

Second Quarter 2020

Economic and Market Commentary

By Ray L. Lent, Founder, The Putney Financial Group; Chairman, Portsmouth Financial Services

When I was a young teen, my mother thought I should become an attorney, I guess since she figured that I argued with her so constantly, why waste it? Why not make a living from the “talent.” Now my Dad on the other hand thought, “This kid is a whiz at math (back then my strong suit), so he should become an architect. You see, my Dad loved watching things being built. That transition from imagination to actualization was with him his entire life. Just a couple of years later, when I took my first mechanical drawing class, my father’s dreams for me were shattered. To say I lacked aptitude would be a gross understatement.

Perhaps the one most surprised, and at one point disappointed, was the Colonel, my paternal grandfather, who knew in his heart of hearts that I’d go to the Academy like he did more than half a century prior. Needless to say, they were all disappointed. Why? Because I discovered literature and dove into books the way an eagle dives on a salmon.

My First Passport

On a quiet corner in Manhattan on East 67th Street stands a neighborhood library first financed by Andrew Carnegie back in 1905. As a kid, it became my sanctuary, my time travel machine, my door to worlds I had never imagined existed. That first library card became my passport.

Yes, I’ll admit it. I started with the anticipated: Mark Twain, Jack London and John Steinbeck. I devoured them all, all the classics, including Daniel Defoe’s *Robinson Crusoe*. Eventually I started going back and identifying lesser known works by the authors I developed an affinity toward. That’s when I first read Defoe’s, *A Journal of the Plague Year*, which is an account of the 1665 Great Plague of London seen through his uncle’s eyes. You see, Daniel was just five when the Plague took hold, but his uncle kept a detailed diary that served as the inspiration for Daniel’s book 50 years later.

It’s a great read, and I’m not going to give anything away. With that said, I will share with you the fact that the main antagonist is faced with the same type of dilemma that many Americans are faced with today during the Covid-19 pandemic: Do I shut down my business and try to protect my health, or do I open the doors in an effort to feed my family? Back then in London, it took the Plague 18 months to run its course. One hundred thousand Londoners died, one quarter of the city’s population. Many historians believe if it hadn’t been for the Great Fire of London in 1666, which destroyed most of the city along with most of its plague-carrying rats, the toll would have been far worse. Think about it. How weird. Defoe’s book was written roughly 300 years ago, but the central themes could have been torn off the front page of last week’s *New York Times*.

Think of Mad Men

Let me now take you from 17th century London to mid-20th century New York and one of the great commercials of our time. In 1952, a 50-year-old cotton-trading company named Anderson, Clayton and Company formed a food division. Its main purpose was to figure out how the company could make money from their industrial byproduct, “hydrogenated cottonseed oil.” Bingo, they figured it out, and the world’s first butter substitute, margarine, was born.

Anderson and Clayton’s butter substitute, “Chiffon” margarine, found modest success until they hired the Madison Avenue advertising firm of D’Arcy Masius Benton & Bowles to spearhead a new ad campaign. That’s when things went ballistic. By the early 1970s, Chiffon Margarine began running television commercials with long-time character actress Dena Dietrich playing “Mother Nature.” The commercial’s character, “Mother Nature,” tastes Chiffon and loves it. She identifies it as, “My delicious butter,” Next, the voice over narrator Mason Adams tells her, “That’s not butter, that’s Chiffon.” The narrator goes on to brag that “Chiffon is so delicious, it can even fool Mother Nature. The next thing you know, Dena contorts her face and utters one of the most immortal lines of TV commercials when she says, *“It’s not nice to fool Mother Nature.”* Next thing you know, the screen crackles with ear-blasting thunder and dazzling white lightning.

And that’s exactly what we tried to do during Covid-19 by re-opening our country too early and not deploying our resources in a thoughtful and uniform way.

To put it in perspective, in mid-June, when we started working on our Putney Survey questions to be found at the end of this column, there were just over two million confirmed cases of Covid-19 in America. By the time you finish reading this quarter’s commentary, there will probably be close to five million.

It’s Not All Doom and Gloom

Our mortality rate is going down from the virus. Our ability to treat it is improving. Therapies are being developed, and most scientists believe there will be effective vaccines available in 2021. Right now, scientists, doctors and researchers worldwide are working on more than two dozen promising vaccines at a pace never seen before in medicine.

So What Do We Do In Between?

Good question. We stay smart and do the things we know will work: Wear a mask, social distance, avoid crowds and keep washing our hands until they are raw. From a coordinated standpoint, we need to test, test and do more testing. These tests need to be available with quick turnaround time— less than 72 hours. Anything longer dramatically loses its usefulness, and then the necessary tracing and quarantining become next to impossible. This is well within our country’s capabilities. That’s why we have the Defense Production Act which has the ability to require private industry to divert from its normal production to manufacture what the country needs in a crisis. Want an example? Think of the 390,000 tanks and 270,000 Jeeps the Ford Motor Company alone built during World War II. This part is not rocket science. How hard

would it be to produce ample N95 masks? 3M and Honeywell stepped forward immediately and voluntarily. Other companies should be required to fill the gap.

In recent months, I've heard our national response likened to the mid-way game, "Wac-A-Mole. You bang it on the head in one place and it pops up in two more. What we need to do is pull the plug. Slow down the infection rate until there are effective therapies and, ultimately, a vaccine. The only thing that will heal our economy will come through science, medicine and common sense. Anything else is like putting a band aid on a tumor.

Okay, Smart Guy, Tell Us Something We Don't Know!

Fair enough. The question on most people's minds has to be: With more than 32 million Americans out of work and second quarter GDP down some 33% from the previous year, why in the world are the equity and bond markets holding up? Up to now, the answer has been pretty self-evident. It's because of federal intervention. Our government has poured three trillion dollars plus in support to prop up American business and American workers through the Cares Act. Just think of all those payroll protection loans made, hundreds and hundreds of thousands of them (7,000 right here in Marin County alone). What about those enhanced unemployment benefits or the eviction moratoriums and bond-buyback programs all intended to keep the economy from crashing and prevent another Great Depression.

You see, fortunately, the U.S. dollar continues to be the world's reserve currency which enables our government to expand its balance sheet by issuing more debt. Many foreigners buy our debt, which enables us to prop up the economy, something we have just seen this past quarter.

Let Me Bring It Home

Economists all agree that the government had no choice in buying the country some time by infusing these tremendous investments in the economy while we enact the measures necessary to tamp down the virus and start to reopen safely. The problem is we jumped the gun, reopened prematurely and are now right back where we started from or worse, only now three trillion dollars poorer as a nation and we will have to do it all over again.

On the positive side, and you know I'm always a guy who views the glass half full, not half empty, this pandemic has moved the century forward by five or 10 years. It's like the old adage, "necessity is the mother of invention."

Think About It

Telemedicine today makes up 90% of all of the non-Covid-19-related visits. So many people now realize they can work so productively from home and avoid that commute. That's not to say the office is a thing of the past because we still need that chemistry and interaction. But do we need it five days a week? This remote productivity is not lost on business. Just last week, Google announced that they are not planning on having their employees come back into the office until at least July of 2021. And they are certainly not alone; Apple, Salesforce and Facebook are on similar tacks.

Now it's obvious that telecommuting doesn't work for manufacturing, construction and personal services. But we would have our head in the sand if we didn't recognize that, "The Times They Are A-Changing." Want further proof? Look in your pocket and count your cash. When was the last time you went to an ATM machine? I still have cash in my pocket from the last ATM withdrawal I made in March. A hundred years from now, Americans will look at paper money in museum display cases. People won't believe we conducted commerce by exchanging dirty pieces of paper with the portraits of old dead white guys on the front. Parenthetically, I just hope Harriet Tubman makes it on to our currency before the pieces become museum items.

The World At An Inflection Point

Have you noticed more and varied birds in your back yard lately? I have, and I've marveled at their beauty and diversity. My friend Wayne, who's an amateur ornithologist, says it's the cleaner air and less noise pollution that's chiefly responsible. Makes sense to me that maybe we'll take our environmental and ecological future a little more to heart during our period of self-reflection.

Industry rotation is occurring big time. Hospitality is out—no, I'm not saying we should be rude to each other—I'm saying as an investor, you don't want to own cruise ship companies, hotels, airlines or oil.

So if those are the type of companies I don't want to own, what do I want to own? Long term, we want to own companies that enable us to work from anywhere. We want our information to be transmitted as fast as possible (think 5G), we want our food and merchandise delivered at the press of a button. Yes, it's true, since late March, Amazon and Walmart have hired more than 200,000 new workers.

Those who have known me a long time have often heard me speak about "toll keeper companies," those companies that are always paid. So how do your Amazon orders arrive? In a paper bag? No, they arrive in a box. A cardboard box. Owning a company that makes boxes for shipping is a smart play. This is an example of a toll keeper company in today's environment.

Prelude To A Conclusion

These are trying times, perhaps like none we've ever seen as a global community in our lifetimes. We will get through this period, and science and medicine will lead the way. In the interim, at Putney, we will continue to provide the same level of care, guidance and stewardship to our clients that we always have. Financially, the reality is that no matter how bad things are, there are always opportunities to seek out. We will continue to do just that, as we always have, in a non-predatory manner. (I still kick myself to this day for making money off payday lending stocks before I realized their true social and community impact.)

Virus or no virus, we're in for volatile times—trade wars, budget deficits, a contentious presidential election season and a sense of social unrest and injustice across our country like I've never seen as an adult. What does that mean to investors? One word: Volatility. We will see

wildly swinging markets in this coming year as a result of great uncertainty. You've heard me say it many times, if there is one thing the equity markets loathe, it's uncertainty. With that said, with change comes opportunity, and we will continue to seek out opportunity within appropriate risk exposures. Remember: Think of Putney as the tortoise, slow and steady. No hares here.

Now, For The Envelope Please

At the time of this writing, we continue to receive responses from last month's Putney survey. To date, we've received responses from well over 100 clients and their family members. As you'll recall, the survey asked four main questions, and then solicited Tips for Coping during these trying times.

Your responses were as follows:

I. When asked, "Do you have a preference between Zoom or teleconferencing," a slim majority favored Zoom over teleconferencing. (Guess that means I'll have to start shaving a bit more regularly.)

II. When asked what people's take on Zoom was, the majority found the experience enjoyable or somewhat enjoyable, with only a few responders saying it was a tedious and tiring experience. Many people did say a little Zoom goes a long way, sentiments I guarantee will be taken to heart by us here at Putney.

III. When asked what people's comfort level was being in public when not sheltering in place, here's what the responses revealed: For every one person who said they were very confident when leaving their home, almost four said, "I only leave my home to secure necessities." The vast majority of responders fell in the middle, basically feeling guardedly confident when leaving their home as long as they didn't try to do too much.

IV. When asked, "When the time comes that local and state regulations allow for face-to-face meetings (pre-vaccine), understanding that Putney would obviously deploy every safety precaution available, would you prefer face-to-face meetings wearing masks, stick with virtual reviews or are unsure," the jury was definitely out. Responses were almost equally divided—1/3, 1/3, 1/3. Since it's not a legal option at this point, we will revisit the question at the end of the fourth quarter. We do not believe there will be any available options to employ before then anyway. And when the time comes, we will once again reach out to you for suggestions on safety to make sure no stone goes unturned.

HOW NICE!

To me, it has always been one of life's great pleasures to be able to share a curious little tidbit, insight or factoid with my friends that they might find entertaining. We received so many great coping tips from you that I will continue to make this an ongoing inclusion in our quarterlies until we make it through to the other side together. Here are your first 10:

1. Deep Breathing. Many responders shared that they were participating in yoga classes or practicing on their own with an emphasis on proper breathing to promote good health and reduce stress.
2. Turn off the news. “We know things are screwed up. Do we have to remind ourselves every day!”
3. Physical activities one can participate in while practicing proper social distancing are:
 - a. Biking
 - b. Walking
 - c. Golfing
 - d. Fishing
 - e. Pickle Ball

This is just a cross section. It was obvious from the survey that we are all looking for safe outlets to help us stay mobile and limber.

4. Gardening and Yard Work. It seems that we’ve all doubled down on helping things grow, e.g., my wife is helping some of our plants pollinate with Q-Tips. I think she’s worried the bees are not doing their job.
5. Join a “Germ Bubble.” Commit to a very small group of friends and family who have remained safe through social distancing. You can then visit, share a meal and enjoy social interaction while obviously using common sense.
6. Perfecting New Recipes. Boy, do I know this one well. Both my dog and I need to go on diets (he gets all the failed recipes).
7. Jigsaw Puzzles. Apparently, early on in the pandemic the 1000-piece kind were hard to come by. If you are into puzzles, and I’ve always loved them, order yours before the second wave comes this fall.
8. If you’re a musician, play some music so that your neighbors can hear it. Obviously, in a respectful manner. Good for your soul and theirs. (John, you have the nicest printing of any of my friends. Did you go to Catholic school?)
9. Pick up the phone. Reach out to that friend or family member you’ve been thinking about. You’ll feel good and, boy, you’ll make their day.
10. Unfinished Projects! Can’t tell how many of you got back to finishing that
 - a. classic car project
 - b. unfinished weaving
 - c. on-line watercolor class

Bottom Line: "Get 'er done!"

These are just a sampling of the input the Putney family wanted to share with one another. I promise I will keep more tips coming until we get through to the other side. In the meantime, please take this to heart: This is the time not to be a statistic; this is the time to be a survivor. Be smart and stay safe. As always, with very...

Best Regards,

Ray Lent
RLL/dot
Enclosures