Lessons Learned During the Pandemic

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PFM Asset Management has worked with clients and helped guide them through many trying times over the years, including the 2007-2009 financial crisis. The Coronavirus (COVID-19) pandemic has presented investors with several new challenges to navigate. Among them are drastic supply chain bottlenecks caused by extended factory shutdowns, the shift toward remote work and fundamental changes in consumer buying habits.

This tumultuous period has naturally caused us to thoughtfully reflect on a few lessons, including what works, as well as what we have seen played out among investors since early 2020.

It's Always Important to Play Defense

Coming into 2020, equity valuations were higher than average. During such periods, investors are well-advised to be cautious and tilt toward liquid, high-quality investments. Those that were defensively positioned and liquid ahead of the economic shutdown in 2020 were able to take advantage of market dislocations and financially recover in relatively short order.

Does this mean that investors should necessarily hold cash? No, but holding liquid, high-quality investments allow investors to take advantage as opportunities present themselves.

Alternative Investments May Severely Limit Liquidity

"Cash is king." This ubiquitous term essentially means that physical cash and other liquid investments may allow investors greater financial flexibility, which can be particularly advantageous during adverse market conditions. However, we have noted that the growing popularity of alternative investments among individual investors and even large formal pension plans, have in some cases, limited available liquidity. They have also, in some instances, prevented these same investors from taking advantage of potentially lucrative opportunities during market downturns.

Alternative investors should clearly understand nuances, including that alternative managers may decide to call capital amid a correction, which may in turn force plans to lock in losses or make sub-optimal decisions . This can create an imbalance at a total portfolio level and elevate risk. Holding liquid and high-quality investments allows investors to be more tactical when dislocations occur.

Information Overload Is More Prevalent Than Ever and Makes It Harder to Drown Out the Noise

There are a multitude of financial websites, radio and television shows, podcasts, and social media pundits that have flooded the airwaves with information in recent years. Moreover, the prevalence of smartphones and other devices have enabled investors to receive this information around the clock. This constant news cycle has only become exacerbated during the pandemic.

More information, rather than less, is often considered to be a good thing. However, investors should understand that not all information is of equal value in making investment decisions. Investors should attempt to separate the "wheat from the chaff." Focusing on redundant or useless information diminishes our ability to focus on what is important. It can cause what is called "analysis paralysis." While there is little that we can do to limit this information flow, other than put down our phones, we would argue that investors should try to ignore the "noise" that has seemingly become omnipresent, and instead focus on the merits of longer-term investing.

Retail Investors Can Be Super Influential

Retail investors have played a significant role and been a major factor in the performance (or lack thereof) in certain "meme" and other high-flying securities throughout the pandemic. Retail engagement can be a positive thing. However, when exuberance is taken to the extreme, and retail investors become over-exposed to any one security or sector, the risk is amplified.

In short, while the retail investment community has often been overlooked in recent years, it would be wise to note their ability to impact certain spaces and sectors within the market, and also to understand that extreme volatility may have an adverse impact on this group.

The Propensity to Spend Is Significantly Greater Than to Save, and That's Not a Good Thing

Though the national savings rate increased to a high of 33.8% in April of 2020 as COVID-19 cases soared and lockdowns were rampant, consumers continued to spend their discretionary income.[1] At least part of the reason for this is due to the significant number of stimulus dollars, and in some cases, extended unemployment benefits that were received by the general populous. What did these individuals buy? Cars, homes and home furnishings.

While the spending story might be a short-term positive tailwind for our economy, our nation's debt (and the level of personal debt) is a very significant concern going forward. Over the longer term, this will be something that we will all pay for in the form of higher taxes and a reduction in benefits (e.g., social security).

The Labor Story Is More Complex Than Ever Before

In the past, when we thought of "labor," the main topics of conversation and analysis would revolve around raw unemployment and productivity numbers, with job openings and the "quit rate" being supplements to those main data points. However, the complexity of this equation has increased due to the economic shutdown, lingering pandemic and emerging social issues.

1 St. Louis Fed, Fred.stllouisfed.org.

For example, in the past, the Federal Reserve has honed in almost exclusively on broad unemployment data and used that as a basis for policy. However, the monetary body is now diving down into those numbers and monitoring them from an ethnic standpoint to help set forward-looking policy. Making matters even more complex is that the pandemic has caused some workers to leave their jobs, get new jobs, work remotely or shift their geographic work location. Meanwhile, some have used the pandemic as a reason to leave the workforce entirely. This says nothing of the anticipated onshoring trend, changes in birthrates and recent immigration trends. In short, there are more moving parts than ever, and generalizing about the labor market and future trends has become much more complex over time.

Final Thoughts

The COVID-19 pandemic has taken a tremendous financial and emotional toll on our nation and the world. However, there are things that we can learn from these recent events, and the above are just a few of our observations. To discuss this report or for other questions, please reach out to your PFM Asset Management representative.