



THE KWAMMENTARY

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ODLUM BROWN
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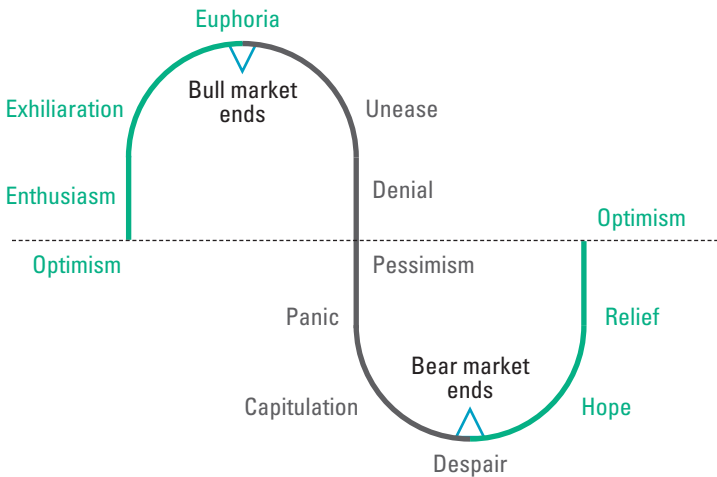
Fall Wardrobe Switchover

I find that most of my financial musings stem from conversations with my wife that are not even remotely related to finance or the economy. She points to this as evidence that I do not pay attention when she’s talking; my take is that our chats are so riveting that they inspire other lines of thought!

Recently, we were talking about the annual fall/winter wardrobe switchover. I do not own enough clothes to fill our closet exclusively with one season’s worth of clothing (i.e., I’m not trendy enough), but Anastasia makes the annual pilgrimage to our storage and deposits her summer dresses in exchange for sweaters and long pants. Although our conversation revolved primarily around how unfashionable I am, the concept of switching the wardrobe to suit the season got me thinking about portfolios (obviously). Let me explain

Global Financial Crisis versus COVID-19 Crisis

During a crisis, investor sentiment tends to follow a consistent path carved by human nature. You have probably seen this “Cycle of Emotions” graph before:



The year 2020 was emblematic of all the sentiments expressed above. Unlike the Global Financial Crisis of 2007/08, the amount of time between points was significantly compressed during the pandemic (approximately five years from peak to peak in the S&P 500 Index during the Financial Crisis versus only five months during 2020). There are a few reasons for the difference in time for each crisis, but the most obvious explanation would be the scale of the uncertainty, coupled with the scale of the response. During the Financial Crisis, it took time for businesses and governments to fully comprehend how widespread the actual issue was. Likewise, the response took additional time to craft and deploy, as it was a fairly “novel” solution at the time. This time around, unprecedented fiscal stimulus measures, combined with low interest rate policies in most developed countries, made short work of the downturn, at least as far as public markets were concerned.

I bring these comparisons up because, under both scenarios, there were periods of uncertainty where there seemed to be no solution, followed by periods of uncertainty with an attempted solution, followed by periods of uncertainty with unrecognized progress. I suspect we’re farther into the latter period at this point than any of the former, and, as such, it’s important to make sure our investments reflect where we’re at.

What’s in our closet?

We have moved through a period of unquantifiable uncertainty into one of slightly quantifiable uncertainty, coupled with cautious optimism. While this does not sound like a large difference, I can assure you it really is. At the height of COVID, similar to the Financial Crisis, it was seemingly impossible to know just how bad things could get. Think about it: a year and a half ago we were

still debating how exactly COVID-19 worked, whether masks made sense and how long restrictions would last. With no clear answers to any of those questions, the downside was essentially infinite. Now, we have a workable solution and our biggest concerns center around inflation and interest rate responses – which are easier to answer (relatively speaking), although they are still very hard questions.

Leading up to the beginning of 2020, our portfolios were getting ready for “colder” weather by raising cash, taking a little bit of profit where it made sense and allocating to bonds where necessary. Admittedly, we were preparing for a gradual autumn-type scenario instead of the winter conditions we were hit with. Fast forward to now, and it is clear that the seasons have changed once again. As such, our thinking regarding what needs to be in our portfolio wardrobe has evolved. Areas that have done well during the bouts of COVID (e.g., growth/Tech and Financials) could do with some trimming, whereas other areas that have yet to see the same rebound (e.g., Energy, Real Estate and Telecom) would be worthwhile to increase in size.

I think it goes without saying that there are still a lot of unknowns (and consequently, opportunities for volatility) that exist today. Similar to the sentiments expressed in the last Kwammentary (here is the [link](#)), we are not trying to do anything fancy; we just want to manage risk as best we can in all environments. As the seasons change, so will we. Goodbye short shorts, hello turtlenecks!

As always, I'm happy to chat.

Sincerely,

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