

**First Quarter 2021**

# Economic and Market Commentary

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For close to 175 million years, dinosaurs ruled the earth. Their end came around 66 million years ago through mass extinction. Most scientists now agree that their demise came as a result of the impact of an asteroid off the coast of the Yucatan Peninsula which caused global environmental changes. Changes that poisoned the atmosphere, and species after species died off.

What was left after the “Cretaceous-Paleogene” extinction? Not much. More than 80% of all plants and land animals were gone. Animals like sea turtles and crocodiles managed to make it, but no land mammals weighing more than 55 pounds did. Talk about the meek shall inherit the earth. The surviving species adapted and evolved.

## Cats And Dogs

After a few million years, during the time of the Paleocene Epoch, a family of small, tree-climbing mammals appeared. These animals were carnivores, they were flesh eaters. The taxonomy of these small creatures came to be known as Miacids. Now eventually these small Miacids branched off into various subsets of Carnivora, one of the most successful animal groups to ever walk the earth. One of the things that distinguished these four-legged creatures was the fact that they didn’t walk flat-footed but walked on their toes. Eventually, Carnivora split into two very distinct groups, Feliformia and Caniformia. This family rift occurred roughly 43 million years ago, and today we recognize their descendants as cats and dogs.

## Fido’s Ancestors

Jackals, wolves, coyotes are all predictable dog-like relatives coming from the Caniformia clan. Descendants that might seem less obvious are otters, weasels, skunks and bears. These immensely successful mammals all developed and evolved their own survival skills: how to forage, conceal and capture prey. Some stayed small but not all.

## The Road Less Traveled

For the prehistoric animals, it was dog eat dog, literally. As all the shape shifting and evolution was taking place in the Carnivora order, the Ursidae family ultimately begot “Arctodus spp.,” the giant short-faced bear. For almost two million years, this giant predator roamed the earth and is considered the largest mammalian carnivore that ever existed.

In Southern California, fossils found in the La Brea tar pits have been carbon dated to be more than 800,000 years old. Deep in the bowels of the Field Museum of Natural History in Chicago

is the most complete skeleton of the giant short-faced bear which was found in Indiana many years ago. Scientists estimate that an adult male bear stood six feet at the shoulder when on all fours, 12 feet when it stood on its hind legs, could run up to 40 miles per hour and weighed close to 3,000 pounds. It's no wonder these incredible creatures prospered for so long.

It's estimated that the last giant short-faced bears' extinction in North America didn't occur until somewhere around 10,500 B.C.E. A Paleo-Indian cave discovered in Wyandot County, Ohio, revealed charred *Arctodus* spp. bones along with those of moose and beaver. Now that's what I call a barbecue. Parenthetically, although the giant short-faced bear no longer exists in North America, its descendants, *Tremarctos Ornatus*, or the speckled bear, continues to thrive in South America.

### **Survival of the Fattest**

Today, descendants of the family Ursidae in the contiguous 48 states number in the hundreds of thousands, with the two biggest populations being those of black bears and brown bears which include grizzlies. What they all have in common is a survival technique: hibernation.

Hibernation in bears occurs almost exclusively during winter months. Leading up to hibernation, the bear will dramatically increase its body weight in preparation for the time when sufficient food will not be available. They are preparing for a dormant period that can last as long as an entire winter. This extra weight is stored as fat which is then recycled into proteins, and additionally their urine is recycled, keeping them hydrated. When they enter into this deep, deep sleep, their body temperature drops, and breathing rate and heart rate drop in a dramatic fashion. For instance, a black bear can lose more than 25% of its body mass compared to its pre-hibernation weight.

Miraculously, this process of hibernation works so efficiently that the bear doesn't suffer any muscle loss or bone osteoporosis. Typically, bears react to nature's cues. As temperatures start dropping toward their critical temperature range, they start slowing down their activity, breathing and heart rate. By the time of the first snowfall in colder climates, they are already curled up in their den. As temperatures rise and winter wanes, a bear's body starts giving it an internal snooze alarm telling them it will soon be time to wake up. Heart rates increase as do body temperature and respiration. A new year is about to dawn.

### **“Here Comes the Sun”**

George Harrison, The Beatles, 1969

So, why in the world have I been writing about bears? I don't know about you, but I feel like I'm just now starting to come out of hibernation. We're all coming out of our caves after having survived a year like no other in our lifetimes. As we reenter the world, we find ourselves now armed with new terms and phrases that were never part of our everyday lexicon. Just to name a few, terms like:

- Herd Immunity
- Shelter-in-Place

- Pandemic Migration
- Tele-Medicine
- Remote Workers
- Hot Desking
- WOKE
- Anti-Vaccines
- Zoom Fatigue

But the world survived although the battle is still not over. Our country, although sorely tested, has survived (even if counter intuitively), equity markets have prospered, and the band-aid has been ripped off. What do I mean by that?

What I mean is if this is truly going to be another “American Century” (like the 20<sup>th</sup> century was), one in which the United States leads the world by example and whose citizens thrive and prosper through their hard work and ingenuity, big time changes need to occur. Are these changes daunting? Absolutely. Are they impossible? Absolutely not.

Please don’t get me wrong. I’ve never been a doom and gloom type of guy. For that matter, I’ve also never been a Polyanna, one who whistles past the graveyard. I grew up to be a dyed-in-the wool realist with what I’d like to think of as a healthy dose of optimism thrown in. One who has always viewed the glass half full.

The remainder of this column will be dedicated to two central themes: The challenges staring us in the face and what we can do about them. No small task. That’s why I intend to dedicate the next several commentaries toward that end and at least explain the lens through which I view them. I will also lay out for you the investment strategies we here at Putney are deploying right now to deal with the risks, challenges and opportunities that lie before us.

## **The Gordian Knot**

In what is now the Asian part of Turkey, along the banks of the Sangarios River, was the ancient Kingdom of Phrygia. A real place, a real kingdom with real kings, the last of which was Midas. Now Midas’ father came to the crown under peculiar circumstances. This is where the story gets a bit sketchy. It’s a fact that in late-stage Phrygian history, around 850 B.C.E., the kingdom was being challenged by outside forces. The Kingdom of Lydia was breathing down their necks. During this period of fear and uncertainty, an oracle of Phrygian announced to the populace words to the effect that our savior king will soon come by way of ox cart.

Well, sure enough, not much time had gone by before a poor peasant named Gordius and his wife showed up at the public market in an ox cart. Almost immediately, the people bestowed the crown on Gordius, proclaiming him their king. Now here is where it begins to get a bit more sketchy. Humbled by his new position, Gordius was quick to express his gratitude to Zeus by tying up his “Gordian Knot.”

## Better Than A Marlin Spike

Now it wasn't long before the Kingdom of Phrygian fell to the Kingdom of Lydia, the birthplace of coins. After it fell and became part of the Persian Empire, a legend was recorded that whoever was capable of untying the Gordian Knot would become ruler of all of Asia.

So there it sat for almost 500 years, the knot still attached to the ox cart on the outskirts of the town square. Hundreds if not thousands tried untying the knot, but no one prevailed. Multiple Greek and early Roman historians corroborate this part of the story. Now we enter into the world of possible "alternative facts."

By the time Alexander the Great entered "Gordium" in the fourth century B.C.E., he had already defeated many of the great armies of the world. But, no, that wasn't enough. He wanted more. He wanted to rule all of Asia, and if untying the Gordian Knot was all that stood in his way, so be it.

Unfazed by the fact that so many before him had failed, when faced with the task, he stalked the knot clockwise, then counterclockwise, then set his course. He so desperately wanted to be the one to untie the knot. But it was after some thought that the idea came to him that it didn't make a difference how the knot was removed from the ox cart's tongue. Some legends have him simply cutting the knot with his sword while others had him pull the linchpin from the yoke of the cart to loosen the knot. In reality, either solution is plausible when you keep in mind that in real life, Alexander was a student of Aristotle as a young boy and one smart cookie.

## The Marlin Spike

Over the millennium, the Gordian Knot has come to represent an especially difficult problem to untie. As a sailor for the better part of my adult life, I have come to appreciate the immense value of a sailor's simple tool, The Marlin Spike. The word marlin comes from Middle English, around the mid-1400s. It was used to describe "two strands" used for seizing. Spike is derived from the 14<sup>th</sup> century Germanic describing a long, thin needle. For our purposes, we know it as a tool used to untangle cordage so you can maybe use it again without letting the material go to waste by cutting. Now as Americans and citizens of the world, we are faced with having to untie our own Gordian Knot in order to move to a better place.

## Back to the Band-Aid

Remember, coming out of this hibernation and viewing reality with a fresh set of eyes is really like viewing what lies beneath the bandage we've just torn off. In no particular order, here is some of the cordage that comprises our own Gordian Knot, the knot that needs to be untied to ensure that the 21<sup>st</sup> century is remembered as an "American Century."

- Economic inequities
- The balance between stakeholder and stockholder
- Intelligent and coordinated immigration policy
- The perils of a K-shaped recovery

- Crumbling infrastructure
- Voluminous debt
- Systemic racism
- Stifling regulations
- Lax regulation
- Dysfunctional government
- The power and fragility of executive action
- Reconciliation
- Filibustering
- Reentry into the workplace
- Professionals exiting the workplace through pandemic fatigue (think of doctors and teachers)
- Gerrymandering
- Avoiding gridlock
- Modern monetary theory; science or total monetary boondoggle?
- Energy, climate change, extractive industries
- Medical care distribution
- Enhancing productivity

and trying to deal with it all without runaway inflation.

## **The Streets of San Francisco**

When I was back in college, my dear friend Bill and I got into a habit. Every Thursday night we'd leave our rented farmhouse on Westminster Road and drive down to the Putney Inn. We would usually get down there around 8:00 p.m. and belly up to the bar. Once seated close to the TV, we'd order our usual bacon cheeseburgers, fries and tossed green salads. Naturally, we'd wash the food down with a couple of brews. Just before 9:00 p.m., Natalie, our friend and Thursday night bartender would turn on ABC because that was the reason we were there: to watch *The Streets of San Francisco*.

The show was already quite popular. It was a Quinn Martin production starring veteran actor Karl Malden as Lieutenant Mike Stone, and his partner, a young and handsome Michael Douglas playing Inspector Steve Keller, Stone's prodigy. Together they formed a homicide team. Malden would always wear a two-inch snap brim fedora, and Douglas would wear trendy suits and sports coats with lapels big enough to serve as wings. As engaging as the plots were and as genuine as the chemistry was between the two actors, the great draw for Bill and myself was the fact that the series was shot on location.

Murders occurred each week in a new location. We learned about Telegraph Hill, the Mission, Pacific Heights, Sea Cliff and "South of the Slot." South of the Slot was back then the seedier part of town South of Market. I got so into it, I ordered a map of the city from AAA. When it arrived, I studied it with a passion. I learned that Fremont Street was named for Colonel John Fremont, pathfinder, first senator from California and first Republican Party candidate for President. Then there was Broderick Street, named for Senator David C. Broderick who had

started his adult life as a Manhattan fireman in the 1830s. His life ended by duel at the hands of one-time friend, David S. Terry, Chief Justice of the California Supreme Court. One can visit the site today on the shores of Lake Merced. But the street I really want to tell you about is Brannan Street and who it is named for.

## Samuel Brannan

Ten years after the birth of Abraham Lincoln, Samuel Brannan was born in Saco, Maine, to an abusive father and a loving mother. The early years were tough, and to escape his father's abuses, Samuel moved to Ohio to live with his sister Mary Ann and her husband. While there, he apprenticed as a printer, a skill that would ultimately serve him well.

A few years went by, and Samuel's father died, leaving him some money. After a series of hit and miss adventures, Samuel and his second wife Ann Eliza made their way West in January of 1846. The trip around the Horn was long and arduous. It took six months to make it to Honolulu, where his ship Brooklyn was resupplied. A little more than a month later, Samuel, his wife, and his printing press made it to the sleepy Mexican backwater town of Yerba Buena.

Shortly after their arrival, Brannan set up his press and established the *California Star*, San Francisco's first newspaper. Brannan prospered, some say by dubious means, and in 1847 he opened a store at Sutter's Fort. By this time, he had accumulated vast amounts of real estate and operated the only store between Sacramento and San Francisco. All of Sutter's employees would come into Brannan's store to buy goods and supplies. In early 1848, these very same employees started paying for the goods with gold nuggets and dust they had found while working at John Sutter's mill near Coloma. As they say, "the game was now afoot."

Almost immediately, Brannan started buying up every pan, every pick, every shovel he could find and headed down to San Francisco with a polk\* full of gold dust in his wagon. He didn't waste any time. Once in San Francisco, he hit the streets running, literally. He started running up and down the streets, clutching that polk of gold dust in a fist raised high, shouting, "Gold, gold on the American River." Picks that he had paid 75 cents for he sold for \$30. Pans he had paid 20 cents for he sold for \$15. A year after the first discovery of gold in California, Sam Brannan's Sutter Fort store was selling more than \$100,000 per month of goods. Sam Brannan became California's first Gold Rush millionaire, and he never picked up a shovel unless he was selling one.

Just like Sam Brannan, we here at Putney are following a strategy of buying good shovel-type companies for our clients' portfolios. Think about it: Who knows when electric cars will sell more than gas-powered cars, or how many hybrids will sell, or what companies will be making them. What I do know, however, is the fact that, for the foreseeable future, they'll all be using tires. Think of tires to the auto industry the way you think of shovels to a miner.

Yeah, Ray, but that's Rust Belt thinking. Au contraire, mon ami, I beg to differ. Every industry has a need for shovels. When you think of "cloud computing," do you think it's made from air and vapor? No, it's made up of switches and routers and servers and chips. Just other types of shovel makers.

*\*(a cylinder-shaped leather pouch used by miners during the Gold Rush)*

One more, I'm on a roll. Think of pharma and bio-tech. Will Johnson & Johnson stock tank because of the blood clots? Will Pfizer stock soar because of their vaccine? What's Moderna's pipeline of new drugs? The answer: Who knows? What I do know is that these companies can't function without microscopes, centrifuges and test tubes. Like I said, every industry needs its shovels.

Now I was going to tell you about the need for crushed rock in any infrastructure projects, but I'm going to use all of my self-control and stop. You get my point. We want our portfolios to be peppered with world class shovel manufacturers regardless of the industries we choose to place a positive bias on. It's my strong feeling that investing over these next several years will be much more about generating idiosyncratic alpha than relying on market beta. In plain English, there will be winners and losers in the equity markets, and this will not be a case of rising tides lifting all boats.

## Conclusion

To sum up my take on things, this is the time our country needs to reassess and reboot. We are coming out of a dark chapter in world events and still need to stay vigilant a bit longer.

Although valuations are high, and in some cases frothy, the equities markets seem poised to hold their own in spite of future periods of choppiness that are sure to be ahead. Between low interest rates, stimulus money, infrastructure projects and incredible scientific developments, there is a lot to be optimistic about in the short- to-intermediate term.

Here's a teaser for our next commentary: What do San Francisco's Annual Moose Feed, high speed trains and Bill Maher's back yard shed with solar panels have to do with each other? I won't keep you in suspense. The answer is regulation. And that's where we'll pick up next time. Until our next periodic review, stay well and stay safe.

Best Regards,

Ray Lent  
RLL/dot  
Enclosures

Post Script:

## Coping Tips

It's my hope that this will be the last commentary where I feel compelled to share some pandemic coping skills that have been passed on by you.

1. For history lovers like myself, check out the history channel's "Vault." It contains more than 2,000 titles and series spanning a huge spectrum of dramatizations and documentaries.

2. If you get the *Marin Independent Journal*, try reading Jeff Burkhart's column, "Barfly." Jeff has been in the hospitality industry for 25 years and has spent much of that time behind the bar. He writes on human nature and what he has observed in a most entertaining fashion.

3. My friend Fran reminds me that the Oakland Zoo has now reopened with thoughtful Covid-19 protocols. She was particularly enthusiastic about the Gondola rides after dark.

4. Have an elderly friend or relative with a birthday coming up? My cousin Mindy hired a petting zoo for my favorite aunt, Bobbi. It's outdoors, and safe and surprisingly affordable. Bobbi loved it.