



## BY ALON OZER, OMNIA CHIEF INVESTMENT OFFICER

Before I proceed with this short memo, it's worthwhile to bear in mind that along with all the worries and concerns nowadays, we also possess the tools and good sense to prevail over this crisis. In his book *Antifragile*, author Nassim Nicholas Taleb writes about mechanisms in nature that benefit from disorder, shocks and chaos. They adapt, become resilient and stronger to eventually emerge as an improved version of themselves. We all, as humans and as Americans, are ANTIFRAGILE! The key takeaway is focus on your and your family's health and safety.

## DO NOT LOSE SIGHT OF THE BIG PICTURE

In many of our memos and in conversations with families, we talk about the importance of the long trends and cycles in markets as well as the economy and how focusing on current events in a vacuum is a mistake. As most important cycles take years to develop, this crisis cannot be observed in a vacuum. This rings true for all of life's events; otherwise, you will miss out on the big picture. The current situation is considerably more complex than any other we have come across in the past. However, we still see many advisors giving advice based on short-term views, such as the stock market will turn in a V-shape once models forecast a flattening of the virus contagion curve or that the government will never let Boeing go out of business, so it is a great buy at current prices. This advice is not only wrong but also completely irrelevant to wealth management. Even if you have the short-term market move correct, the long-term cycle could still decimate your portfolio, or you could miss a major positive trend if you are not positioned correctly.

I am not saying to ignore the short-term moves in markets. I am saying to focus on the bigger picture and understand what the longer-term, significant consequences could be. Many major historical events and crises can provide us context for the current situation.

Here are a few scenarios to consider:

1. Will the crisis indirectly cause long-term rates to rise while nobody thinks it could happen as we wrote last month? We expect the Fed's balance sheet to cross the \$6 trillion mark after this QE infinity and the Treasury to issue bonds left and right. What are the implications of rising rates on your position?
2. Will this crisis expedite the end of the long credit cycle? This could be a mega event, and we wrote about it in our memo The Long -Term Debt Cycle back in 2018: "We are not the only ones seeing this picture. Central banks are starting to be aware of the problem and will do everything they can to postpone the end of the cycle. That's one of the reasons we wouldn't be surprised to see a return of the QE policy as central banks realize the magnitude of the alternative." Meanwhile, here we are today in 2020 with the mother of all QEs.
3. Commodities prices have been falling for years, while prices of financial assets soar. Following the current food supply disruptions, will countries restrict the trade of certain foods? Will countries increase food stockpiling? Such changes could cause significant moves in commodities prices in the next few years.
4. This crisis magnified the significance of the "dollar shortage" problems we have spoken about many times. What steps could be taken to fix this, and how will it affect our monetary system and the dollar's status as a reserve currency?



5. Will we see US corporations bring manufacturing home, especially from China? We know we need to better secure our supply chains. Will Americans face increasing inflationary pressures? This is something we really haven't seen in 30 years.
6. Will companies' recognition that some employees can work from home on a long-term basis reduce their large commercial space significantly? How would that change the commercial real estate industry?
7. Are corporate buybacks gone, and will that get the market to reprice equities longer term?
8. Is the historical, negative correlation between stocks and bonds ending? If so, that would have significant effects on most portfolios that are not positioned correctly.

The future is unknown. I have yet to find anyone who consistently and correctly predicts what is ahead in the short term. I'm not looking to make predictions. In fact, some of my best investment ideas have come from betting against those who were certain they could accurately predict events. I would be cautious regarding anyone who claims the ability to predict short-term events, but now, even more so, as we have not been here before. The data we have to analyze encompasses a short timeframe and that data is volatile.

Especially now, it is critical to not lose sight of the bigger picture. Even during the current crisis, our process stays the same. We do not predict. We manage risk. We analyze potential changes in cycles. We assign probabilities to certain events and focus on the ones that could have a significant impact on family wealth.

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