



Uncertainty, Change, and Opportunity

Uncertainty

The stock market peaked on Feb 19th and over the next 33 days fell -35.3%. It then rose by +48.7% over the subsequent 114 days¹. Such large moves over such a short number of days are relatively unheard of. In fact, events such as these are so rare, that they require an explanation. These are not normal times.

The collapse was driven by the arrival of a global pandemic, COVID-19. But it was supported by already slowing corporate profit growth and a stock market that was richly priced. The subsequent rise, was driven by monetary and fiscal stimulus by every major industrialized nation, and on a scale and at a speed that previously would have been thought impossible. Governments did a lot and they did it fast. These efforts² to support the domestic and global economies, dwarfed what we experienced during The Great Recession of 2007/09.

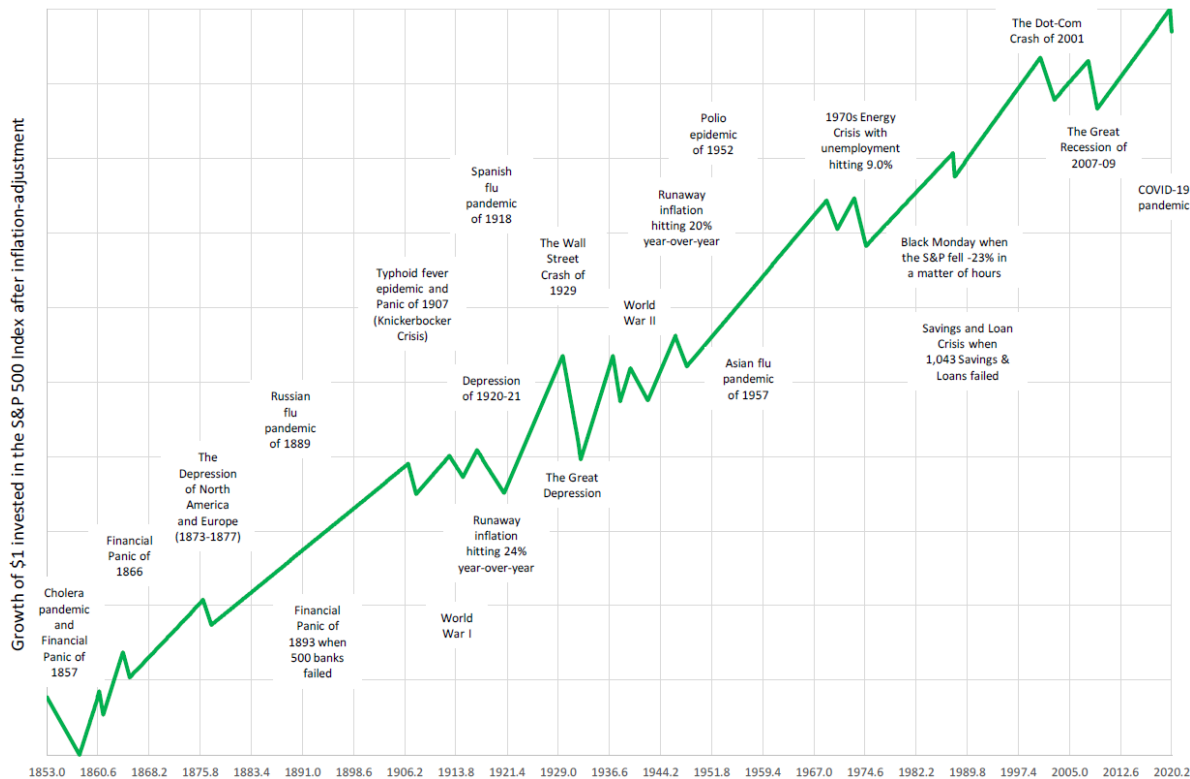
So, where do we go from here? First, we need to place COVID-19 in context. Global pandemics are not new. There have been many throughout history, from which we can better understand how they unfold and their likely impact on society and the economy. Today's pandemic is the worst since the Spanish Flu of 1918 which is estimated to have lasted approximately 29 months³. Because COVID-19 has only been with us for seven months, we still don't understand several of its most important attributes. Some of the known unknowns include: (a) how long will it last, (b) how will it end, (c) how fast will it mutate and in what directions, (d) will it be once-and-done or will it become an annual affair like the flu, (e) when will we have a vaccine, and (f) how effective will the vaccine be? But the uncertainty doesn't end with answers to these questions.

Instead, many businesses will never recover or reopen. Those that do, will restructure their operations and supply chains. Consumers are making similar adjustments, changing jobs, reprioritizing where or on what they spend their money, and recalibrating their savings rates. Entire industries will rise and fall. And global trade patterns and partnerships are being redefined. Collectively, we face the highest level of uncertainty since WW II. But let me be clear, this is not to suggest that the future is any less bright than it was before. Instead, we face unprecedented uncertainty and change. As a consequence, we will experience a decade of redesign and restructuring.

Change

Yes, the U.S. economy is recovering, but things will not return to what was or how things worked before. The recovery's path remains uncertain and unknowable. The forces that were already at play before the arrival of COVID-19 have now been strengthened and reinforced. But they have been supplemented by a new and additional set flowing directly out of the global pandemic. It is reasonable to expect major changes in investment markets, the domestic and global economies, the structure and location of work, and society at large over the next dozen years. History tells us that when faced with challenges as impactful as COVID-19, change ensues. But that change has been for the good, where after we've passed through the inevitable unsettling times, we end up following a new and more bountiful path forward.

The following graph shows the stock market's continuous trek upward⁴. This steady progress, unfolded despite the regular and almost continuous occurrence of wars, pandemics, epidemics, depressions, recessions, runaway inflation, financial panics, energy crises, race riots, terrorist attacks, prominent corporate bankruptcies, and bank failures. Even after these challenges, stocks delivered an average annual compound return of 6.55% over and above the rate of inflation.



Opportunity

Opportunity is a funny thing. It doesn't arrive during calm, tranquil, peaceful times. Opportunity is downright rare when things look easy, and collectively we feel confident. Instead, opportunity results from profound uncertainty and potent change unfolding over numerous years. Opportunity is the offspring of unsettled times.

So where do we go from here? Through my eyes, I see a unique period of opportunity being driven by profound uncertainty and difficult change. But, to be successful in identifying and then harvesting these opportunities, we must let go of what worked so well in the past and be accepting of different approaches that are more attuned to what will be. In my opinion, we should expect the following:

- The U.S. economy will recover, prosper, and remain the world's preeminent source of innovation,
- The changes that were slowly unfolding prior to COVID-19, will now be completed in 50% to 75% fewer years,
- Society will reexamine its priorities, shifting the division of spoils from capital back to labor,
- U.S. economic growth will slow until business and consumers have completed their restructurings, and
- Tax rates will rise, significantly.

Your financial planner or investment advisor can help you think through your own priorities and how best you desire to align your investments with the future's unique opportunities and changing times. For those with forward-looking minds, a willingness to adapt and change, the future will be bright.

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Footnotes and Disclosures

1. Data and statistics provided by Global Financial Data, Inc. at www.globalfinancialdata.com
2. Comparison provided by Goldman Sachs Asset Management
3. The Centers for Disease Control and Prevention (CDC) at www.cdc.gov
4. The stock market is represented by the total return on the S&P 500 Index (and its predecessors) and has been discounted by the All-Urban Consumer Price Index. Data and statistics provided by Global Financial Data, Inc. Rate of return net of inflation covers the time period starting on 12/31/1852 and ending on 7/20/2020.

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