ECONOMY

Diversify to make your business thrive

THINK STRATEGICALLY:

The Discipline of Strengthening Peoples' Life Work

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A Look at the Global Economy: Hint: Covid-19 Destroyed it

As the world economy slowly emerges from the exogenous shock contraction that Covid-19 inflicted in early March, cases continue to surge in many nations from second and third virus waves.

The percentage increases over the past 30 days in several locations and the world's average follows:

Italy: 207 percent.
Germany: 133.2 percent.
France: 117.7 percent.
United Kingdom: 88.9 percent.
Puerto Rico: 56.2 percent.
Spain: 54.8 percent,
United States: 44.5 percent.
Worldwide: 41.1 percent.

In the eurozone, we note that most of the nations facing the greatest surges have implemented new restrictions and lockdown measures. Meanwhile, in China, the spread rate is at 1.09 percent, and its economy is growing at 4.9 percent, compared to 3.2 percent last quarter and 6 percent last year.

In terms of global growth, we note that for 2020 the outlook for the world economy is of a 4.4 percent contraction. Let's review the gross domestic product per location as we reach the end of 2020:

U.S.: 33.1 percent.
Italy: -4.7 percent
France: -4.3 percent
United Kingdom: -21.5 percent
Germany: -4.1 percent
Spain: -8.7 percent.
Puerto Rico: -7.5 percent.

To say that Covid-19 has been the worst crisis since the Great Depression would be an understatement.

A complete economic recovery will require increased innovation, digital transformation, the rebuilding of entire economies on both the national and international fronts to allow the world to recover.

Week in Markets: Vaccines, Stimulus, Higher Unemployment Claims force Asset Class Rotation

The U.S. stock markets closed with mixed results as investors were balancing a mixed bag of news that includes Covid-19 vaccines, a solution, the surge in cases globally, and stricter restrictions and lockdowns that may impact the economic recovery.

News last week that the Pfizer/BioNTech and Moderna vaccines were up to 95 percent effective in preventing Covid-19, somewhat lifted the markets initially; however, it was not enough to abate economic concerns. AstraZeneca has also announced that its vaccine can be up to 90 percent effective.

As news of the first two vaccines' came out, the market changed direction, and dynamic rotation became a more prominent theme. We note that financial cyclical small-caps, industrials and energy became the latest targets. The regular rotation of assets between those that benefited from the pandemic, like technology stocks, into those impacted the most from the pandemic lockdowns, is partially to blame for the market turmoil. The rotation has fueled increased volatility and significant downturns in technology stocks.

While we continue to play our optimistic tune for an economic rebound in 2021, we see the vaccine developments as definite game-changers and a more permanent solution, especially with the recent increases in Covid-19 case counts and the potential repercussions on economic recovery.

Critical Benchmarks Reported:

U.S. Retail and Food Services Sales: fell to 0.25 percent, compared to 1.57 percent last month; retail sales rose only half of what was projected, or a 0.5 percent rise.

U.S. Retail Sales YoY: fell to 8.5 percent, compared to 8.81 percent last month.

U.S. Business Sales: rose to $1.465 trillion, up from $1.456 trillion last month, a 0.63 percent change.

U.S. Business Inventories: rose to 0.67 percent, compared to 0.30 percent last month—higher than the long-term average of 0.26 percent.

U.S. Initial Claims for Unemployment Insurance: increased to 742,000 from 711,000 last week, a 4.36 percent rise from the previous week and 234.2 percent from the same year-ago period.

The data show that the U.S. economic recovery is likely to be choppy before ultimately returning to pre-pandemic levels.

Results for the week of Nov. 20:

The Dow Jones Industrial Average closed at 29,263.87, down 215.94 points, or 0.73 percent and a year-to-date (YTD) return of 2.54 percent.

The Standard & Poor's 500 closed at 3,557.60, down 27.55 points, or 0.77 percent, and a YTD return of 10.11 percent.

The Nasdaq Composite Index closed at 11,854.97, up 25.68 points, or 0.22 percent, and a YTD return of 32.12 percent.

The Birling Puerto Rico Stock Index closed at 1,902.98, down 5.29 points, or 0.28 percent, and a YTD return of -6.62 percent.

The U.S. Treasury 10-year note closed at 0.83 percent, a change of 6.74 percent, and a YTD return of -1.1 percent.

The U.S. Treasury 2-year note closed at 0.16 percent, a change of 5.88 percent, and a YTD return of -1.1 percent.

The Final Word

In my view and personal experience, diversification is the discipline of strengthening peoples' life work. It does not matter the amount, big or small, what matters is that you worked hard for it and it must be preserved. Here are at least three key benefits of diversification. These include:

Minimizing risk of loss: Suppose some of your investments perform poorly over a certain period. In that case, other investments may perform better over that same period, reducing the potential losses of your portfolio from concentrating all your capital under one type of investment.

Preserving capital: Like our lives at various stages, investing must be tied to our lifespan in the same way. For young people, this is about accumulation and, for older folks near retirement age, they must have goals toward preserving their capital to last through retirement and diversification, which is the key to help protect their savings.

Generating returns: Investments often do not always perform as expected, and when you apply the benefits of diversification, you are expanding your sources of income. Just like you do not have only bread and water in your fridge, your investments must cover the gamut and be designed to balance your risks in times of market turmoil.

Weekly Market Close Comparison	11/20/2020	11/13/2020	Change %	YTD
Dow Jones Industrial Average	29,263.87	29,479.81	-0.73%	2.54%
Standard & Poor's 500	3,557.60	3,585.15	-0.77%	10.11%
Nasdaq	11,854.97	11,829.29	0.22%	32.12%
Birling Puerto Rico Stock Index	1,902.98	1,909.00	-0.32%	-6.62%
10-year U.S. Treasury	0.83%	0.89%	-6.74%	-1.10%
2-year U.S. Treasury	0.16%	0.17%	-5.88%	-1.10%

Sector	Jan. 2 to Nov 18/20	After Nov 18/20
Technology	34%	-1%
Industrials	1%	7%
Financials	-17%	10%
Energy	-50%	22%
Healthcare	10%	-1%

The key with all portfolios is to diversify them so the investor does not have any more than 10 percent exposure to any one strategy or asset class.

The best way to present the benefits of diversification is probably with a story. In 2006, we visited the patriarch of an ultra-high-net-worth family, and we had a great visit that I will never forget.

During that visit, the client explained that he was so well-diversified that he did not need to worry. "How so," I asked. He explained that he had a paver block plant, an industrial hardware company, a quarry, sand and gravel operation, and a scaffolding rental operation in addition to his general construction business.

We told him that what you are describing is not diversification. You are vertically integrated into the construction sector. If a construction crisis arises, your entire business will suffer.

He was startled and asked us how we could help. We developed an action plan that involved performing an enterprise valuation on all his business.

After many discussions, we implemented the program to sell some of the assets and keep the real estate for development and rental income. In nine months, we were able to increase his holdings in the millions of dollars while maintaining some assets that were part of his original operations. When the construction crisis arrived, our client had zero debt, income had grown by 35 percent and the only exposure to the downturn was the construction company.

This is the power of sound advice using diversification.

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