

Pulling it Forward

By Bill Koehler, CFA

Every successful company has a plan for future growth. However, unforeseen circumstances can force a company to alter the plan's timetable. This can mean delaying the plan or rapidly pulling it forward. In 2020, the Covid-19 global pandemic dictated that tens of millions of businesses accelerate their thinking and actions.

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commerce. In a recent Wall Street Journal article titled “Covid-19 Propelled Businesses into the Future. Ready or Not”, a Shopify executive said, “Covid has acted like a time machine: It brought 2030 to 2020. All those trends, where organizations thought they had more time, got rapidly accelerated.” Companies that were only contemplating a more intensive digital strategy suddenly needed to execute one and many turned to a company like Shopify for assistance. Shopify's customer base grew by more than 20% between January and June of 2020.

The WSJ article contends the pandemic forced Americans to collectively swap the physical world for the digital world in a matter of months. The author goes on to write that, “As retailers learn to operate without stores, business travelers without airplanes and workers without offices, much of what started out as a temporary expedient is likely to become permanent.” We believe there is a lot of merit in this viewpoint.

We probably have collectively “crossed the digital divide” in many ways. As consumers get increasingly comfortable being on the other side of this digital divide, whether that be a first-time tele-health chat with one's doctor or buying a used car without ever seeing it or test driving it, the odds of crossing back over to the pre-pandemic side of the divide have gotten slimmer in many cases.

Accelerating Trends

- For many businesses, initiatives that were likely to happen in 2025 or 2030, happened in 2020. A local restaurateur had previously thought about home delivery for years as something they would pursue “down the road.” He told me his team “figured it out” in two days and made deliveries on day three.
- Working from home (WFH) is likely here to stay. For example, Nationwide Insurance is now planning for 50% of its 28,000 employees to eventually work from home. Before the pandemic, that figure was 15%. Consequently, they are closing 17 physical offices and paring their corporate real estate needs.
- Covid helped to catalyze advances in tele-medicine, vaccine development, education delivery, digital payments, logistics and robotics. At the same time, business travel will likely be negatively impacted for years.

Stock Market Cycles Pulled Forward Too

In 2020, a bear market was also “pulled forward” as stocks declined 34% beginning in February. The positive news is the bear market was the shortest in history, lasting less than one month. Fortunately, a bull market was also pulled forward and it began on March 23rd as markets looked ahead to a sharp economic recovery. In 2021, it is possible the US economy will grow at its fastest rate in 20 years. As vaccinations become more widely distributed and massive government stimulus works through the economy, 2021 should be a strong year for economic growth. Estimates for real GDP growth range between 5-8% as there will undoubtedly be what some are calling “revenge spending” by consumers.

However, history suggests that financial markets may not necessarily rise in concert with the economy. We believe that it is possible for both the economy to grow faster in 2021 and the stock market to be challenged, particularly



if economic growth precipitates an unexpected rise in long-term interest rates. As one of our research sources, Strategas, has also espoused, liquidity can get siphoned

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The Challenge

Will companies adjust to the “forward pull” we are witnessing? Can a selected company adjust to an environment that demands better digitization? One that leads to better data which in turn fosters deeper client and customer relationships? Some are. Some will. Some won't. Some can't. The marketplace will continue to separate them. If they can adjust positively, the market will reward them. Going forward it will be rather simple. Those companies that invest in smart digitization will win; companies that do not, will lose. The gulf between the winners and the losers will widen.

Consumers will continue to gravitate toward companies with whom it is easy to do business. Consumers are looking for more efficiency and thus more time given back to them in an increasingly complex world. Companies that can help people and other businesses gain efficiency with technology will establish a huge advantage. Amazon, DocuSign, Netflix, Wal-Mart, Microsoft, and Apple are all examples of this reality. We cite these with the caveat that these qualities do not make them all perpetually winning investments. All companies are subject to competitive forces over time. This recognition only underscores the importance of professional portfolio management.

Surveying The Landscape

The pandemic has caused many trends already in motion to accelerate. Can they be sustained? Will new trends emerge?

What industries are best positioned to continue benefitting from this forward pull?

We will be on the lookout for those companies that are meeting the challenges as they will most likely be the winners over the next 5-10 years. We will attempt to concentrate on the lasting innovations. We are looking for companies that excel at making themselves indispensable to their customers and make it easy for the clients to work with them. Companies that fail to respond

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From a portfolio management standpoint, we will continue to look for opportunities to invest client portfolios in businesses across various industries which are capable of “pulling it forward.” For example, Shopify and Carvana, which supplies a robust online car buying experience with home delivery, are both companies possessing sustainable business models which mesh well with the pandemic and post-pandemic environment,

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