

What Happened to You, 2020?

by Jason Hundhausen

I hope that this newsletter finds you all warm, healthy, and with friends and family (even if only by webcam) during this holiday season. What a remarkable year 2020 has been. Ironically, 2020 was always one of those years, far in the future, when we would have it all figured out. We'd have flying cars powered by banana peels, the ability to predict the weather down to the second, and all political ads would be banned. But no, after a relatively uneventful beginning to the year, COVID-19 hits and all heck breaks loose.

Aisles are cleared of TP, hand sanitizer, flour, rice, and canned goods. People start hoarding guns and ammunition. Borders shut down, mask mandates are implemented, some states lock down and impose curfews, some nations impose shelter-in-place orders. Businesses shut down and markets plunge as they price in a dismal future. The Fed intervenes and prints money by the trillions (yes, with a “t” and yes, plural). The government sends cash to the people and provides loans to small businesses to help keep them afloat. Unemployment reaches historic highs, year-on-year GDP plummets, and mortgage and rental default and delinquency rates skyrocket. Hospitals are overrun with coronavirus patients. Markets recover their losses and surge to all-time highs on all the fantastic news. We don't have flying cars; we have a 50/50 chance of getting an accurate weather forecast (but only a 10% chance of that) and I saw more political ads this year than I've ever seen in my life. What happened to you, 2020?!

New Set of 2020 Emojis Unveiled



As crummy as 2020 has been in so many ways, it has also been an opportunity to witness how kind and compassionate we humans can be with one another. I think of individuals who have taken it upon themselves to help others in need: grocery shopping for somebody who can't go out, meal delivery to home-bound school students who otherwise might not get a complete meal that day, cans and boxes of food overflowing the donation rack for the local Food Bank. I think of the emergency responders and hospital staff who put themselves in harm's way to help and save others.

It also has been an opportunity to witness how resilient and adaptable we can be. I think of parents who now balance a life where job and family and school cohabitate. We're suddenly all very understanding if we're on a business call and you hear a crying child or barking dog in the background—quite possibly because at one point it was *our* child or *our* dog. I think of teachers and the incredible amount of extra

work they have had to do to switch from an in-class model to a remote model of teaching or, in some cases, being responsible for both at the same time. I think of businesses who have been able to remain open because the owners were wise enough to have plenty of “just in case” money saved for more difficult times or because they were able to adapt quickly to the restrictions surrounding the pandemic. These silver linings are something 2020 has also given us.

2020 has been a transformative year for Bozeman Financial Advisors, too. In early November, we completed our transition from KMS Financial Services to Securities America. For those unfamiliar with the background, let me explain. KMS’s parent company, Advisor Group, made the decision earlier this year to consolidate KMS and several other firms into their broker/dealer, Securities America. As independents, we were not required to move our practices to Securities America and could choose to find a different broker/dealer to be licensed through for our advisory services. However, after several months of due diligence into Securities America and several other firms, we concluded that staying with Securities America would be the best path forward and cause the least disruption to our clients and our practices.

If you’re a client and you’re reading this, you’ve surely noticed an unusually large amount of mail over the past few months. In addition to your statements, trade confirmations, proxy votes, and fund prospectuses, you’ve also received consent letters, disclosures, more consent letters, and probably more disclosures. I apologize for all the paper. I receive all of the same things at my home, in quadruplicate, although I signed up for e-delivery of my family members’ statements, trade confirms, and proxy votes, which significantly cuts down on the paper and keeps it organized and easy to find online (you can sign up for e-delivery, too, by giving us a call or sending an email). I also apologize if some of it was confusing, such as the positive consent letter and the negative consent

letter, but everybody seems to have made it through so it should be smooth sailing from here. Congrats!

Three weeks into the transition and we’re back up and running at nearly full capacity. It’s been a steep learning curve, but we’re already enjoying the benefits of a major improvement in technology that we get through Securities America. For example, we now have the option to use DocuSign for the majority of our paperwork, which means fewer mistakes, lower costs, faster processing, and less paper.

We also took the opportunity to update our business email addresses, which are shown on the back page of this newsletter. All of our other contact information is unchanged.

We continue to remain focused on markets and managing our clients’ assets. When the pandemic hit, it exposed some of the fragilities in markets that I’ve written about in previous newsletters. Our belief that the response by central bankers to a Black Swan event, like a worldwide pandemic, would be to print even more money, push interest rates even further down, and possibly even go so far as to start buying corporate bonds and other assets, was proved correct. I’ll admit that I did not expect the Fed to come out quite so heavy-handed, though. They dropped interest rates to zero and printed just shy of \$3 trillion in a matter of months—more than in the decade following the 2008 global financial crisis. They even went so far as to violate the Federal Reserve Act of 1913 by purchasing corporate bonds, both junk rated and blue-chips like Microsoft and Coca Cola. The fact that they bought corporate bonds is not a huge shocker, but the quickness with which they resorted to it is what astounds me. Is the Fed’s reaction a sign that they’re a lot more concerned than they let on? We’ll have to watch and find out.

In the meantime, our fundamental investment thesis has not changed. We continue to be cautious and hold

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extra cash and short-term U.S. Treasuries. We're still long-term bullish on deep value emerging markets, precious metals and the energy sector. We're long-term bearish on tech-heavy stock indexes, corporate bonds, and the U.S. dollar. Over the short term, we are expecting increased volatility, a stronger dollar, and slowed spending (read: deflationary) as COVID shutdowns persist. The "Well, honey, I guess we're not going to Europe this summer, so let's landscape the yard and finish the basement" spending boost that we saw earlier this year was a one-time event and any major discretionary spending binges that we see at the consumer level will probably only be funded by future stimulus checks, if at all.

As the second wave of COVID-19 hits, we expect more hardship for businesses, especially of the small and mid-sized variety, which means more furloughs and layoffs and reasons individuals might need to tap their retirement savings to cover living expenses. The rate of people entering into retirement should increase as many opt for an early retirement rather than risk going back to work. This means boomers, the holders of the majority of the wealth in America, will stop buying and start selling.

Thanks to interest rates that have been held at or near zero for over a decade, boomer investors are already likely chasing returns, unknowingly perched far out on the risk spectrum, holding the majority of their retirement assets in tech-heavy index funds and high-yield bond ETFs. With 2008 still fresh in their memories, any market volatility will be met by these individuals going all or nearly all to cash, another reason we expect higher volatility and dollar strength over the short term. The Fed will have to step in again because, as Jim Grant so aptly put it, the Fed acts as both firefighter and arsonist; the source of many of the problems that the Fed faces today are the result of their own past interventions.

In all, we expect this process to be protracted, punctuated by moments of intense optimism and despair, but in the end, we'll get through it and life will return to "normal." Kids will go back to school, people will go back to work, we'll have sporting events and banquets and graduations together, we'll be able to see facial expressions again and sit down face-to-face for a meeting or a meal. But for now, stay healthy, enjoy the contact that you do have, and be thankful to be living in such historical times! ■



The sun sets in the Ruby River Valley.