

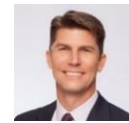


# HOW COVID-19 WILL CHANGE OUR LIVES AND FINANCIAL FUTURE

March 27, 2020

## ABSTRACT

COVID-19 is wreaking havoc on the globe and changing the lives of many, forever. The death toll will be great, and changes in human behaviors will reshape how we live, where we work, and our financial plans for the future.



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## A Time of Reflection

As I reflect on the jarring events of the last 3 weeks, I thought why not take an opportunity to opine regarding how I believe Life After COVID-19 Will Change, and how this has guided me to Reconsider Financial Planning.

First, let's recap some dates:

- March 6, 2020 – A Plane Ride of Deep Reflection & Projection... more on that later and why I sold
- March 9-13 Market Crash (March 12 – Black Thursday)
- March 16 – Discount Buying
- March 27 – Today, Trump signed the CARES Act into law

### March 6, 2020 – Predicting the Crash

The date was Friday, March 6, 2020. Just 3 weeks ago, I was flying from Louisville to Delta on a fully booked flight. I was in the process of a major change in career path and found myself in deep thought about how all the events in the world were shaping up that day. I reflected on a Christmas week (2019) conversation with one of my Chinese friends about her family back home in China. She told me about this illness that was being kept under wraps by the Chinese government as they underwent drastic measures to prevent the spread.

By January 20, three US airports began screening for Coronavirus, and the very next day the US announced its first known case of COVID-19. By Feb 2, the US implemented Global Travel Restrictions with initially targeted China. The Trump administration is accused of Xenophobia. Meanwhile, Australia, Germany, Italy, and New Zealand have implemented similar restrictions. By Feb 25, the CDC said we're headed toward a pandemic.

I suddenly felt that sick, sinking, "oh, crap" moment. It became crystal clear that the stock market could crash at any moment. If I could see it clearly, then so will all the analysts. I needed to access my brokerage account and start making changes ASAP. But first, I had to ponder what effect a global pandemic might have on our world as we know it. I proceeded to jot down these thoughts/projections and at the moment my flight touched down, I ran to the Delta Sky Club and sat down to begin turning those thoughts into stock trades I liquidated over 70% of my account that day for more than \$1M.

### Week of March 9 – Market Crash

The tumultuous week of March 9 culminated in Black Thursday on March 12, 2020. It was heartbreaking to witness the deepest market crash since 1987; but what a sigh of relief that I had converted so much to cash the previous Friday.

### Week of March 16 – Buying Spree

The Black Thursday presented opportunity to snatch up stocks at a discount. But before you buy, it's best to contemplate How Life Will Change as result of human behavior and the manner in which we all adapt to this pandemic. Meanwhile, a UK study predicts 2.2 million COVID related deaths in the US. Almost immediately, Trump, Fauci and Birx start touting that their quick actions saved 2 million US lives... hate to break it to you guys, this thing ain't over!

### How Could Change

Everyone today is talking about how we should behave DURING this pandemic, but no one is talking about how life will change AFTER the pandemic has passed. How might human behavior change? How might those changes further affect our career, savings, and investment strategies?

Hand Washing. Honestly, I learned that my life-long conservationist approach, of using just a little water and a drop of soap on my fingertips, is not conducive toward reducing the spread of infectious disease. I now have a short list of 30-second songs to sing while washing hands with a generous glob of soap. Will the demand for water, soap and hand sanitizer increase forever? Will some view handshakes as a neanderthal greeting in the future? I think so.

Working from Home. COVID-19 has shown employers that working from home can work. Okay, not all jobs, but many jobs. When this is all over, you'll no longer be embarrassed to tell your team you are working from home. Employees that work from home will no longer be labeled #lazy.

Outdoors and Fitness. Working from home means we have a little less commute, and a little extra time in our day to get outside and exercise. Some will go for neighborhood walks, some will become expert gardeners,

and others will seek new adventures (hiking, beaches, skiing, cycling, etc.). The great outdoors will be more appreciated, more explored, and will be rediscovered as a great way to reset the mind.

Tech & Entertainment. E-sports, video conferencing (Zoom), Youtube, AI, machine learning, IoT, blockchain, augmented reality, 5G, autonomous vehicles, media streaming (Netflix), etc. will all get a boost. Meanwhile, concert halls, football stadiums, and theaters will struggle to ever again realize the attendance they once did. My most recent stock trades deeply consider this trend.

Education. There will be a huge debate regarding when students should return to school. Universities will ultimately make decisions based on what is best for their bottom line, as opposed to what is best for student health. It's anybody's guess as to how this will play out at the grade school level... but I predict it will ultimately result in a bump in teacher's pay. More on other labor impacts later.

Death Count and Vaccine. Currently, media outlets are publishing the UK study that projects 2.2M U.S. deaths this summer if we don't take actions. When the actual U.S. death count comes in 90% below the current projection through the summer, it will still have huge political ramifications that will influence the Presidential race. The Vaccine will become a political football too. In the unlikely event that reputable pharma companies can actually produce a viable vaccine in 2020, it will be discredited and won't be widely accepted on purely partisan grounds. COVID policy will be the #1 issue of the upcoming election season as all the armchair quarterbacks opine on how they would have handled differently. PS – there's no way for Trump to win that argument and win the election.

Healthcare. COVID-19 will result in major changes in healthcare, and the way people view the necessity for healthcare. There will be a stronger interest in a universal care solution that everyone can live with. We will see a boost in R&D. Everyday people will stock products like masks, gloves, HEPA filters, and FAR-UVC lights... stuff that was in no one's home just a month ago. But if you're thinking about changing your stock portfolio, consider that some of these changes (i.e. PPE) are transitory in nature.

L Bonds. Okay, some might think this is creepy. Will we see companies and individuals with liquidity increase their interest toward buying out individual life insurance policies? For example, imagine someone with terminal cancer has a \$1mil life insurance policy, can't pay their bills, and wants to travel the world during their last year of life. Someone might pay the individual \$500k, take on the premiums, and enter into a contract to become the named beneficiary of the \$1mil policy. Yes, this is actually a thing (not new).

#### **The Real Estate Market will change:**

Okay, so I'm in the real estate market and have to consider how the pandemic will change my holdings and investment strategies in the future:

- Single-family Residential Phase 1 – So many FHA loans have small down payments. \ When home values slide, people will walk away from their debt, and the residential market will crash. Consider this... if values drop 30%, then it is cheaper to hand the keys back to the bank for the house you are in, and then buy your next-door neighbor's house in foreclosure. Many will lose their homes if government policymakers do not intervene. Value-seekers will use this opportunity to snatch up homes at a discount. Keep an eye on guys like Blackrock.

- Single-family Residential Phase 2 – After a few months, is it possible that the housing market will begin to recover as everyone realizes that we all still need a place to live? Will current shutdowns lead to lack of inventory to support the demand?

- Industrial CRE will gain, Retail CRE is doomed. Ordering more online increases the logistical demand for industrial commercial real estate while retail stores experience diminishing consumer traffic. This trend is not new, but the current economy certainly accelerates the pace of change toward this new reality. Growth of ghost kitchens and food delivery services (i.e. Instacart) will add to this demand for industrial buildings with no store front.

- Multi-family investments are safe, Hotels are volatile. If you bought your hotel before the recession, then you are probably just trying to hang on for dear life and keep your asset from the bank. If you had the liquidity to invest in hotels at a low basis during the pandemic, then you stand to make a boatload of money... but stay away from the hotels that rely on heavy group & convention traffic for a

while and, instead, lean toward hotels which can attract transient leisure demand. Multi-family dwellings will realize some loss of tenants (without policymaker intervention) but will see off-setting demand from displaced single-family residents. Some hotels might convert to Multi-family or Senior Living use. Multi-family *and* hotels will both benefit from new restrictions on home sharing (i.e. Airbnb).

- QSR – We can't wait to get back out into the world again, but consumers will be a little less comfortable with the dining room experience. Drive-thru interactions of Quick Service Restaurants feel safer and remain exceptionally convenient. We are likely to see a continued trend toward healthier drive-thru options. I just hope the lockdown is over before we have to convert them to soup kitchens under conditions of 20%+ unemployment rates.

- Office – A large swath of corporate America finally figured out how to work from home. Demand for office space could decline by 30% across the country. But office demand will differ from submarket to submarket as companies take advantage of lower rents and work from home technologies to downsize their presence in major urban markets like NYC, to move to comparatively less expensive markets like Miami.

#### **Savings & Investment.**

The Great Financial Crisis of 2008/2009 was rooted in CREDIT crisis; but this time it's different... we are in a LIQUIDITY crisis. The financial markets will be reset, and everyone has come to realize that "cash is king". Perspectives will change regarding the amount of cash we need in the bank for a rainy day. Investment strategies will change toward alternatives that are less volatile than the stock market, yet more liquid than real estate. Innovators will find a way to essentially create the liquidity of public stock, while realizing the more stable attributes of real estate. Will Crowd Funding and Reg A+ offerings with limited liquidity policies finally take off?

### **Today, March 27 – CARES Act**

What if I told you that this Act was originally introduced in January of 2019 and passed the House in July 2019? Yes, that's right... 2019. Originally called the Middle-Class Health Benefits Tax Repeal Act of 2019, it had not yet passed the Senate or made its way to the President's desk. So, what better opportunity to rename, rebrand, and

repackage to include Coronavirus related relief. The President initially signed this \$8B bill on March 6, then signed for another \$192B on March 18, and I believe today's estimate (March 27, 2021) is now up to \$2T... yes, that T stands for Trillion! This is unprecedented spending at a scale never before seen in human history. But, guess what? It's nowhere near enough and there will certainly be amendment(s) or a new bill(s) introduced in the coming year or two.

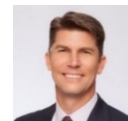
### **The Future**

Just-in-time logistics combined with supply chain disruption will wreak havoc in many industries. The result will be to drive up our cost of goods, while driving down the output.

Labor markets will be in disarray. Many will stay at home for fear of the virus, while turn down employment opportunities in favor of unemployment checks and stimulus checks. As certain industries re-open, employers will have to pay a premium. Industries facing longer recovery periods (i.e. hotels, cruise lines, airlines) will see many of their former employees switch to other higher paying industries.

Inflation will rear its ugly head. Yes, the combination of increased government spending (i.e. CARES Act), higher cost of goods, rising labor costs, and supply chain issues will contribute to inflation. How can it not?

In conclusion, the upcoming weeks and months will reveal many, new moments of truth. Subject matter experts will pontificate about what's next. Most of us will only prove 60% right. Pay close attention and judge for yourself. But whatever you do, don't sell your stock portfolio today unless you're invested in doomed companies. Nearly every business that survives this depression will ultimately recover to new highs, and you'll want to be along for the ride!



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