**Investing Thoughts**
May 2020

## Small Business Economics

We have spoken with many business owners throughout this pandemic. One thing is certain. Change is happening. Businesses are rolling up their sleeves and adjusting quickly to recent events. Unfortunately, there will be companies that do not survive or will be a relic of their previous self. Others will not only survive but will get stronger. The end result will be dependent partially on skill and partially on luck.

For example, a skillfully run restaurant might not make it due to the forced shutdown. This is by no fault of their own, but just bad luck. Grocery stores, even if poorly managed, have had more demand than should have been expected in a normal year and will profit. This is simply good luck.

The point being small businesses cannot afford to sit back and watch as the world changes. They need to be very active with their decision making or they risk becoming irrelevant. The degrees of success or failure will partially be depending on it. That restaurant needs to pivot quickly and create a new business plan to have a chance at survival.

In having these conversations with business owners, it became apparent that the daily mindset needed to run a small business is different than what is required to invest for retirement. Peeling back the onion, you can start to see why.

The small business is not granted a long runway, so  a quick reaction is necessary. Move quickly or risk financial ruin. These businesses are typically concentrated in one industry. Long-term thinking has been thrown to the wind and the present is all that matters.

Retirement investing, if done in a diversified way, allows for a much more patient mindset. Diversified investors are not reliant on one particular industry, company, or product. They do not need them to do well in the next 30-90 days to be successful in the long-term. This is where diversification and long-term planning can be used to investors' benefit and have significant advantage over the small business framework. To capture that benefit though requires patience, which can be tough when others (i.e. business owners) are panicking to survive. The long-term is made up of many small time periods that we must live through.

## Stock Market vs. Economy

It is helpful to continue to distinguish the differences between the stock market and the economy. This gets especially confusing when commentators intermingle them throughout news stories. Over longer periods of time, the overall stock market and economy should rise in relation to each other. However, during shorter time periods there will be disconnections. Specifically, the stock market is a predictor of the economy so it should lead. Stock market prices go down before economic reported figures go down and market prices rise well before the economic data improves.

The stock market is a prediction of what investors collectively think the economy is going to do in the future, not what has happened in the past.  We need only to look at earlier this month for an indication of this. On May 8$^{th}$, the Dow Jones Total Stock Market rose 1.9% for the day. The common response is there must have been some good news released that day. In reality, though, before the US stock markets opened that day, the US Bureau of Statistics released their report that 20.5 million jobs were lost in the month of April.[1] Hardly the good news common sense may have expected. The stock market had already priced in that news release. The stock market reaction that day was relative to future predictions, not the past.

**Timing**

Individual cash needs should drive investment decisions, not the opposite. As we have seen these last few months, many things are possible in the short-term. My favorite definition of risk being “everything that can happen that didn’t”. When do we get back to regular times? No one knows with 100% certainty.

As the uncertainty in life increases, so does the desire to seek forecasting. This is normal. We all want that information edge. However, as you seek out this information keep a few things in mind.

- The more uncertain the future, the more people can be disguised as experts.
- The people who lack the skills to predict the future also lack the ability to recognize this.[2]

Logically, the day the market hits bottom can only be determined in hindsight. It’s the day that no other future days went below it. You only know that day after living in the future. With that in mind, worrying about the exact bottom or exact top seems like an unworthy use of an investor’s time, energy, and possibly wealth. Understand your cash flow needs and match that time horizon with investment decisions.

**Moving Forward**

In a way, investors are all their own individual small businesses. Your business revenue is your wages, self-employment income, investment distributions, pensions and/or social security. Your expenses are what you need and want. If your revenue or expenses are materially impacted by the recent economic events, then accessing the need for a “pivot” is logical.

To the extent there has been no impact to cash flow, remember the purpose of the investments. Timing market direction based on daily news is not found on any investor's list of goals. There was reason for that exclusion at the start. These are the times those get tested.

Stay well.

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[1] Per U.S. Labor Bureau of Statistics https://www.bls.gov/news.release/empsit.htm

[2] "Incompetent people are at a double disadvantage, since they are not only incompetent but also likely unaware of it." *Epistemic Humility – Knowing Your Limits in a Pandemic"* Eric Anger April 13, 2020 https://behavioralscientist.org/epistemic-humility-coronavirus-knowing-your-limits-in-a-pandemic/

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