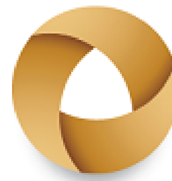

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Every year, right around the 20th of August, we begin to feel that change in the weather that tells us summer is coming to an end and fall is around the corner. As we transition from what I suggest is the best summer for weather in memory into what can only be described as an uncertain fall, I feel it is the ideal time to review some topics that are on my clients' minds with respect to investment portfolios and financial markets.

In recent discussions with clients, invariably two topics have come up in every conversation: 1. The US Presidential election in November; and 2. The economic impact of the pandemic. You may be thinking the exact same things. I will address each of those topics here briefly, and if you wish further conversation please do not hesitate to reach out to me.

The 2020 US Presidential election is being touted by both the Democrats and the Republicans as the most important one in American history. I'm pretty sure that's been said before, and in the minds of the candidates and their supporters I am sure they are correct. But for the rest of the world, over a four-year period, aside from the political and behavioural impact, no one really cares who wins or loses. If you're a long-term investor, the election is less of a concern than you may think. Don't get me wrong, I'm not talking about the social impact or the general behaviours of politicians, right or wrong. What I mean is, when investing over the long term, presidential elections aren't as impactful as we may think.

Jurrien Timmer is the Director of Global Macro for Fidelity investments Inc. I have been following his perspectives for many years and consider him to be a very rational and credible source of perspective on markets. In a recent commentary from August 4, 2020, Jurrien suggested that the market is pricing in that the incumbent will lose and that the Senate will switch to the Democrats. Here are a few additional observations that I took away from his August 4th commentary.

- If Biden is elected, likely corporate taxes will go up, and for every 1% tax increase corporate earnings may go down by as much as 2.5%.
- A more progressive cabinet that favours labour over capital could result in more regulation. As well, they could see less financial engineering (share buybacks).
- With a Biden Presidency, tensions between the U.S. and China could become less hostile.
- Jurrien suggests the market is saying is that one offsets the other.
- A Democrat led Government could result in increased business regulation but also anti-trust regulation that the mega-cap companies such as Google and Amazon might be facing.

Over a 4-year period Jurrien is clear in his position that no one really cares who wins or loses the election.

The second topic of conversation; the economic impact of the pandemic, is more complex. To gain insight on how the pandemic and its economic impact applies to investment portfolios, after digesting a considerable number of analyst reports, I selected the Memo linked below from Howard Marks. Howard Marks is the Director and Co-Chairmen of Oaktree, a leading global alternative investment management firm with expertise in credit strategies headquartered in Los Angeles and with offices throughout the world. Mr. Marks is a thought leader in the world of investment management.

Marks concludes his memo from August 5th, 2020 with some thoughts on today's extreme valuations and its current market darlings as mentioned above. It's a good thought driver for the times we live in.

“On one hand, we have the surprisingly rapid recovery of the stock and credit markets to roughly their all-time highs, despite the fact that the spread of Covid-19 hasn’t been halted, and that it will take a good number of months for the economy to merely return to its 2019 level (and even longer for it to give rise to the earnings that were anticipated at the time those market highs were first reached). Thus p/e ratios are unusually high today and debt yields are at unprecedented lows. Extreme valuations like these are usually justified with protests that “this time it’s different,” four words that tend to get investors into trouble.

On the other hand, John Templeton allowed that when people say things are different, 20% of the time they’re right. And in a memo on this subject in June of last year, I wrote, “in areas like technology and digital business models, I’d bet things will be different more than the 20% of the time Templeton cited.” It certainly can be argued that the tech champions of today are smarter and stronger and enjoy bigger leads than the big companies of the past, and that they have created virtuous circles for themselves that will bring rapid growth for decades, justifying valuations well above past norms. Today’s ultra-low interest rates further justify unusually high valuations, and they’re unlikely to rise anytime soon.

But on the third hand, even the best companies’ stocks can become overpriced, and in fact they’re often the stocks most likely to do so. When I first entered the business in 1968, the companies of the Nifty Fifty – deploying modern wonders like computing (IBM) and dry copying (Xerox) – were likewise expected to outgrow the rest and prove impervious to competition and economic cycles, and thus were awarded unprecedented multiples. In the next five years, their stockholders lost almost all their money.

We reach our conclusions, limited by the inadequacy of our foresight and influenced by our optimistic or pessimistic biases. And we learn from experience how hard it is to get the answer right. **That leads me to end with a great bit of wisdom from Charlie Munger concerning the process of unlocking the mysteries of the markets: “It’s not supposed to be easy. Anyone who finds it easy is stupid.”**”

Follow this link to access his full memo: [Howard Marks latest memo: Time For Thinking]

The predictable theme of this commentary is, when in doubt, stay the course. I know it sounds terrifically boring, but that is how we have retained and grown wealth over decades. As you are aware, we focus on investing in diversified portfolios that are not concentrated in any one area of the market, and specifically not in the FAANG tech companies, although we do have some exposure there. By employing portfolio diversification strategies and by avoiding concentration in specific areas of the market, we are well positioned to ride out volatility when we encounter it.

And we will encounter more volatility.

We can expect volatility to occur during the run-up to and perhaps after the presidential election in November. We should expect markets to react to the intensity of the political discourse from both sides. We can also anticipate markets to react as expectations of who will win and who will lose continue to evolve over the next two months. As long-term investors, we must continue to focus on that long view and stay the course.

This is as much as I should put in a communication, and perhaps a little bit more. You have done well to get this far. Investing in these challenging times takes confidence and conviction, so let me congratulate you for continuing to demonstrate good investment management behaviours. Well done.

Please reach out to me if you want to discuss this communication, or any financial matter. I look forward to our next conversation.

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