

Fourth Quarter 2020

Economic and Market Commentary

By Ray L. Lent, Founder, The Putney Financial Group; Chairman, Portsmouth Financial Services

In your wildest dreams could you ever have imagined what the past 11 months would bring? What a year, eh? It's hard to believe that this time last year I was writing about the upcoming chaos of the presidential primary season, the 100th anniversary of the passing of the 19th Amendment giving women the right to vote and the dawn of the Roaring Twenties. Who knew that the 2020s would open the same way the 1920s did with the world reeling from the effects of a global pandemic, a pandemic which had infected 500 million people worldwide, killing 50 million of them before it was done.

It was only three months ago that I was writing about the importance of "balancing the books." The presidential election was a toss-up, and whoever won was going to be tasked with the unenviable responsibility of trying to build economic prosperity back into the economy after going into trillions of dollars of debt fighting a war brought on by Mother Nature. At the time of that writing, new vaccines had rolled out, but we knew it would be a long, hard climb before any semblance of normalcy would resume.

But just like with any war, you spend the money winning the war and then figure out how to pay off the debt after. As promised, this commentary will resume the narrative of how we can pay off the debt and get back to an economic vibrancy our country can enjoy for decades to come. But first a story. Indulge me please, Ozark, Season Three, can wait.

A Man Named Walter

At the dawn of the 20th century, Burns, Oregon, was a small but prosperous timber town. The Wadatika band of the Paiute tribe had lived in the area for centuries. Archeologists had found evidence that there had been human habitation in the region for more than 10,000 years. By 1898, the town boasted a post office, two hotels and a dozen stores and restaurants. That's the year Walter was born.

Like many of his generation, Walter W. Waters would lie about his age in order to join the army. In 1916, he was deployed to Mexico to hunt for the revolutionary Pancho Villa. When his tour was up, he returned stateside and soon shipped out on Christmas Eve, 1917, to France to fight in World War I. Walter served honorably and was discharged in 1919 having risen to the rank of sergeant.

After returning home, he found himself moving around quite a bit. Maintaining a series of low-paying jobs in the Northwest, he met a lot of other veterans who also found it hard to find and keep meaningful work. They were also resentful that the government was dragging its heels in paying these vets the money they were owed.

You see, in 1924, Congress had passed the World War I Adjusted Compensation Act. It awarded each veteran \$1.00 per day for their stateside service and \$1.25 a day for each day overseas. The catch was the money wasn't to be paid until 1945, and now the country was in the midst of The Great Depression, and these vets couldn't wait.

By March of 1932, Waters had organized a group of 300 vets in Portland, Oregon, who would travel with him cross country to petition Washington for the immediate redemption of the certificates they held for the money owed them. The public was sympathetic to their plight. When the vets left the Portland train station, they traveled behind a banner that read, "Portland Bonus March—on to Washington." They called themselves "The Bonus Expeditionary Forces." The press called them "The Bonus Army."

All across the country, the movement built up support. Thousands joined the March. Railroads donated free transportation. States like Indiana and Pennsylvania provided military trucks from their National Guard units to help transport the protestors. By the time they reached Washington, some 20,000 veterans had joined the protest, many bringing their wives and children.

A shanty town of almost 40,000 people took up residence in plain sight of the Capitol* as the Senate debated the veterans' fate. Waters was a strict disciplinarian, believing they were there on a mission and they would stay until they got paid. There would be no gambling, no profanity and no alcohol. Only veterans and their families were allowed in the village. In June, Congress passed legislation to pay the veterans. President Herbert Hoover made it known that he was against it because he felt the money spent by the government would only prolong the Depression. The Senate followed his lead and voted down the legislation.

With nowhere else to go and determined to see their march through to the end, the protestors didn't budge. The government was at a loss in terms of what to do. They wanted these "squatters" out of the area because it was a bad look for the nation's capital and a bad look for the president. Regrettably, things would soon take a turn for the worse.

On July 7, Congress decided to offer the Bonus Army \$10,000 if they would just leave but few did. In fact, more veterans and their families arrived daily. On July 28, U.S. Attorney General William D. Mitchell ordered that all veterans and their families be removed from government property. The Washington police who were called in, were met with resistance and shot two of the protestors who later died.

*Now for the grammarists out there, this is going to be an easy one. For the rest of us, here's a helpful reminder. When one talks about the nation's Capitol building, Capitol is spelled with an O. When one talks about the designated center of a government, whether it be state or sovereign, Capital is spelled with an A. Remember it like this: When you think of our nation's Capitol Building, its dome is shaped like an O. Guaranteed you'll never forget it.

The U.S. Cavalry's Last Charge On American Soil

President Hoover had now had enough. He called on his Army Chief of Staff, General Douglas MacArthur, whose orders were clear: Do whatever it takes to remove the protestors. And remove them he did. Hoover then left on vacation. MacArthur assembled a contingent of infantry with orders to fix their bayonets. He brought in six tanks along with a regiment of the U.S. Cavalry. Tear gas was deployed, the infantry advanced and the cavalry's horses herded the protestors from their makeshift homes. It didn't take long to clear out the encampment. The shanties were torn down and burned, an ignoble final engagement for the United States Cavalry and a sad end to a peaceful protest.

A little more than three months later, Herbert Hoover was voted out of office, and Franklin Delano Roosevelt was elected the 32nd president of the United States. Shortly after taking office, a second Bonus March descended on Washington. This time, cooler heads prevailed and the protestors were all offered jobs in the newly formed Civilian Conservation Corps (CCC) in Fort Hunt, Virginia. Almost all of the protestors took the offer, and those who refused were provided with free bus tickets home. Three years later, Congress voted to redeem the veterans' certificates, and so ended a shameful chapter in our history during which the nation's capital launched a war on its citizens.

Fast Forward

On January 6, 2021, some 88 years later, another shameful chapter in our history was written, another day "that would live in infamy." Only this time, the situation was reversed: The citizens launched a war on our nation's capital. Tens of thousands of protestors marched on Washington, stoked up by an outgoing president who could not accept defeat. Some turned violent and stormed the Capitol building. Law makers, our representatives, scurried in fear for their lives. Lives were lost, and the people's house was defiled. Democracy is precious, but it is also fragile. As you'll see, that's the way it has always been.

A Reminder From Your Childhood

At one time or another, we all remember sitting in a classroom listening to tales of Greek myths and legends. We learned of Jason's quest for the Golden Fleece; Prometheus, the friend of man who gave us fire; and Daedalus and Icarus who thought there was no limit to man's power until Icarus's wings of wax melted when he got too close to the sun, fell into the sea and drowned.

A little further along in school, we learned that the two most powerful city states in ancient Greece were Athens and Sparta. This period in history became known as "The Golden Age of Ancient Greece."

Although these city states were close geographically, their societies were radically different. Athens was considered the cradle of philosophy, and boys received a well-rounded education. Athens' economy was based mainly on trade, and it possessed a strong navy. Athens was a member of the Delian League, a military alliance of allied city states designed to guard against attacks from the Persian Empire. And perhaps more importantly, Athens was the birthplace of modern democracy.

Sparta, on the other hand, rose to become the dominant military land power in the region. They were a warrior society. Their economy was based on agriculture and conquering. Both boys and girls received vigorous physical training. Sparta was a member of the Peloponnesian League and an oligarchy. A society ruled by a small group exercising complete control. It was only a matter of time before the two powerful city states and their allies would collide. The fifteen-year conflict, which ultimately led to the decline of the Golden Age of Ancient Greece, came to be known as The Peloponnesian War.

Now here's where it gets tricky. One would think that with Sparta being a warrior society, and Athens being the center of arts, learning, philosophy and a democracy, Sparta would have started the War, but history tells us otherwise. You see, democracy in ancient Athens was direct, not representative. That meant that every male citizen in Athens over 20 had a say in all matters. They formed the assembly that chose the officials by lottery, a process called "sortition." That meant that basically any Tom, Dick or Zorba could have a decisive and often uneducated say on matters of great importance.

The War Begins

One of Athens' allies, Corcyra, came seeking military assistance from Athens against a member of the Peloponnesian League. They argued that war with Sparta was inevitable and that their alliance dictated their assistance. At first the Athenians were reluctant. Then the "assembly" debated the issue and soon sent ships to aid Corcyra in their dispute with Corinth. Sparta abstained from the conflict that became the Battle of Sybota. Now convinced that war with Sparta was inevitable, the assembly decided to strengthen their military hold on the Corinth region. Still Sparta refused to engage in conflict, and over the next 12 months, Sparta sent three delegations to Athens to avoid war. Athenians declined all offers, and their general, Pericles, commenced an all-out war. Thus began the decline of "The Golden Age of Ancient Greece." The downfall came in large part because "direct democracy" allowed demagogues to eventually get their way. Democracies are precious yet fragile.

Now for me, when I think of American democracy, I am reminded of the Latin motto from the coat of arms of the City of Paris: "Fluctuat nec mergitur," which, loosely translated means, "*It may rock but never sinks.*"

You Don't Need a Weatherman To Know Which Way the Wind Blows." Bob Dylan

The Pandemic this past year has in a raw way exposed the social and economic inequalities that exist in our country. A stark division has been revealed that needs to be effectively addressed to enable a sustainable recovery that created the type of rising tide that will lift all boats. Did you know that of all the people in America making \$100,000 a year or more, 65% of them have been able to work from home, yet of those making \$40,000 a year or less, only 10% have been able to work from home.

We've learned a lot this past year living under house arrest with the news always available at our fingertips. But whose news? The channel you pick can often lead you to question what planet you're living on.

So, the war's not over yet, either with Mother Nature or with our own inner demons. But it's not too early for planning for the peace. The peace that leads to economic recovery and prosperity. A prosperity our country can enjoy for decades to come.

Let's Talk Dollars And Sense

Forget about 2020 for a moment, as hard as that might be. Over the past dozen years, our national debt has grown by almost 400%. On top of that, there will be a whole lot more deficit spending to come. Do remember, when you are in a war, you figure out how to win the war first and later you figure out how to pay the debt.

As scary as that statistic sounds, it also reinforces the old adage, "to make money, you have to spend money." Remember, politicians would always rather borrow money than raise taxes. Although the public debt has risen dramatically, the amount of private debt, relative to the GDP, has gone down substantially, and the size of our economy has grown dramatically. So, the question begs to be asked: Why is that important? Mathematically, the answer is expressed as:

$$VT = \frac{PT}{M}$$

Simple, right? Just teasing. Let me explain.

Velocity of Money

The velocity of money is the measure of how often a unit of currency changes hands during a given time period. The faster it moves, the more vibrant the economy. The slower it moves, the more sluggish the economy is. An example I was given many years ago that you'll get is:

- Terry sells soft drinks in a bottle.
- Mary sells ice.
- Terry starts with \$100 and buys \$100 worth of ice from Mary.
- Mary then takes the \$100 and buys \$100 worth of soft drinks from Terry.
- Terry's and Mary's economy now has a gross domestic product (GDP) of \$200, even though the money supply is just \$100.
- If Terry and Mary do this once a month, their GDP for a year will be \$2400, even though the money supply is just \$100.

Velocity of money is a critical component in an economy's GDP calculation. An increase in money supply does not necessarily lead to an expanded GDP unless people are spending the money. So, what's it going to take to increase the velocity of our money supply in order to create jobs so people can earn money and pay taxes and we can lower our public debt to GDP to levels

that will stimulate our economy? It's going to take thoughtful projects, investments, innovations and enhanced productivity. We're talking about investments in our future.

Think About It

One hundred years ago, the country was just recovering from the effects of World War I and the Spanish Flu, yet the 1920s took off like a bat out of hell. The Jazz Age was born, confidence soared, and it was all driven by ingenuity and invention. Over the following decade, inventions such as

- Bulldozers
- Penicillin
- Radio & Television
- Traffic lights
- Insulin
- Frozen Foods
- Liquid-fueled rockets

changed everything. By 1927, the modern assembly line at Ford Motor Company was producing a Model-T automobile in less than 30 seconds. These are things that we take for granted today but couldn't imagine living without.

No doubt this will be a hard and dark time for many this winter. But seasons do change, and we need to be prepared. One can take heart by looking back to the 1930s and seeing FDR's determination that first term of his presidency in getting the country back to work.

But how? Through building trails for enjoyment, dams for power, electrification to bring light to those stuck in the kerosene days of the 19th century with projects like the Tennessee Valley Authority.

A skeptic might say that's all well and good for back then but we're talking about today and how to get out of this hole. Here's the insight I would share that shows precisely how and why this can work.

The Big Break

It's not that easy to find today because most of it is overgrown. It starts up North by the Pit River and snakes its way down to Kern county, 800 miles to the South. It is the biggest fire break ever constructed, it's name "The Ponderosa Way." One fire historian referred to it as the "Great Wall of California." Its purpose? To give fire fighters a chance to take a stand in combating the state's ceaseless forest fires. It made sense back in the 1930s and makes just as much sense today.

The Ponderosa Way was started in the early days of FDR's first term. It was just one of hundreds of projects undertaken by the Civilian Conservation Corps. It took three years to complete and employed thousands and thousands of men before the work was done. They graded steep ravines, erected steel bridges and stacked stones creating the culverts that were needed.

Time went by, the Depression ended, and when the troops came home from World War II, the Great Wall of California started to become neglected and overgrown. Had it been maintained; would it have saved the town of Paradise? Who's to say, but you know it couldn't have hurt.

Sounds like we should have spent the money to keep it up, doesn't it? Well, it's not too late. It's there, the easements are all in place, and all it would take is a little vision and a few billion dollars for it to be up and running. Now one might say, "A few billion dollars? We're in a budget crisis. How can we possibly afford something like that?"

We Can't Afford Not To

It's estimated that almost 40 million American homes are vulnerable to forest fires. More than 10 million acres burned in 2020 alone, 40% of them here in California. In 2019, property loss in California exceeded 220 billion dollars. It cost another \$700 million that year to fight the fires, and it's estimated that the lost revenue from business disruption and future medical care for those affected probably will account for another 200 billion dollars in expenses.

By nearly every metric, wildfires around the world are becoming more frequent, more destructive, larger and more deadly in large part due to great population density. A project like the restoration of the Ponderosa Way would pay for itself 10 times over.

Let Me Bring It Home

If the Pandemic has taught us one thing, it's that much of business as we know it will be conducted quite differently in the future. Office configurations and space requirements will change radically. Zoom has shown us that there will be a whole lot less business travel in the future. Does that mean less business will be conducted? Absolutely not, I believe that the exact opposite will be the case—more business will be done through innovation and enhanced productivity. Government can't do it alone, and they never could.

Case in point: Right in my own County of Marin, there sits one of the most beautiful corporate campuses in all of California. Situated on 63 acres, it's the old home of the Fireman's Fund. Vacant since 2015, it represents more than 700,000 square feet of office space. Over the years, there was talk that Apple was moving there, then Google, but nothing ever came of it. The property changed hands several times and eventually started looking dog eared and forlorn. With a glut of empty office space, a robust work-from-home trend deeply seeded, the property's prospects seemed grim.

It's just been in the last month or so that a most successful private/public coordination of efforts has been announced that will re-purpose the property into a mixed residential use with public access parks and recreational facilities. In a County whose median single family home prices are currently around 1.2 million dollars; distinctive and attainable housing options will be like a breath of fresh air.

It's projects like these, forged by cooperation between the public and private sectors that will create jobs and improve our quality of life.

Just like the 1920s ushered in an era of prosperity through innovation and invention, so can the 2020s. Just think of it. This will be the decade where

- Remote health monitoring becomes an everyday reality. Think of things like smart baby monitors using artificial intelligence to monitor a baby's breathing rate, movement and sound.
- The explosion of plant-based proteins, immediately lowering greenhouse gas emissions.
- Vertical agriculture, producing the same quantity of food on 1/10th the space as row crops with the same amount of water.
- Autonomous commercial vehicles. No longer having to make small talk with your Uber driver.
- 5G networks. An enabling technology that will reach out into every corner of the digital landscape.
- Electric vehicles will no longer be the exception but the general rule.
- Blockchain. Another technology that jumped suddenly into people's psyche as a result of Bitcoin, but now large companies and serious tech developers are exploring how the concept of a distributed ledger can enable legitimate new businesses.

And this is just the tip of the iceberg. Couple all of this with our needed infrastructure projects of rebuilding bridges, roads and delivery systems. Those delivery system modernizations will include information, healthcare (tele-medicine) and education. You name it. We've all seen how productive we can be saddled at home. Just think of the possibilities in a post Covid-19 world.

Conclusion

Barring a Black Swan-type event other than the one we are currently dealing with, analysts are predicting a decent year in the equities market in 2021. What's their thinking? Basically, the same reasons they had in 2020 coupled with the benefits of the economy reopening, pent up demand and a Pandemic hopefully under control. We shall see. What I do know is that successful investing will be much more about generating idiosyncratic alpha than relying on market beta. In English, this won't be a market of rising tides lifting all boats. It will be one where industry selection and identifying best of breed will be paramount. Warren Buffet once quipped, "If the market was predictable, I'd be waiting tables."

This past year seemed like one that just wouldn't end, much like this column. So, let me leave you with this one final thought. I heard it on a late-night interview, and it stuck in my head. The host was questioning the guest about the challenges his non-profit faced during the Pandemic, and the guest responded by saying, "Pressure busts pipes, but it also makes diamonds."

With any luck, the 2020s will be a jewel of a decade. So, until we're all vaccinated, I'll look forward to our upcoming Zoom meeting. Thankfully, I look thinner on camera. Be well and stay

safe.

Best Regards,

Ray Lent
RLL/dot
Enclosures

Post Script. At the beginning of the Pandemic, I promised I would share whatever thoughtful coping skills or little pleasures I came across each quarter, so here goes:

1. For an outdoor adventure, drive out to Drake's Beach parking lot at Point Reyes. The elephant seals calved last month.
2. For those RVing, check out "Harvest Hosts." It's a consortium of wineries across the country that allow you to spend the night. Who can think of a nicer way to see America and it's free.
3. Take a stroll on the Rush Creek Trail in Novato, Atherton exit. Bring your binoculars; the birding is great.
4. For an entertaining read, pick up a copy of Gary Kamiya's *Spirits of San Francisco: Voyages Through the Unknown City*.
5. For Bay Area hiking trips and maps, check out the SFChroniclediscoverlocal.com.

Please don't stop sending in your own suggestions. I promise to pass them around. Ray