



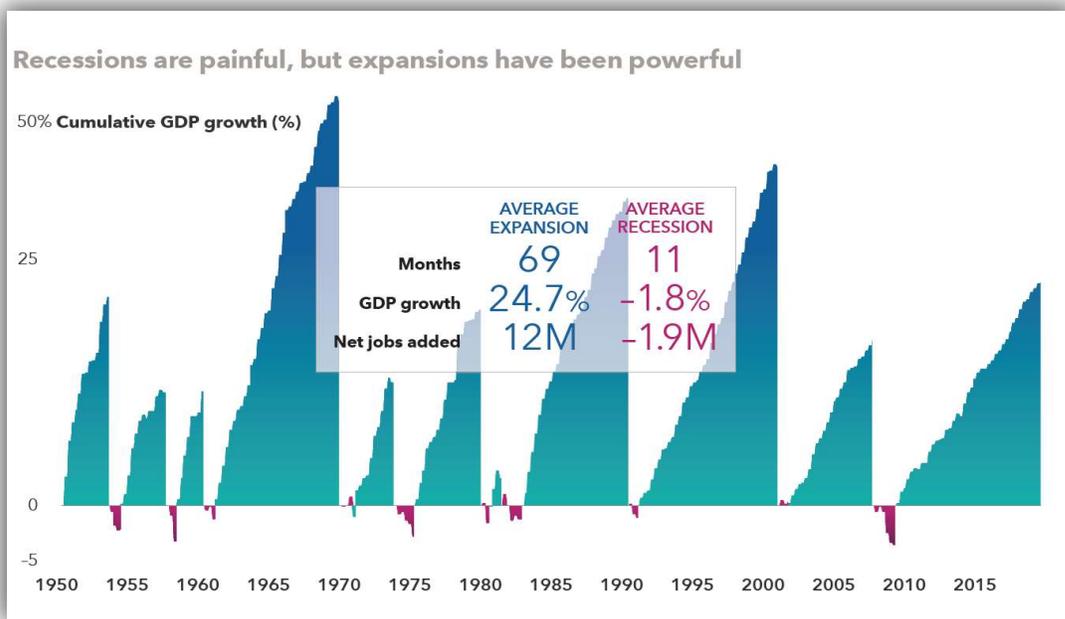
April 15, 2020

Coronavirus & Capitalism

By Dr. Robert Votruba

Just like last time, this time is different. Market movements that usually take a year to make, happen in a week, or even a day. While a new bear market (a decline of 20% or more) was long overdue, the speed in which it occurred was unprecedented, as was the reason. Volatility, though coming down from its March highs, has been historic. Consider, in March the Dow Jones Industrial Average (“the Dow”) had its five worst single day point drops ever, and its four best. With such intense swings, increased media coverage and likely more time to pay attention to the market, thinking about “the long-term” is nearly impossible.

While it’s anyone’s guess as to where the market will be in the next week, or even year (expert forecasters have never had such varied projections) we do know from history that the market goes up far more often than it goes down, and that the economy expands far more than it contracts, as the following chart illustrates.



SOURCES: Capital Group, Federal Reserve Board, Haver Analytics, National Bureau of Economic Research, Standard & Poor’s. Data reflect the average change in the S&P 500 Index and economic activity (using industrial production as a proxy) of all completed economic cycles from 1950 to 2019. The “cycle peak” refers to the highest level of economic activity in each cycle before the economy begins to contract. Both lines are indexed to 100 at each economic cycle peak, and also indexed to 0 “months before/after cycle peak” on the x-axis. The negative values (left of the cycle peak) reflect the average change in each line in the months leading up to the cycle peak. The positive values (right of the cycle peak) indicate the average changes after the cycle peak.

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But, why does the economy grow more than it contracts? While that question could spark an interesting debate – especially today as the government has introduced extraordinary levels of support to the economy – most would agree that an increasingly productive workforce, innovation and access to capital markets all play major roles. Though government intervention was necessary to stabilize markets, forces of capitalism will drive the next wave of growth as they have in the past.

Today's market conditions are often compared to those of 2008, yet the dynamics surrounding the financial crisis were far different than what we face today. During the 2008 crisis the S&P 500 fell by as much as 57% (at its low point a few weeks ago the S&P 500 was down 34%), banks were part of the cause of the recession, whereas today they are part of the solution, and the Federal Reserve was hesitant in its response and was essentially was “writing the playbook” during the 2008 crisis, while today the Fed swiftly grabbed the playbook off the shelf and fired a giant financial bazooka to stabilize markets. Though different, looking back to all that has happened since 2008 is instructive in demonstrating the economic adaption of our country and the forces of our capital markets. Consider the following...

- Mark Zuckerberg was 24 years old in 2008. Facebook did not go public until 2012. It is now the 5th largest company in America and employs 45,000 people.
- Amazon did not crack the Fortune 100 back in 2008 when the company was valued at a mere \$20 billion. Today, Amazon's market value is \$1 trillion. The company has created over 750,000 jobs since 2008 and is still looking for more than 100,000 workers today.
- Tesla was not a public company in 2008. There were far more Hummers on the road than electric vehicles back then.
- In 2013 a taxi medallion in New York City sold for \$1 million. In 2019 there were no bidders for 13 of the 19 medallions that were up for sale. Yet, Uber has made it easier for everyone to get a quick, cheap ride.
- In 2008 there were only 12 million iPhone users (the iPhone was launched in 2007). Today there are 728 million.

Of course many companies, like Blockbuster, did not evolve, though we likely spend more money on streaming services than we ever did on VHS rentals. While the mention of these companies' names was not done to recommend that our clients buy their stocks, each offer an example of how our economy has changed and grown over time. Examples can be drawn from any decade – the camera was once cutting-edge technology as was the Xerox machine and transistor radio. By reducing exposure to individual stocks and favoring mutual funds and ETF's

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instead which invest in hundreds, if not thousands, of stocks, one is investing more so on the success of the economy and the market as a whole than an individual company that might not survive the changes that lie ahead.

Looking back at what our economy has accomplished since 2008 is amazing. In February unemployment was at a 50-year low (coming down from 10% in 2009) and household net worth was at an all time high. We can't know when the next expansion will begin, but chances are there are a few future Mark Zuckerberg's attending online college classes today and the ideas they launch will bring about the next wave of innovation and productivity and will give birth to another round of future household names that will be the top holdings in your mutual funds in 2030.

We hope that everyone is safe and healthy.

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Dow Jones Industrial Average is a widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service-oriented firms.

S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market.

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