating a lot about things that are uncertain. But that's all it is—speculation. All evidence points to the fact that there will eventually be a vaccine for COVID-19 (as of this writing, there are 23 cures and 5 vaccines in the works). When one will become available, is uncertain (you've likely heard guesses ranging from a few months to next year). This is one of the reasons we have a lockdown—to make the health outcomes more predictable, and manageable. The global markets, at this time, are reacting to the uncertain timing of COVID-19 outcomes. Anybody who tells you how 2020 will end, is guessing. When it comes to your investing and your portfolio, that's no way to operate. We determine risk and reward, through careful analysis of numerous factors. In order to do that right now, we need our own version of lockdown, which means focusing on the future, the time beyond 2020.

This isn't to say we're sitting idly. We are, for example, analyzing company balance sheets to see if they can make it through this year with dramatically lower revenue. If the answer is yes, then they're still a viable option. And, we're paying close attention to how companies are living through the crisis—Apple, for example, has already reopened stores in China; Target, Walmart, and other retailers are set to hire tens of thousands (or hundreds of thousands) in the coming weeks; Nike's U.S. online sales are comparable to that of the peak holiday season. And with the market's pull back, we're buying companies we've had our eyes on for some time, but believed too expensive.

In order to turn uncertainty into simple risk—requires defining possible outcomes. To do that, we need to alter our horizon. So, our focus becomes not what's going to happen in the next nine months, but rather the next 18 or 24. From there, we're able to understand possible outcomes, and assign probabilities.

What's likely, then, in the next 18 or 24 months? We're not of the mind, as some, that there will be a dynamic and permanent shift in the economy. People are still going to need food, do business, and fly to visit family or exotic locales. With the virus at bay, many companies will have a boom in earnings. If one's boom is, say, a 40 percent rise, and they were down 20 percent this year, they'd effectively be back at even.

And now, back to our flight. The COVID crisis has, obviously, devastated the airline industry. This, in turn, has hampered meteorologists' ability to predict the weather. While forecasting the weather is an inexact science, there are plenty of tools that give meteorologists the ability to make very reasonable forecasts. To make those, measurements are gathered from satellites, ground-based observation platforms, and, you guessed it, commercial aircraft (equipped with sensors). "More than 3,500 commercial aircraft normally provide over 250 million observations per year," a National Oceanic and Atmospheric Administration spokesperson told the website *Engadget*. "Throughout the flight path... these aircraft provide pressure, temperature, wind speed and direction, and in some cases humidity."

Your local TV weatherman is still worth a listen, though. Even with diminished data from aircraft, meteorologists still have plenty of additional ways of accumulating information and shaping a forecast.

Like meteorologists, investors have other tools to collect data when standard measurements are hard or impossible to access. As mentioned earlier, balance sheet strength and access to capital help determine who has means to bridge the short-term and thrive in the long-term. Employment trends are invaluable, not necessarily the numbers, but the directional movements. Unemployment is soaring with the economic "Great Lockdown", but the important readings will be the change in speed of filings (a good indicator of the future). Believe it or not, politicians will be a source of information, as we sort through the rhetoric to decipher when restrictions will be eased on the average employee and consumer. And finally, good-old-fashion observations will help. How much traffic is on the roads? Are parking lots beginning to fill? Once restrictions are softened, are restaurants filling, movie theaters selling tickets, or hotels booking guests? It will be our collective behavior that determines how quickly recovery comes, and the forward-push begins.

The best advice we can offer our clients is to focus on your and your family's health, and ignore, for the time being, the day-to-day ups-and-downs of the market. We will get through this. Our memories are short, the virus will be in the rearview mirror, and the economic shut-down will set a new floor from which to build. Staying the course with your investments will be handsomely rewarded, as it always is for the long-term investor. These are, indeed, days of heavy fog and rain, with limited visibility. But sunny days, with clear skies, will come.