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2020 – 4th Quarter Prometheus Capital Newsletter

What a long year we all have had. For those fortunate enough not to have gotten sick or lose your job, it was tough. For those who lost a job, business, or a loved one/friend, it has been a "time to try our souls". We won't forget 2020 although I am glad to wish it adieu. I won't spend time recapping all the bad parts of the year, but would like to highlight some positive and negative economic and life events that occurred which may have significance going forward.

The bad news was Covid-19's effects on our health, trade, travel, work, families etc. The good news was the record time to produce effective and safe vaccines. While most of us have not been vaccinated yet, we know it is coming and a better 2021 should happen for us all. The physical, mental, and economic health toll we all have had should slowly heal as the vaccines are distributed and the economy opens up again. Another positive aspect is the speed and effectiveness in which the individuals, companies, and governments working on these vaccines may carry forward for other diseases and health scares. My parents were born during the 1918 influenza and in my reading of the event I realize that we did learn some things from that crisis which were not currently repeated; even as other mistakes may have been made. It is still very painful to watch clients and friends pass away or become sick from Covid-19 especially as the vaccine gets distributed. However, I am heartened by the number of health and pharmaceutical people I have talked to this year who tell me that medicine and medical treatments have advanced because of this scourge. I have also been told that new treatments and medicines could be developed faster in the future partially due to Covid-19.

The Economy: The resurgence of Covid-19 cases has caused an increase in unemployment claims. However, not at the level in the past. In addition, some companies who have adapted to new safety procedures or implemented remote operations have been hiring. No one likes a recession, especially one with a health crisis. But there have been some silver linings during this pandemic. We did make it this far with the economy not decreasing as much as many predicted. Furthermore, it has bounced back in fits and starts, beginning as early as May, 2020. "Labor Productivity", a key measure of economic strength measures the hourly output of a country's economy. Specifically, Labor Productivity charts the amount of real gross domestic product (GDP) produced by an hour of labor. Growth in Labor Productivity depends on three main factors: saving and investments in physical capital, new technology, and human capital. Labor Productivity is directly linked to improved standards of living in the form of higher consumption. As an economy's labor productivity grows, it produces more goods and services for the same amount of relative work. This increase in output makes it possible to consume more of the goods and services for an increasingly reasonable price" (Investopedia).

This is so interesting because in 2020, the United States Labor Productivity increased significantly in the 3rd and 4th quarters.

https://www.statista.com/statistics/217131/quarterly-percent-change-in-nonfarm-business-sector-labor-productivity-in-the-us/

As you can see in 2020, US labor productivity dropped .3% in the 1st quarter, then rose 10.6% and then 4.9% in the 2nd and 3rd quarters respectively. This seems to make sense to me as so many of you have complained to me about working longer and harder from home during this pandemic. That is bad for us of course, but good for the economy and the country.

The Stock Market:
One bright spot in 2020 was the Stock Market which recovered quickly since the rapid decline at the beginning of Covid-19 and has continued a bumpy road during the year to record highs. The only thing I truly know is the stock market increase may probably slow down, but just don't know when.

WHY? Some explanations are:

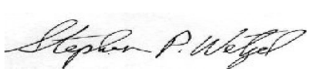
(1) The Federal Reserve (and other countries' monetary authorities) have kept the interest rates very low to aid in economic recovery and could do so for the foreseeable future. This allows businesses and individuals to borrow at historically low rates and may have helped support higher multiples of P/E ratios for a number of companies.
(2) The increase in labor productivity has helped some businesses survive and even prosper during the downturn. Many changes made to survive may become permanent, leading to sustained increased productivity and GNP growth. If this happens, it may bode very well for economic long-term sustained growth. long-
(3) Some well-run companies have adapted remarkably well to the pandemic induced changes and may continue to grow and increase in market share.
(4) Since many working people have had surplus cash flows, given the lack of spending opportunities, they have paid down debts and invested more than in the past. This can sometimes drive increasing prices for equities and other investments.
(5) Some may be gambling in the stock market, since having cash and fewer other places to gamble. This may explain why some companies seem to have few reasons to support their high valuations
(6) Some believe markets are overpriced and will tumble. While some companies are trading at very high prices relative to their earnings, others are not because they have not been able to bounce back into full production due to Covid-19 restrictions. So, I believe this may be a well-founded concern with some companies.
(7) The pessimism due to economic and political uncertainty is receding as vaccines are starting to be distributed; and companies are rehiring and producing while election results are firming up.
(8) The companies that were weak have had to restructure, declare bankruptcy, or be acquired. As in other recessions, this restructuring should lead to more profitable and better run businesses with less debt and hopefully more hiring.
(9) The video conferencing boom has reshaped the way many think about work and where to live. This may lead to some winners and losers in equity and real estate markets but over time could lead to new and sustainable economic trends.
(10) Low interest rates have helped fuel residential real estate price increases in some parts of the country and decreases in others. It has also accelerated millennial household formation and home purchases, which should be a significant economic factor for many years.
(11) Digital is here to stay and could continue to grow and help innovation and GNP growth.

I believe all these reasons have affected the rise in the stock markets. Some may continue to drive the markets for a while, some may lessen and some may accelerate their influence on the market. Having said that, please call me to discuss your individual financial needs and goals to see if we have to make adjustments to your planning or investments. Keep/build an adequate emergency fund and refinance your mortgage at these low interest rates if that makes sense for you. Also, call us to discuss what regular, tax deferred or tax-free investment options make sense for you to meet your goals.

Stay Healthy and Safe. We will continue to support you all through these times of health issues and unemployment and this Covid-19 induced recession as we all wait for the more positive future that is just starting to peek at us.

I want to thank you for your trust in us in during these stressful times. We appreciate that you call us when you have lost someone or your job and ask for our help and advice. It humbles me to be able to help in any way we can. Please let us always know how you are doing because we are all in this together and if we can help, we will. We appreciate you asking about us and our families. We are doing OK and here to serve you.

Sincerely Yours,



Steve Wetzel

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