

Second Quarter, 2020

Indispensable

Have you ever felt indispensable in your role at work, in a volunteer organization, or at home? Have there been times when you've thought, "They wouldn't ever meet goals without me!" or "If he were raising these kids alone, they wouldn't get past first grade!" Well, that's nice. But then comes a time when your role is actually identified in public as "essential" or "non-essential." March 23, 2020 will be remembered for those designations.

Organizations go through periods when a financial squeeze or strategic realignment resulted in layoffs. In these cases, a single company deems a worker to be non-essential. The scope is limited and personal. But when the coronavirus threatened humanity on a global level, our country responded with a statement concerning which workers, country-wide, perform an essential role. A judgement was made on the federal level, then customized in most states, as to what our country needs to survive. The rulings stated what companies were allowed to remain open. They aimed at a balance between keeping people, and keeping the economy, alive. We sought to preserve human lives by severely limiting personal contact, through home isolation and social distancing, also aiming at sustaining the infrastructure and the economy with essential services.

First came a statement from CISA (Cybersecurity Infrastructure and Security Agency) of the U.S. Department of Homeland Security, listing 16 infrastructure sectors judged "essential for us to continue to live" (as expressed by Ohio's Governor DeWine). It was followed by similar statements from many of the States. What evolved was a variety of worker categories: "essential," workers who would remain employed and whose workplaces could remain open, "essential" workers whose continued employment was approved but who lost jobs in lay-offs, "essential" workers whose employers had them work from home for their own protection, "non-essential" workers whose workplaces would be closed, and even "non-essential" workers who might work from home.

Regional policies varied as states differed in their responses to the CBIA standards. By the end of March, 15 states hadn't even bothered to prepare their own summary of essential workers. Some states offered guidance instead of mandates. Differences between state responses reflected initial vulnerability. Those buried in the heartland, far from major transportation hubs, were not quickly motivated to impose strict guidelines. Their rulings tended to be briefer and less stringent. Political disparities also mattered, especially as a Republican president became impatient with pressures on the economy. There were contrasting values. Delaware sanctioned pet grooming while most of us humans had to let our hair grow long and wild. Big Box stores in certain states were deemed essential if they sold food and pharmaceuticals. North Carolina allowed bookstores that sold "educational" volumes, to stay open, while in most places, libraries closed. "Essential" lists reflected the unique economies of each state. For example, California's list included workers supporting retail cannabis.

States also differed in the level of detail. Some had itemized lists for individual towns. Massachusetts was among the states to go into great detail in categorizing essential workers. In 9 dense pages covering 14 categories, "Covid-19 Essential Services," specified the workers required in order that we "continue to live." This long and complex document was created quickly with input from a broad range of specialties. Therefore it's no surprise that like some other states, Massachusetts made early adjustments to their list of essentials. Chiropractors, pest control experts and gun dealers, for example, had not made the initial cutoff but were added. The document also allowed requests for designation as an essential business, for those who felt mistakenly passed over.

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Indispensable continued

“Essential” is in the eye of the beholder, of course. What matters the most to you may not have made the lists. In a personal example, Assabet Advisor’s job to analyze, implement, and manage our clients’ investments, is not categorized as essential. (Be assured that we see it as highly important.) And very likely, most of us might expect important workers to earn high salaries and boast considerable educations. However, these lists of essentials are about survival, both mortal and economic, and as such, they give us a new perspective. Asked off-the-cuff to name essential workers, would you have thought of the following, all found in the Massachusetts original list?

- tissue and paper towel distributors
- workers in sober homes
- traffic signal maintenance workers
- solid waste collection and removal workers
- those who support steam distribution companies call centers
- exterminators
- hospital housekeepers
- transporters of deceased animals for disposal



We may have been taught as children that all work is honorable. Apparently it’s not all essential.

Finra.org/rules-guidance, mass.gov/doc/covid-19-essential-services, A. Hutzler, “What is an Essential Business?” *Newsweek*, 4/1/20, I. Jiang, “What is a Non-Essential Business?” <https://www.cisa.gov/critical-infrastructure-sectors>, “What Constitutes Essential Businesses?” www.cnn.com, 3/25/20, Essential Services,” <https://en.wikipedia.org>

Going Virtual

Massachusetts businesses had to move quickly in mid-March. With the fast-spreading Coronavirus, the Bay State was declared a state of emergency, and the virus itself, a pandemic. Shelter-in-place orders on both the national and state levels required “non-essential” businesses to close their physical offices, while operations continued remotely. Many companies, although classified as essential, had staff work from home, while following the practices of social distancing and limiting activities outside of the home, in order to restrict the disease’s spread. Thus, businesses sought to follow government orders, to keep workers safely remote, and to continue to serve customers and clients.

This was a large order that had to be put in place rapidly, and not simply by large companies. With a staff of only 2, and not the type of financial services deemed “essential,” Assabet Advisors LLC had to respond in kind. With an overall plan of operations, and robust IT infrastructure already in place, we were prepared. You don’t need to be a behemoth to do it right.

Like most workers, our personal interaction has been largely virtual. Both Wayne and Robert have had care-giving contact with at-risk senior relatives, so our own isolation has been critical. It required that we work apart from each other. Robert was at home or at the new office in Holden, which remained closed. Wayne worked at the prior office in his home in Northborough. The phone line rings in both offices and therefore is equally available to both locations. The computers in Northborough are linked to computers in Holden. A VPN (Virtual Private Network) makes it possible for users to send and receive data across a public network, with the benefits of a private network. With a cloud-based server, we suffer no disruption to service despite being closed. If a call does not reach either of us, an e-mail alert reports it. And we can’t forget the assistance of our smart phones! We can operate just about anywhere.

Client contact also is virtual. This is not a major shift from pre-pandemic behavior as few clients take advantage of our (sincere) offer to meet as often as quarterly. The phone seems to be a preferable connection in most cases. Zoom meetings are available, of course, enabling conference service, and documents on screen. However, most of our clients are content to meet via phone, and they prefer to receive documents sent ahead through e-mail. All things considered, little has changed for our clients. It’s surprising to us, however, that we have been able to acquire and onboard new clients during this period of virtual contact. We have learned that even a very small business can operate efficiently and fruitfully by being adaptable. Flexibility offers benefits we hadn’t considered. This is a lesson we’ll bear in mind in the future.



Economic and Financial Overview

If the first quarter of 2020 was the period in which the world suffered widespread shock, the second quarter was one in which we began to understand, and even accept, the pandemic for the massive threat it presented. Already we'd witnessed a pervasive crash in earnings, manufacturing output, housing, construction, employment, and definitely in spirit. The S&P 500 stock index had plunged - 34% between February 19 and March 23. Then it was necessary to foster creativity and resolve as we reached for solutions. Companies and individuals were the recipients of enormous federal bailout packages as companies closed and workers lost jobs. The Federal Reserve cut short term interest rates to 0-0.25% increasing financial market liquidity in order to expand credit resources. Treasury yields dropped from the first quarter as the 10 year bond fell to 0.66% nominal yield (as compared to the 50 year average of 5.94%). Condemnation of skyrocketing federal debt gave way to the desperation caused by rising deaths and unemployment claims.

In that necessarily hopeful milieu, stocks began to rise. During the 2nd quarter, economic, labor and earnings, have been recovering more slowly than markets. Housing stands out as moving faster than other areas while the S&P 500 stock index returned +19.95% for the quarter, with growth stocks surpassing value stocks by a considerable measure, and bringing the long bull market return on large cap growth stocks to +653.8% over the 11 years. For the quarter, consumer discretionary, technology and energy stocks exceeded other sectors. Stock valuations (forward P/E) rose to 21.7X versus the 25 year average of 16.39X. Consumer spending, subsidized by the federal stimulus and unemployment benefits, rose in May and early June, while new jobs were added starting in April.

But in late June and into July, analysts are recognizing that the impact of coronavirus can't be denied or ignored. Spending has gone flat in hot-spot states. Government fiscal stimulus ends in July and rents and mortgages are due. Even with new jobs, unemployment is extremely high. Recovery won't be overnight.

Main Street v. Wall Street

The stock market has rotated emotionally since the coronavirus reared its ugly head. Americans became slowly attentive to it in late January when the World Health Organization declared it a "public health emergency." Distracted by political battles involving climate control and Trump's impeachment, among other things, U.S. investors were hardly disturbed by a disease with which they had no prior familiarity and which didn't even have a name. Between January 30 and February 19, the market more or less ignored the burgeoning threat, with a positive return of +3% (S&P 500 Stock Index).

Finally awakened to the confusion and alarm, U.S. citizens looked for useful news about the disease, labeled a "pandemic" on March 11. Likely we all recall the limited, and often contradictory information in those early weeks: how to make DIY hand sanitizer, masks or no masks, how close to our own regions has the virus spread, how is it circulated, etc. With little fully reliable data, and no investors to follow, researchers crowded the internet, first scouring for reports on the "pandemic," and then on "coronavirus." Fear and anxiety drove the S&P 500 down -34% by March 23.

Perhaps because the bewilderment was partially relieved in the period between March 23 and the end of June, stock performance in those weeks was most mystifying. While the CARES Act and a massive fiscal stimulus relieved much of the pressure, unemployment soared, 11 years of economic expansion gave way to signs of a severe recession, and Covid-19 continued to rage, having already taking over 130,000 American lives. Stock increases were accompanied by very high valuations. By any imagination, this overall picture isn't sunny but the stock market diverged from the general economy, more than returning the losses of the first quarter. Wall Street disconnected from Main Street in a way that seemed to defy logic to many observers. Two observations may help:

First, stock markets are forward looking, and not usually bogged down by the crisis of the day. They are moved by news. They're also moved by patterns. Since late March, they have sought encouragement. During the stock rise, leading indicator data of the economy offered some signals of recovery. As international countries had not shown a second wave, they didn't anticipate one here. And they pointed to the unprecedented monetary and fiscal stimulus. It wasn't unanimous, however. Some called it "picking up pennies on the train track, trying to ignore the whistle and the shaking tracks." But who knows?

Second, market analysts don't have to be right! Faulty predictions are consistently forgiven, leaving the forecaster relatively free to speculate.

R. Shiller, "Understanding the Pandemic Stock Market," www.FA.com, 7/10/20, "Foolish Optimism." TheREITForum, 7/13/20.



Widening our Circles



The Pandemic has a way of exaggerating our experiences and feelings. Since February, our fears intensified, we scurried for information that wasn't yet available, and we become hoarders. And almost as soon as our lockdown began, we felt a longing to bring home a furry friend, canine or feline.

What was that about? Sheltering in place, we were anxious, in need of the calming and distracting companionship of creatures who adore us (dogs, and the occasional cat) or amuse us. Children home from school, bored, and lonely for friends, needed new pals. Adults living in isolation suffered from the lack of a touch, or a beating heart. And adopting a new family member tends to soothe children's dread by assuring them that life will go on. In a short time, most Rovers and Kittys became therapy pets. And suddenly, in addition to toilet paper and aloe, there was a run on dogs and cats.

Animal shelters, a big source of pets, have been supplied in the past by owner surrender, lost dogs, trapped strays or feral cats, and recently, the grieving pets of covid-19 victims. In recent years, especially since Hurricane Katrina and the growing percentage of "no-kill" shelters, adoptable animals have been transported and relocated to regions with pet shortages, sent by "rescue partners" with pet surpluses, typically a journey from South to North. In shelters, animals are prepared for adoption through foster care and medical treatment. Until the pandemic, animal lovers would visit a shelter and take their time testing the personalities of potential adoptees. Having met the requirements which included lifestyle agreements, referrals, and a payment (~\$350—\$600 for a dog, \$120—\$360 for a cat, which doesn't cover the medical care), they'd go home as a happily expanded family.

It hasn't worked this way in the pandemic. The nonprofit infrastructure of shelters, which depend up to 90% on volunteer labor, couldn't remain open as before and have had to function with a skeletal crew. The danger of human to human contact either severely limits admittance to a shelter, or requires pet exchanges at social distance outside the regular facilities. In many places, owner surrenders are no longer accepted, and most animals have to wait for adoption longer than usual, in foster homes. People seeking pets typically scan the pet finder websites which display animals ready for adoption. Prospective owners fill out extensive applications for a specific animal, often offering referrals, and hope to be among the first in line to be evaluated. (One adopting hopeful stated that it was easier to apply for a mortgage.) The surge in applicants at Foster Dogs, Inc. of New York, rose from 140 a month to 3000, while in Los Angeles the ASPCA experienced a +70% increase in aspiring pet owners. Sterling Animal Shelter just north of Worcester, reports that the line of cars which showed up for adoption day, some as early as 3 to 4 am, once reached 90 vehicles.

The cat you identify with your on-line application, might already be adopted as soon as you apply. So might the next one, and the one after that. In most cases, you must submit a new application for each new animal you pin point. The path to a pet is strewn with frustration and disappointment. Yet where people and pets are paired, there is rejoicing. Investors in Chewy, Inc. the animal needs home delivery company, also were happy as their stock rose +54.41% YTD by June 30.



SterlingShelter.org, N. Shedler, "PetAdoption Centers See Shortages in Animals," appeal-democrat.com, 6/16/20, "Local Animal Shelter Reporting Surge in Adoption," MSN.com, 6/11/20, C. Erskine, "The Latest Shortage?" LATimes.com, 4/2/20, M. DiLonardo, "Shelters are Cleaning Out as Pet Adoptions Surge," treehugger.com, 4/30/20."Shuttering of Animal Shelters Prompts Surge in Pet Fostering," [The Guardian.com](http://TheGuardian.com), 3/30/20' B Lipschultz, "Newest Shortage In New York..." Bloomberg.com, 3/25/20.

OUR SUMMER READING [consult www.goodreads.com](http://www.goodreads.com) for reviews

Wayne might not have read [Inheritance](#) by Dani Shapiro, had it not been assigned by Suzan and Wayne's book club. (His reading often involves business or finance.) However, he found this memoir interesting as it explained how, in her mid 50s, she discovered the truth about her conception and her parents. Because of the historical timing, the book also gave information about early U.S. infertility treatments.

Robert enjoyed [How Churchill Saved Civilization: The Epic Story of 13 Years that Almost Destroyed the Civilized World](#). Robert found this book a good read which gave insight into the prewar environment, the reaction and attitudes of those in power as well as in society generally.

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