

Changing Behavior

By Jeff Otto, CFA

Just one month ago, most people in the United States were continuing about their daily lives and routines. Now going to work, eating out at a restaurant, taking a vacation or socializing with friends and family has never felt so far in the past. For many people, their day may now consist of working remotely, home schooling kids, daily walks and home cooked meals. Unfortunately, a much worse alternative is facing those people who have been infected with the virus or have lost their job. The current response to contain the spread of COVID-19 has altered the way

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of life of nearly every person across the globe. Hopefully, as summer nears we will slowly go back to the way things were before this pandemic. It is also likely that some aspect of quarantine life will change the way we live going forward.

Seminal Moments

For many people, there is an event in our lives that changes us forever. For me, like many Americans, the tragic events of September 11, 2001 were a seminal moment. This day changed the country's geopolitical course for almost two decades, led to the creation of the TSA and cemented feelings of immense gratitude to first responders. The current pandemic is in some ways similar to 9/11 with the damage caused to our economy, the immediate change in our way of life and the tragic loss of life. The mood of the country then reflected fear and sadness, but over time our pride and determination allowed us to regain our footing and move forward.

When we ultimately come through the COVID-19 crisis there is a high likelihood that we make some permanent changes in the way we live our lives. Sometimes we live through something so monumental that it forces us to change habits, business processes or attitudes that have been developed

over many years. Our challenge at FCI Advisors is to identify what new behavioral patterns will emerge from this crisis and how to position portfolios to benefit from these changes.

We will carefully examine what new long-term trends will unfold and how they impact various investments, while ignoring short-term trends that may quickly reverse (like toilet paper hoarding!).

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How We Work

The surge in the number of people working from home for an extended period of time has been a tailwind to technology companies offering workforce productivity applications. Zoom Media has seen demand for their video conferencing app explode to 200 million daily average users in March from just 10 million at year end. Microsoft and Slack have seen dramatic increases in usage trends for their messaging apps. Citrix, a tool which enables employees to remotely log in to their workstations, is also benefitting. The barriers to working from home and doing virtual meetings are being torn down, and suddenly companies are realizing it is not only convenient, but necessary to conduct business in this fashion.

Of course, there are negative ramifications to working from home in addition to the positives. Companies will likely require less office space going forward thereby putting pressure on commercial real estate. Flexible office space is likely a solution for companies that don't want a large fixed cost commitment. Airlines that rely on business travel are likely to serve fewer routes and hotels could see pressure on rates and demand for large conferences. Finally, there may be less need for suits as a lot more people will work in athleisure wear from the comfort of their homes.



How We Consume

Consumer spending, the work horse of the U.S. economy, should see a recovery post COVID-19 as there is significant pent up demand. But how consumers spend is already rapidly changing. Amazon has already conditioned people to order books and electronics online and now they are accelerating online penetration of the \$830 billion grocery market. Starbucks noted that during the quarantine in China the percentage of consumers using their mobile application when ordering surged from 15% to 80% of their

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sales mix at the end of February. Nike, Wal-Mart, Chipotle, and Lululemon have all invested heavily in digital technology that

was bearing fruit before this crisis. It seems likely that after this crisis has passed strong companies will get stronger.

Paper currency, already in decline, is now getting hit from both the shift to e-commerce and the obvious viral transmission factor of handling currency. Digital payment companies, like PayPal, and credit card networks, like Visa and MasterCard, are clear winners. Last week, the market capitalization of PayPal exceeded that of Wells Fargo for the first time ever. The shift to autonomous driving is also likely to accelerate as the thought of sitting in close proximity to someone in a cab or Uber sounds less appealing. Tesla and artificial intelligence chip makers like NVIDIA will continue to thrive as the world moves to autonomous driving, while perhaps incumbent auto manufacturers like Ford and General Motors will continue to struggle.

How We Work Together

It is no secret that politicians love to beat up on the health care industry. While there are certainly areas within the industry that need overhaul or regulation, the industry has risen to the challenge of defeating COVID-19. From donations of existing malaria drugs used to treat COVID-19, to Abbott’s development of a rapid testing system, to accelerated research and clinical trials to develop a vaccine, the intellectual firepower directed at this mission is astounding. Going forward, the health care industry should see increased flow of capital directed at innovative drug development and health care equipment. Governments may also begin to view the industry more as partners rather than adversaries.

Unfortunately, many drugs, medical devices and safety

equipment are manufactured in other countries causing fear that we may not be able to secure necessary quantities in time to ensure patient or practitioner safety. This practice is not unique to health care. In what has been a multi-year trend, many of the clothes, consumer electronics and industrial goods we use everyday have been outsourced to foreign manufacturing. President Trump’s trade war with China highlighted this issue which is now being exacerbated due to COVID-19 global supply chain disruptions. There have already been moves by companies to bring manufacturing back to the U.S., such as Apple moving MacBook Pro manufacturing to Texas in 2019. Many more companies may choose to move supply chains and manufacturing closer to home. This could bode well for job creation and for areas of the country that have been hollowed by closed plants.

Allocate Wisely

While extreme stock market declines like we are experiencing are painful in the short-term, they do present opportunities to alter portfolio allocations to capitalize on new trends that emerge such as the ones discussed above. At FCI, we continuously analyze these opportunities and how they will impact the economy and markets. The rigorous fundamental analysis we employ at the company level in our equity and fixed income strategies also influences our decisions. This work often results in tilting our long term asset allocation weightings to asset classes that are experiencing these positive tailwinds. Our conclusions drawn from the changing behaviors in our current environment may well lead to changes in investment portfolios. We are confident these actions will succeed in exposing our clients to the new trends that are likely to drive the next bull market.

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