Financial Wanderings

July 2020

A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP ®
(and made even awesomer by Andrea Dickerson)

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Although the commentary in this newsletter has been thoroughly researched, well-reasoned and contains many impressive multi-syllabled words, please enjoy it responsibly. There are many economic minds that are far smarter than mine—and even they can't agree on even the simplest economic questions. In other words, please enjoy this newsletter with the full understanding that it may be entirely wrong.

A Bull vs. a Bear

**In financial jargon, a "bull" believes the stock market will rise, while a "bear" believes the stock market will fall. Here's an argument between them.*

Bull: Did you see the most recent jobs report? Nearly 7.5 million people got their jobs back over the last two months. Also, retail sales rose nearly 18% in June. The recovery is officially here!

Bear: It's no surprise that a chunk of the economy came back quickly. But, the low hanging fruit always gets picked first. Picking the whole tree will be much harder. Yet, the stock market is acting like we've already picked it, packaged it, and sent it off to the grocery store.

Bull: The stock market is a forward-looking beast. The moment there's a widely available vaccine, we can get back to normal. Even if "normal" is two years away, the end is in sight. So, why not be invested in stocks?

Bear: Yes, the stock market is looking ahead, but the future is hard to predict – and the stock market isn't always right. We are far from "normal," and I don't think we're getting back there anytime soon. If this recovery stopped right now, this would be the second worst recession of all time (after the Great Depression). If we can claw back to 90% of our previous economic glory by the end of the year, that might sound like a victory. But, that implies a 10% recession, which would be the 2nd worst of all time. As a comparison, during the Financial Crisis in 2008, the economy only fell 4.3%. So, we have a deep hole to dig ourselves out of.

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(A Bull vs. a Bear……………………..Cont. from page 1)

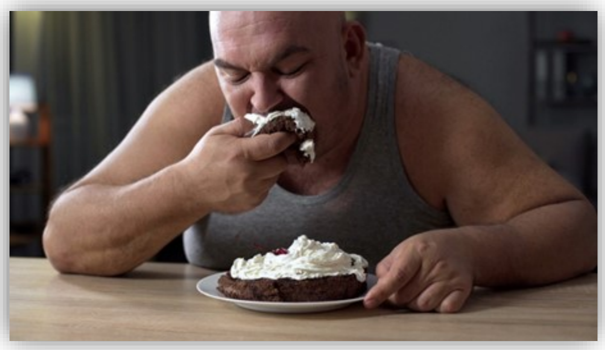
Bull: But we are already digging, and the stock market can see that. In addition, trillions of dollars were tossed at this problem, and trillions more may come. Also, gas prices are low, interest rates are low, and there's pent-up demand from the millions of people who've been stuck in their homes eagerly waiting to go buy stuff.

Once we move beyond the virus, the economy is set to explode.

Bear: Yes, there's historical levels of money floating around the economy. But, how long can that last? Oktoberfest was just cancelled in Leavenworth. That's still 3 months away! I fear our weak economy may last much longer than the government's willingness (or ability) to cut huge checks.

More importantly, printing money and going into debt isn't "real." True economic growth is built on consumers spending and businesses investing. But, who's going to spend and invest aggressively after taking a big economic punch, and when things could be shut down again at any moment?

Bull: Let's assume you're right, and we suffer a major recession and a long, slow recovery. Can't the stock market continue to grow? Remember, the stock market isn't exactly the same thing as the economy. The stock market is made up of the biggest companies in the world; companies that can actually benefit when the little guys get crushed. In other words, as smaller businesses fail because of a bad economy, the Amazon's, Chipotles, and Home Depots of the world survive and take a bigger piece of the pie, even if the pie is smaller.



Bear: If the little guy is getting crushed, eventually, it will "trickle up." Consumers make up 2/3rds of the US economy. If consumers aren't consuming, how profitable can even the biggest businesses be?

Bull: Well, the companies in the S&P 500 earn half their revenues from outside America. While Americans are the "best" consumers, 95% of the world's consumers live outside America. So, even if the American economy is weak, stocks can be strong.

Bear: If the US economy falters, the world economy will follow. As the saying goes, when America sneezes, the world gets sick. At least for the moment, the stock market can celebrate in the face of a weak economy – but it can't last forever. Oh, by the way, the Phase One trade deal with China is effectively dead, and there's an election in a few months.

Bull: Okay, I'm convinced. Sell everything.

Are bailouts the new normal?

The amazingly strong stock market recovery coincided almost perfectly with the first major stimulus package from Congress. Although my clients benefitted greatly from the largesse of the government over the short term, I can't help but worry about the future.

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(Are bailouts the new normal?……………………..Cont. from page 2)

In one way, this was the perfect time for massive government bailouts, because no one was at fault for this crisis. Yes, you can blame China, or a poor response from our leaders, but the losers of this crisis (tourism, retail, restaurants, airlines…) were losers out of pure bad luck; it's not that they ran their businesses badly. Similarly, Netflix, Amazon and Zoom didn't plan their business model around everyone being stuck in their homes for months – they got lucky. So, if there was ever a time for a bailout, this was it.

On the other hand, whatever happened to having an emergency fund? Shouldn't a profitable corporation be able to make it through a few lean months without needing taxpayers to bail them out? The more our government bails everyone out when a crisis hits, the more it's expected. So, instead of responsibly planning for emergencies, the government is the emergency fund. That's just not sustainable.

But there are no easy answers. If our businesses overprepare for disasters, they won't be as dynamic. A tank is very resilient, you'll reach your destination no matter what. However, a Porsche will get you there a lot faster – but with a lot more risk. So, do we want our businesses to be resilient like a tank, or high octane like a Porsche?

Here's another way to look at it: If I gained 50 pounds, I'd be better prepared for a famine, but less dynamic during the normal times.

Imagine a sober-minded CEO stockpiling cash for an emergency fund over the last decade while every other CEO was showering their stockholders with money through dividends and stock buybacks. That CEO would have been fired long before this crisis made them look smart. Actually, even then they wouldn't look smart because everyone else got bailed out.

Right now, our economy is lean, mean and highly efficient, but also so fragile that we need bailouts every 10 years. Obviously, that's not an ideal situation. However, if we decide to make our economy into a tank, what if China decides to be a Porsche?

For now, the bailouts will continue, and that's probably for the best. I just hope we can find a better balance between dynamism and resilience in the future.

Probably a mountain or a lake

Ingalls lake, with Ingalls Peak to the left and Mt. Stuart to the right.

My wife, Jessica, took this amazing shot.

And… Jessica took this beautiful photo too

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