

Necessity

Necessity – the mother of invention. Needs have arisen to confront Coronavirus, and to address the resulting economic disruption and financial market uncertainty. And inventive responses in turn have emerged. Social distancing may not have been invented in 2020 but its global adaptation is unique. The speed and severity of the pandemic shock to economic activity required inventive thinking and implementation on the part of government. The financial industry, always inventive, has been addressing investor needs both real and perceived. A look at some recent “inventions” can provide perspective and implications for investing in the current environment.

Q PERSPECTIVE

A myriad of fiscal and monetary policies and programs have been launched to counter the economic disruption from the Coronavirus fight. The size of programs and speed of their implementation is unprecedented, and necessary in the face of real U.S. economic growth collapsing from +2.1% in 4Q2019 to a forecasted -34.3% in 2Q2020. A shocking 22 million, one-month fall in employment resulted and the CARES Act was enacted in late March. One part of CARES, the Paycheck Protection Program (“PPP”), was funded in early April, lending up to \$10 million to small businesses with fewer than 500 employees and loan amounts tied to payroll costs. While a full auditing remains and some irregularities have been reported, [Table I](#) shows the scope and scale of PPP. It is estimated to have reached a significant 84% of all small business employees.

An extreme form of social distancing employed for the necessity of containing Coronavirus is “shelter-in-place”, aka “Stay Home!” It spawned an acceleration of the trend to work from home (“WFH”). Staying home and WFH converged to create opportunity among adversity for many companies. The financial industry has responded with an inventive exchange-traded fund named “Work From Home ETF”. As shown in [Table II](#), the fund’s holdings are a “who’s who” of technology names old and new. The fund is brand new but its underlying benchmark has gained +22.8% in the year-to-date while the broad U.S. stock market has declined -2.9%. Make no mistake, this is a non-diversified investment with above average risk potential.

The necessity for successful investing is to have a clear purpose and an ability to take risk. The most important risk is falling short of goals. Not a new invention, but determining the probability of successfully achieving goals (“PofS”) has added value for guiding portfolio decisions in a time of Coronavirus. [Chart I](#) shows the trade-off of PofS versus annual spending rate goals for a 25-year horizon. 80% is an acceptable PofS level. Taking less risk means increasing PofS and accepting a lower spending rate. Maintaining or raising spending amidst market declines means accepting more risk through a lower PofS. Understanding these trade-offs is a necessity in all markets.

INVESTMENT IMPLICATIONS

Recent medical, economic and financial developments provide reasons for cautious optimism. Necessities arising in this period of Coronavirus may need inventions (vaccines, PPP) or not (handwashing, diversified portfolios). The path ahead will be successfully navigated by continuing with sound healthcare and financial practices and judging any inventions by these practices as well.

TABLE I

PAYCHECK PROTECTION PROGRAM Through June 30, 2020	
Total # of Loans	4.9 million
Total Lending	\$521.5 billion
Average Loan	\$107,000
Total Jobs Reported	51.1 million

TABLE II

WORK FROM HOME ETF HOLDINGS	
8X8 INC	LOGMEIN INC
ADOBE INC	MICROSOFT CORP
ALPHABET INC-CL A	NUTANIX INC
AMAZON.COM INC	OKTA INC
ATLASSIAN CORPORATION PLC	ORACLE CORP
AVAYA HOLDINGS CORP	PALO ALTO NETWORKS INC
BOX INC	PERFICIENT INC
BROADCOM INC	PING IDENTITY HOLDING CORP
CINCINNATI BELL INC	PLANTRONICS INC
CISCO SYSTEMS INC	PROGRESS SOFTWARE CORP
CROWDSTRIKE HOLDINGS INC	PROOFPOINT INC
DROPBOX INC	RINGCENTRAL INC
ELASTIC NV	SLACK TECHNOLOGIES INC
FACEBOOK INC	TWILIO INC
FIREEYE	UPLAND SOFTWARE INC
FORTINET INC	VMWARE INC-CLASS A
HEWLETT PACKARD ENTERPRISE	VONAGE HOLDINGS CORP
INFOSYS LTD	WORKDAY INC
INSEEGO CORP	XUNLEI LTD
IBM	ZOOM VIDEO COMMUNICATIONS

CHART I

