



**Third Quarter 2020**

## **The Rules Have Changed**

Modern portfolio theory, capital asset pricing theory and passive asset allocation have always had a major weakness. Determining the right asset allocation looks at the past and the relationship of asset classes and risk over time. Covid-19 has just dealt a body blow to the ability to anticipate the future based on the past.

The post-Covid world will be one of change for equity markets world-wide. Industries and companies that were portfolio standards three months ago are fighting for survival. Over 20 million people in the U.S. alone are unemployed and a staggering number of jobs may never come back. Countries have never shutdown their economies for over two months with the possibility of still further shutdowns. We are in uncharted territory.

Time to panic? Of course not. What it is time to do is to move past rules and strategies created in the low technology, stable markets world of the 1950s and 1960s and look forward. History hasn't been here before. We need to react to the present. On our side is technology, global communications, manufacturing flexibility, all-in-all a well educated population and the desire to rebuild normalcy.

Coronavirus could be with us for a long time. Business models are going to change, and innovation will determine the winners. Restaurants, airlines, recreational travel, entertainment complexes, destination resorts, commercial real estate, oil, and small retail, along with segments of other industries hardest hit by the shutdown are in a world of hurt. For the near term, selected medical, digital services, cleaning products, and robotics industries have benefited.

Within the investment advisory industry, we are changing as well. As an essential business, work has gone on but we are adapting new technologies to work better with employees in remote locations, to keep in touch with clients and stay aware of their changing needs. We are looking at what worked and what didn't strategically during the market's collapse in late March and ongoing volatility. We need to know how our investment strategies and the services we offer our clients can be better.

As a country, we went into this disaster too complacent. Too sure that it couldn't hurt us. It's easy to blame the federal government. But the failures were far more widespread. Where were the corporate leaders, the media, the policy nerds, the intelligence agencies? What was the CDC doing, other than assuring the public that it was a non-event as far as the U.S. needed to be concerned? There were red flags, why were they ignored? Could slowing the spread of the disease have been handled better?

Covid-19 is serious, but it is survivable. We are going to come out of this stronger with a lot of lessons learned. In the meanwhile we want to hear from you, our clients. How has your financial world changed? Do we need to modify your portfolio in response to those changes? Is it time to take another look at your financial plan? If we can't meet in person, we can definitely take advantage of our recent crash course in online meetings. Please call and let's schedule a time to talk.



Your Conservative Advisory Firm Since 1990  
301 Forest Avenue  
Laguna Beach, California 92651-2115 USA  
Telephone: 1-949-464-1900  
[www.gobcafunds.com](http://www.gobcafunds.com)  
[brian@gobcafunds.com](mailto:brian@gobcafunds.com)