

Quick thoughts: Active investors wake up before a revolution



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Remember the story of lazy Rip Van Winkle who slept for 20 years, missed the American Revolution, and awakened to a new country? Similarly, the world is waking up to the 4th Industrial Revolution, a time of massive change led by innovation, which the impact of the COVID-19 virus has accelerated. This year will be remembered as a tragic one, with much suffering and many lives lost, and also as a fulcrum for health, economic, and social disruptions.

- **Trends that might have happened over the next decade or so are accelerated into 2020.** Tele-health, remote learning, working from home, internet retail, and many technological innovations are changing commerce and our ways of living and interacting. We are not going back to “the way it was” pre-COVID-19, especially now that it seems the pandemic will be with us for many more months.
- **Why are the US equity markets near all-time highs?** One reason is because massive fiscal and monetary stimuli have put a backstop against corporate and personal insolvency. The downside risk has been reduced. Normally when you have a recession, the US equity markets drop on average around 40%.¹
- **Due to tremendous social and economic changes, several notable companies are facing bankruptcy.** Many of these “old economy” companies are closing more so because they are being disrupted by innovation, e.g., the “old” retail companies, than because of the economic slowdown. Their demise is primarily related to the acceleration of trends—changes in the way our economy and lives are structured.
- **There are some companies that will not make it through this upheaval and there are others that will forge a new paradigm.** We should invest in companies that are innovators in their industries, and equally important, we need to avoid companies that will be disrupted. It could be as important to avoid bad companies as it is to find good companies.
- **Investors might look back on this time as a break from reversion-to-the-mean investing.**

Over the next few months, it's likely headlines will be filled with news on vaccine trials, political uncertainty, a deepening recession, and more social unrest. But underlying this are fundamental disruptions in our economy that will impact how we live and work—this also presents opportunities for active investors who are observing the longer-term trends.

A handwritten signature in black ink that reads "Stephen Dover". The signature is fluid and cursive, with a large initial 'S' and 'D'.



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Endnotes

1. "How Stocks Performed During The Past 6 Recessions" by Mike Patton, *Forbes*, March 30, 2020.

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