**Should the Virus Alter Your Investment Strategy?**

I seriously doubt the economy will look the same after the virus threat goes away. Actually, the landscape is already changing on several levels. If change is evolving, an important question is whether your investment strategy should likewise change? This question raises several important issues that give me an opportunity to review the process of how I manage your portfolio. Let me emphasize from the onset that portfolio construction is an art and not a science. It requires careful judgment based on in-depth training and years of experience.

Portfolio construction begins when you complete a questionnaire designed to evaluate your current station in life and what you are trying to accomplish over time. Based on that information and our personal conversations, I design an investment strategy tailored to meet your unique needs. Important factors considered include your age, your health, and your financial responsibilities to yourself and possibly to others. It also considers the amount of funds you have accumulated and your budget in order to determine the chance you will outlive your assets. The defined strategy brings together your needs with the risk characteristics of financial securities trading in the market. Graphically, the process looks as follows:

**Client Needs------->CIM Strategy<-------Market Opportunities**

Because your needs are unique, your strategy is, therefore, likewise unique. No two clients have the same needs and, thus, no two clients have the same portfolio composition.

The CIM approach differs from that of other financial advisory firms where clients are placed in maybe 3 different portfolios of pre-selected securities representing three different levels of risk: conservative, moderate, and aggressive. While my model is more labor-intensive, it allows me to focus attention inward toward you as opposed to outward toward the markets. After all, neither of us can control the market but the two of us together can control your risk tolerance.

Another distinguishing feature of the CIM model is that I do not outsource important investment decisions to an unknown money manager in New York or Chicago. When you speak to me, you are speaking to the decision-maker and not a relationship manager.

Lastly, my model is grounded in the firm belief that trying to time the market is inconsistent with your long-term goals and a waste of your money. A timing strategy may be in the best interest of advisors who put their interest ahead of your best interest but those advisors are not fiduciaries. I am a fiduciary. Not trying to time the market is in your best interest in that it allows me to focus attention on your long-term needs as opposed to worrying about short-term market vicissitudes that often appear irrational.

Once I understand your basic risk tolerance, the next step is selection of appropriate securities to include in your portfolio. Security selection follows one of three basic principles:

      Preservation of Capital

      Consumption of Capital

      Growth of Capital

**Preservation of Capital**: For older clients whose financial picture is secure and who want to avoid the risks inherent in the equity markets, a strategy of preserving capital is appropriate. Preservation of capital emphasizes the short-term US Treasury bonds void of default risk. Here, return expectations are low--around 3-4 percent--but the risk is also low.

**Consumption of Capital**: For clients who want to consume capital usually during retirement, generation of income is important. This strategy includes intermediate to long-term government bonds, investment-grade corporate debt instruments, real estate investment trusts (REITs), and dividend-paying stocks. Here, the return expectation is 5-8 percent and the risk is moderate.

**Growth of Capital**: For younger clients who want growth of capital, large-cap, mid-cap, and small-cap stocks fit the bill. This strategy is more appropriate for clients who are still employed and have time to weather short-term market volatility. Here, the risk is higher but the return expectation is likewise higher in the range of 10-12 percent.

Within each strategy, diversification at two levels plays an important role. That is, diversification across multiple asset classes with a tilt toward the appropriate asset class identified in the objective, as well as diversification within each asset class. A mixture of carefully selected Exchange Traded Funds (ETFs) efficiently provide both levels of diversification.

During the quarter, I meticulously review each security in your portfolio to assess whether it is consistent with the overall objective. The purpose of this review is to rebalance the portfolio back to its original objective. Without a quarterly review, the portfolio would become out of balance with its intended goal due to market forces that do not uniformly affect every asset class. For example, over a particular quarter, the market may reward bonds more than stocks, which means the allocation of bonds is out of balance relative to the allocation of stocks. In that case, I would sell some bonds and buy some stocks.

With this brief review of the portfolio-construction and review process, let me return to the question of whether the virus should alter your investment strategy. No, it should not! I say this for a couple of important reasons. First, your strategy is not based on what the market does or does not do over the short-term. Quite the contrary; it is based on your long-term needs. In addition, your strategy is based on a belief in US democracy and capitalism. These two pillars of belief are firmly ingrained in our economic system--a time-tested system that has a plethora of governmental institutions structured to protect it.

While the composition of the market may change in terms of which stocks survive and which ones go away, the overall risk characteristics of the US capitalistic model will change very little over time. Capitalism is not only embedded in our culture, but it is also protected by the Constitution. Part and parcel to the capitalistic model is constructive destruction that periodically occurs in a self-correcting market. Such a process will continue occurring long after the current crisis passes. IBM, the darling of the market in the 60’s and 70’s has been replaced with high-tech firms such as Apple, Google, and Amazon. This give-and-take generates new ideas upon which growth depends.

On the other hand, capitalism depends on free markets and the virus has pointed out a weak spot in the US model. Supply chains based outside US borders have proven to be somewhat unreliable. To combat this weakness, the US may embrace some form of industrial policy in the not-to-distant future. The purpose of such a policy would allow the federal government the ability to grant favored status to certain industries considered essential to national security. Implementation of an industrial policy would include tax incentives, and tariffs and quotas for such goods as pharmaceuticals and medical equipment. A restrained industrial policy would only slightly alter the investment landscape and not turn the US economy into a socialist state.

We have survived many crises in recent memory and will overcome this one also. Most of us recall the energy crisis of the ‘70s, the severe market crash of ’87, the dot.com era fiasco of the late ‘90s, the Y2K disaster of 2000, and the 2008 Financial Crisis to name just a few. In every case, the US economy and financial markets survived to come back even stronger. Some people will say yeah, but this time it’s different. No, it is not! Although serious, this crisis is just another bump in the road and we will overcome it the same as we overcame all the other crises. The American economy is incredibly resilient and quite capable of adjusting to a new paradigm for doing business no matter what the challenge.

So, should we change your investment strategy due to the virus threat? No, we should not! Your unique needs do not depend on how the market performs over the next year or two. Just as we have done in the past, we need to focus on your risk tolerance, match that risk tolerance with appropriate securities with a thoughtful portfolio construction process, and let the market do what it does. The long-term bet is that capitalism and democracy will continue providing a secure foundation to our economic system just as it has in the past. This is a rock-solid bet. I hope this essay helps you understand what we are doing and why we are doing it.

All the best,,,,,Ron 5/25/20