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.....two roads diverged....

It used to be that a traveler might have gone anywhere in the world and have been safe from accident or illness. Until a few weeks ago.

Unfortunately, a plague has overcome the globe, and its pernicious consequences are vast. Today, a majority of countries, towns, and municipalities are in lockdown because of the dire effects of the Corona virus. The toll, in lives and fortunes lost, is incalculable. Before it is over, new systems, strategies, and procedures for dealing with life's everyday issues will become necessary hereafter.

With the dramatic dissipation in valuations in the financial markets, personal and corporate goals and identities will be conflicted for months to come. We are all beset by issues which, until recently, had not even been contemplated. More than shooting guns or marching armies, this adversary has ground economic activity to a standstill and made insignificant most sciences studying it.

As we sit here today most of the world's economies are immobilized or already in a state of decline. The pangs of hunger and desperation are widening. During such periods, the climate is fertile for despotic pronouncements or ego-driven policies to try and deceive a vulnerable public.

Clearly, the production and supply chains are constrained. The momentum built up during the last decade is ruinously nullified. Whereas we might have been "burdened" by a glut of capacity before, the curve has been regressing during the last month alone. Demand today is not great enough to achieve more than the status quo.

The Federal Reserve and other global central banks are doing their best to inject the system with needed capital in an effort to keep afloat large and small businesses. Obviously, the small entrepreneur is most vulnerable to cyclical stalls in the economy. Any reduction in the cost of money might be helpful, although this writer has frequently expressed doubts about the appetite for borrowing money when in dire straits.

As a result, there is little financial inducement that can move markets or consumers simultaneously. We are facing a period of stagflation, recession, or worse, in the coming months.

When such periods do occur, they tend to coincide with people's worst fears. The markets recede as a result. This is certainly not a time to speculate about upside rebounds or bounces. Value investing, at this juncture is not equivalent to "finding a bottom in the markets". Throw into that mix the current political/election climate in the US and you get a rhetorical mix of doom-and-gloom scenarios along with high hopes and expectations for the future.

Our real dilemma, though, is how we all react to the situation. Government leaders are chock full of ideas to create anticipation and stimulus (while warding off the medical pandemic). Everyone seems to be gravitating to their own parochial interests while the chasms which divided us before the epidemic (crime, immigration, wealth gaps, politics) widen.

No doubt, our living standards will be adversely affected during our adaptation to new principles. Nevertheless, each person has a responsibility....a "civilian contract"....during this process. That is what makes for communities, states, and nations.

Actually, we are likely to find our way with greater clarity *because of* the pandemic. Social consciousness, and conscience, cuts through a lot of the uncertainty. The tenet to love and respect one's neighbor diminishes our uncertainty about how to behave in stressful times.

If history is any guide, there will be enough time to worry about the financial and medical issues confronting us and how to "right the ship" going forward.

Markets

The recovery, when it occurs, will be driven first and foremost by businesses believing in their prior economic forecasting, waking up like Rip van Winkle, and initiating production and services as they did before the pandemic. Unfortunately, the consumer cannot "lead" this orbit, as is typical in a classic economic model. The shift and burden will be upon corporations to lead. **The private sector and government fiscal policies must provide the first and best incentives, followed then by the consumer who, hopefully, will engage with increased buying power and confidence that the worst is finally behind him.**

Employment...more specifically, re-employment....will be slow in the beginning of the turnaround. Wages possibly might return to "normal", but slowly. Profits should increase for many companies, thereby expanding the employment cycle. The trend which reignites the global economy is not going to look like a "rocket ship"...straight up linear expansion....but rather could take several quarters to revive the "patient".

Those industries that lower costs will rebound the fastest. Their sales base will increase more rapidly. Demand in those industries should push the economy modestly forward. To the flip side, those who choose immediately to try and recover lost expenses and revenue, business as usual, will stifle their own growth potential, become more cyclically influenced, and lag opportunities for valuation appreciation.

Historically, the most potent recoveries occur when there is buy-in from the public that they are working in concert with the objectives of big business. Otherwise, recessions persist, public assurance erodes, and valuations continue to tumble.

Conclusion

There has been a drastic decline in public confidence in the past few weeks. Quantitative studies tell us that when we hit rock bottom, "zero", the only way to go is up. The question is *"when"* and *"for what duration"?*

The loss of the consumer's engagement does not mean an end to the economic expansion we were experiencing before the pandemic, however. I am one who is loathe to "sell everything" and then try to time reentry into the market. You will note at the bottom of this page that our balanced analogues still include equities....not so much as a statement about our immediate optimism as much as a procedural necessity not to run and hide during times of crisis, and to remain consistent with our long-term methodologies.

US and global equities if managed prudently will still provide relevant returns on investment over the next several years. The principle is quite simple: our distaste for volatility does not dampen our enthusiasm to play the game nor for a responsible evaluation of science-based economics and opportunity.

As you have no doubt heard and read from me and others, this crisis will pass. My job is to protect portfolios, navigate the tough times especially, and to dissuade anyone who listens that "straight line investing", up or down, is the norm.

Manias occur when we lose sight of facts and reason. I offer high probabilities that the seeds are being sown for a better future if we have the patience and fortitude to persevere with tolerance, not only for ourselves, but for "the other guy", as well......

Suggested balanced account asset allocation, Q2, 2020

Equity:	**20%**
Fixed Income:	**40%**
Cash:	**40%**

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