Scotty C. George
Chief Investment Strategist

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Paradise redefined

How ironic that in order to receive the blessings one must first go through hell. And so it was last quarter as a plague of infection and social unrest was unleashed upon an unsuspecting public. Hopefully the dawn ahead will be brighter than the dark night just passed. But the truth is that we have a long way to go before finding an economic, social, and medical equilibrium. We just don't know, really, how complex the situation is. It is undeniable, however that the beliefs we held, the ideas of who we are, and the attitudes we subscribed to before this pandemic are clearly different in its aftermath.

I am struck by Wall Street's professional obsession with stock valuations and markets when, in fact, a more sizeable percentage of the population worldwide doesn't even participate in the stock market, and themselves are more concerned with economic survival, racial and social unrest, and personal health. If you count yourself as one of "the lucky ones" then just look to your left or right to find someone who isn't. The ruin of the last 3 months is vast. No amount of wishing can make the recovery go "straight up".

Don’t get me wrong…the percentage gains from the bottom of the market are impressive. It was hard not to get caught up in the stunning bounce back. Not only did the market recover some heft, but those regions of the country most affected by the virus are now leading the way in medical recovery. But, as most cycles do, changes are always evolving. It is only by looking *backwards* that we sometimes can gain the truest perspective of what might come in the future. Above all, that which most affects the future trajectory of events will be our attitude about overcoming obstacles and our preparedness to have patience when they occur.

Markets

Last quarter our approach to dealing with the crisis and turbulence was to do no harm to portfolios by avoiding precipitously panic-driven decision making. Our view was that we had already made accommodations well in advance for any unforeseen events through prudent asset allocation assessments and strategic, top-down macro modeling. Although we did make some adjustments for individual equity weightings and sector baskets, our overall strategy remained intact. We were also frequently asked why we didn't "buy at the bottom"? First, if you knew where and when the bottom was, we should exchange roles. Secondly, we remained true to our statistical models and forecasts. This differed considerably from what we saw as convulsive selling and buying by many others. If our metrics were consistent before the virus, they should remain consistent during and after, as well.

Identifying the economic risks of the pandemic is much different than knowing what to do next about them. Once again, our reliance upon a consistent quantitative methodology and process is critical to successful portfolio outcomes. Unless there was a seismic shift in our client's risk tolerances, there was/is no need to make wholesale changes. "Value" purchasing and crisis buying is not consistent with the mandate given me by high net worth investors. It is just not worth the risk of guessing wrong to be "proven" right in hindsight.

The landscape is becoming clearer now and changing slightly from our macro perceptions at the beginning of the year. For one, economic success is not about *quantity* of resources but about *access to them*. Our challenges are as diverse as the physical landscape of the planet. There are vast regions without food, water, housing, medical care, territorial security, social freedoms, and good government. Thus, our investment palette is as broad as the problems before us, and potentially as profitable. When I am asked for my specific projections for the Dow Jones, S&P, or any other benchmark my reply is to *"widen your aperture of perspective"* and consider the human condition as your menu of opportunity for the long term.

Perhaps the technologies for these tasks have not yet been invented? Our capital markets bankers and traders should have the foresight to know how to cultivate those creations. History has shown us that following severe economic and social dislocations the vacuum is filled by entrepreneurs and new businesses. The allure of being "in vogue" or "hot" should also be tempered by a solid moral compass.

Strategy

Our forecasts for US and global GDP must be adjusted downwards. Without consumer demand, industrial investment, and sustained spending the revenues just aren't there to allow for the kind of profit growth we have forecasted earlier. Airlines are cutting flights, schools are cutting curriculum, restaurants are cutting staffing, governments are cutting programs and essential services. As with everything connected to the financial markets, it always centers around return on investment and the bottom line. Finding the resources to dispense precious technologies is the conundrum of the day. Obviously, wealthy nations are at an advantage. Perpetual desolation only exacerbates the problem for the poor or disaffected. The staples of a healthy society, including housing, education, food, healthcare, social justice are sometimes taken for granted by those who have them, lusted after by those who do not.

The Covid crisis underscores the plight of the poor, disproportionately killing persons with pre-existing medical conditions or who have no access to quality healthcare. Conventional thinking is being challenged by those whose grievances have been long ignored. A company that uses science and innovation to develop efficient agriculture, alternative energy, bioscience, technology, educational tools, or banking and investment is one that can have a rising share price while also "doing good" for the community.

Failing to see the forest for the trees, having a minute-by-minute approach to the financial markets, is a recipe for volatility and crisis. An obsession with *"how much the Dow went up today?"* falls short of planning for exogenous influences which might heighten panic, or exuberance, and take portfolio values along with them. It also loses the distinction between the stock markets and the broader economy.

Our job as money managers is not necessarily to mirror the daily path of the S&P but, rather, to preserve assets, grow wealth, and to lay out a plan for the next decade and beyond that brings order out of chaos.

In equivalent terms, knowing the closing price on the Dow Jones each day is really small stuff, indeed.

This quarter, more than any other in recent memory, it will be impactful *not* to focus upon 24 hour news cycles. I believe that the underpinnings for economic, political, and social reformation began nearly a decade ago after the last recession. Their significance remains intact. The effort is multi-sector, multi-cultural, multi-dimensional, and multi-year. I believe profitability this quarter will come from pharmaceuticals, biotech, agriculture, and consumer cyclicals.

Building a cross section of resurgent businesses along with traditional "staples" is a powerful backdrop for portfolio growth. The financial markets ended the quarter with the same type of volatility and trepidation with which they began the quarter.... several hundred point swings on a daily basis, all predicated upon politics, viral spread, and fear. The markets are positioned to continue their advance assuming no inevitability of a more radical viral wave or politically rhetorical interference.

Suggested balanced account asset allocation, Q3, 2020
Equity: 35%
Fixed Income: 35%
Cash: 30%

Alexander Capital L.P., 17 State Street, 5th Floor, New York, New York 10004 646-564-2299