

## The Worrying Twenties Will Give Way to The Roaring Twenties

Positive events will collide and power the stock market to recovery and new highs based on our American history of resolve and ingenuity

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Gregory J. Zedlar, ChFC

Investment Planning Committee Chair

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### The Next Roaring Twenties

I firmly believe a confluence of positive events will collide for the benefit of investors worldwide. It will be driven by the strongest financial generation ever when eventual widespread relief begins, and pent up demand starts firing on all cylinders. The Roaring Twenties of the 1900s introduced “consumerism.” I think The Roaring Twenties of the 2000s will dwarf it in scale.

Life will return with a vengeance, but it will taste better than it ever has, and it will likely be wrapped in a more profound sense of appreciation. Just around the corner, we will again pack movie theatres, restaurants, airplanes, cruise ships and hotels. We will celebrate weddings, graduations and births. We will purchase cars, plan trips, arrange social events, and will do so with an enthusiasm only matched by winning World War II.

The Roaring Twenties and the formula for the stock market to recover might look something like this:

AMERICAN RESOLVE + AMERICAN INGENUITY x THE ROCKET FUELS OF RECOVERY  
+  
THE STRONGEST FINANCIAL GENERATION – CABIN FEVER  
x  
CAL CAP’S THREE INVESTMENT STRATEGIES  
=  
THE ROARING TWENTIES

By nature, I am an eternal optimist. In my 53 years, I have personally witnessed the results of American optimism, resolve and ingenuity at its best. From making it routine to shuttle people into space and from drugs created to combat AIDS, our American story is overflowing with examples of resolve and ingenuity in just our lifetimes.

Reading and studying history provides even more evidence to support being an optimist, especially when you recognize the *resolve* of the American people throughout time. Consider the resolve of 43-year-old General Washington. In 1776 he led a rag-tag “army” largely comprised of blacksmiths, farmers and laborers against the largest standing army in the world. The average age of the soldiers under Washington’s command was 17. They were disorganized, ill-outfitted and more than half could not read. The British could track our army by following the bloody footprints of those 17-year-old kids who were willing to die fighting for a new definition of freedom, even without proper footwear in the dead of winter. How did they do it without Google Maps, bottled water, heated blankets, waterproof tents, ambulances and electricity? Resolve.

American ingenuity combined with the resolve of the American people has seen us through financial calamities, panics, manias and market crashes dating back to the opening of the U.S. Stock Market on May 17, 1792, at the corner of Wall Street and Broadway. That is when 24 brokers signed an agreement to form an organized method to trade investments. Only in 1817, did the group rename itself the “New York Stock and Exchange Board” and moved off the street into an actual office on Wall Street.

While many Americans were trading stocks and overcoming associated financial turmoil, Wyatt Earp, along with his brothers and Doc Holiday, were protecting Tombstone, Arizona, against feared outlaws. How did they do it without a Yeti cooler full of ice, indoor toilets, cell phones, Uber, GrubHub, down jackets and toilet paper automatically delivered to them via Amazon Prime? Resolve.

American resolve and ingenuity has survived panics you might not even know about. In 1907, two men tried to corner the copper market using too much borrowed money from banks. The resulting “Panic of 1907” almost brought down the entire global financial system. The panic was so widespread and so harmful that it resulted in the formation of the Federal Reserve System (“The Fed”), a cornerstone of our financial system today. Panics are as certain as death and taxes. Life went on then as it will now. (Note to those currently mourning the temporary suspension Major League Baseball: During this panic, the Chicago Cubs beat the Detroit Tigers 4-1 in the World Series.)

## **The Rocket Fuels of Recovery**

### Future Spending

Pent up demand will spark the general public's return to consumerism following a period of decreased spending. Most people are spending considerably less right now. As their spending contracts the rubber band effect will become more powerful by the day and will eventually whipsaw to spending more freely once the clouds part.

### The Fed's “Easy Money” and Stimulus Bills

The term “easy money” refers to the faucets of money The Fed is turning on to ease the concerns of lenders and borrowers worldwide. Stimulus like the current two trillion-dollar (\$2,000,000,000,000) bill being developed in Congress as I write this may be followed by another one trillion-dollar bill related to infrastructure in the coming weeks.

### Worry Abating

What is unique about this current crisis is it has made each of us worry or think about our own mortality and that of anyone we care about. Our world is not short on worry, but when worry uncoils it likes to have a good time in the process. This is the first time in my life that I have seen people worldwide fear for their death and the deaths of family, friends and neighbors. When this worry abates, it will result in an even more celebratory feeling. What do people do when they celebrate? They spend money.

### Cabin Fever

Being cooped up will further fuel pent up demand. I firmly believe that when stay-at-home orders are lifted it will feel similar to the lifting of Prohibition. This time it will result in profligate and unabated spending at the same speed of legal alcohol consumption on March 5, 1933. (Note to those currently mourning the temporary suspension of live theatre: William Shakespeare temporarily closed his Globe Theatre and wrote *Romeo and Juliet* when quarantined at home during the Black Plague.)

### The Financially Strongest Generation

From top to bottom we are the most financially strong generation in human history. We have never had more wealth as a country and fewer people below the poverty line. Our banking system, military and infrastructure are the most robust they have ever been. Compare our modern times to the Great Depression generation, where they did not have a sliver of the security we enjoy today, even in our current difficult times. Our generation is not just going to “hand the keys back” and capitulate to the coronavirus. This will end in game, set, match for the people of the United States.

### **Cal Cap's Three Investment Strategies**

The best investment opportunities always spring from painful but temporary moments in time. We implement three types of trades (investment strategies) during times of turmoil:

#### (1) Downturn Strategy Investing

This is the cornerstone of our investment philosophy. Buying solid investments at a discount, assuming the fundamentals have not changed, is rote at this point. For example, we like Apple, which we have owned for ages, but we like it even better when it temporarily drops 20%.

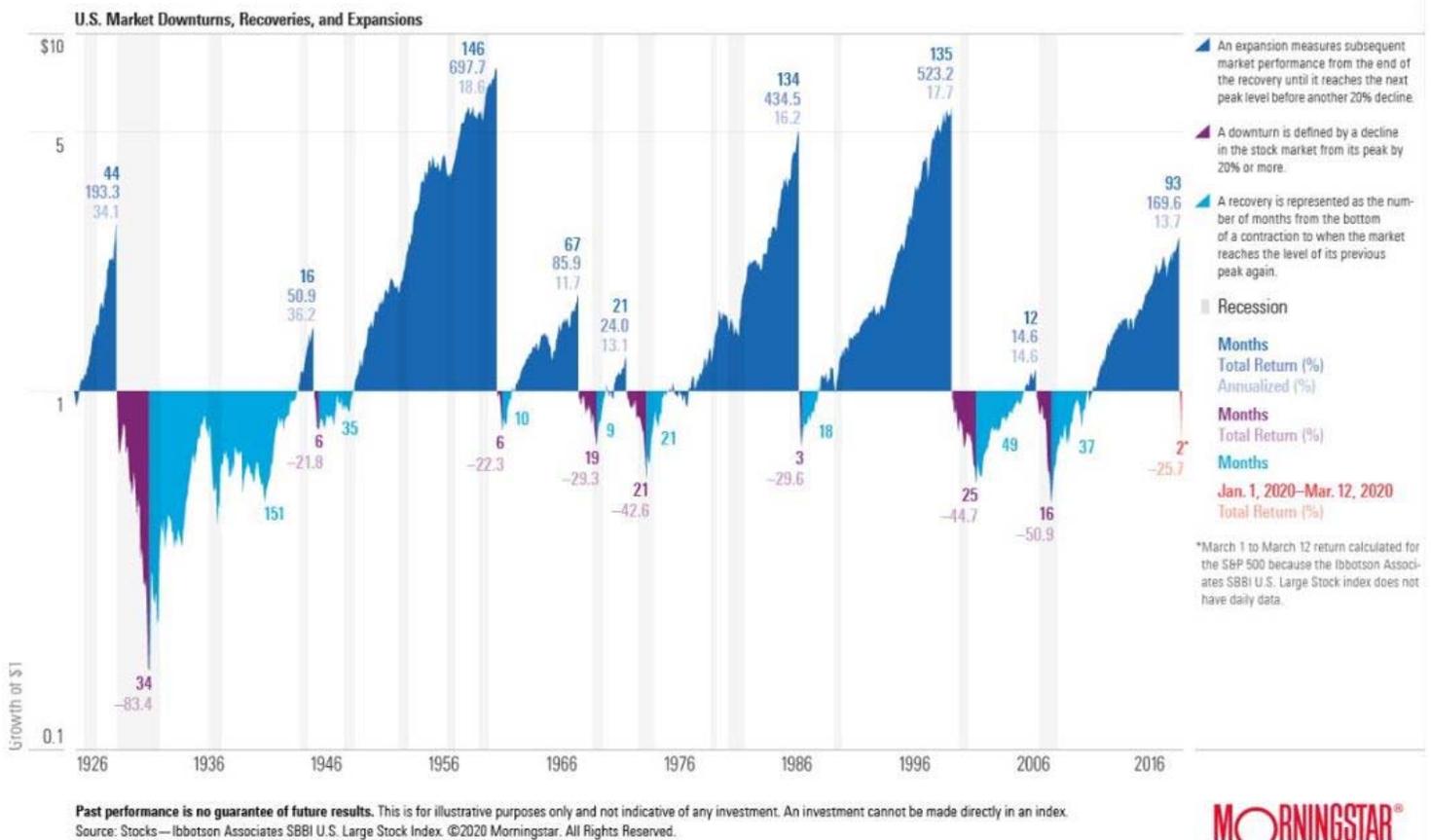
#### (2) Opportunistic Investing

We started adding domestic airlines at a 50% to 75% discount below what they traded for just 60 days ago. We did not own passenger airlines before this virus crisis, but the deep discounts presented an opportunity that compelled us to act, especially in anticipation of the return to a freely mobile society. We don't need more people to fly in the future, we just need normalcy to return for our opportunistic buys to prove successful.

#### (3) Behavioral Change Investing

We recently bought video conference companies because their long-term adoption will likely skyrocket now that millions of new users are compelled to utilize them. We strongly believe many of these new users will maintain their video conferencing service going forward. As the saying goes, what was once a luxury is now a necessity.

## Episodes of Financial Panic Succumbing to American Ingenuity and Resolve (1926 to 2020)



Please take a few minutes to study the chart above. Please digest this one statistic: *The United States has a perfect track record of overcoming every financial crisis, mania and panic.*

In March 1775, Lord Sandwich, First Lord of the Admiralty, was speaking at Parliament and sized up the resolve of the American forces this way: “Suppose the colonies do abound in men, what does that signify? They are raw, undisciplined, cowardly men.” Well, those “raw, undisciplined, cowardly men” killed 25,000 British soldiers and started a new nation. (As a side note, Lord Sandwich was credited with creating the sandwich as a way to eat without having to pause for a meal while gambling – at least he got the sandwich right.)

If the coronavirus manifested itself as a human, it might utter the same words as Lord Sandwich. However, the coronavirus has no idea the enemy it’s facing in the United States. We are marshalling our society’s collective resources to send it packing with a black eye so we can revert from surviving to thriving once again.