

Successfully Navigating Tumultuous Times During the Age of Innovation

Curt R. Stauffer
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In spite of all of the very serious challenges and events of 2020, I wanted to start this commentary off by saying that my passion for investing has never been stronger. This year has been hard, and it would have been very easy to get distracted and lose focus. Instead, the opposite occurred at Seven Summits Capital. We dug in and did what we do best, we surveyed the facts, studied what the best credible experts were thinking, extrapolated potential outcomes, identified risks, and uncovered opportunities. I will not talk about all of our successes this year; I will just let the results speak for themselves.

2020 has been a year like no other. The first half of the year brought the worst global health crisis in over one hundred years, which was accompanied by an unparalleled rapid economic decline. During the second half of the year, as the economic rebound ensued and the health crisis persisted, a Presidential election divided the country. The two major party candidates arguably presented voters with the starkest contrast in personality, experience, and vision in the country's history .

America voted on November 3rd. Although the candidates disagree who won, the markets agreed on two things, Joe Biden will be the 46th U.S. President, and the world will have an effective COVID-19 vaccines next year. A Biden victory and the prospect of effective COVID-19 vaccines immediately set-off a massive rotation in the equity markets during the ten days following the election.

In the distant past, sector and style rotations took months; in 2020 we had a one quarter recession, a 45-day Bear Market, and most recently, a major stock rotation that occurred in less than one week. Markets anticipate by nature, but markets also are prone to swiftly react to new information, such as a Presidential election or the announcement of a 90% effective COVID-19 vaccine developed by one of the largest pharmaceutical companies in the world. It is very possible that in spite of facing a severe third wave of the pandemic before year-end, the stock market will be able to look through both the human and economic toll, to a time in the not too distant future when the pandemic will be permanently mitigated.

Seven Summits Capital is an active manager, thus when it comes to investing in stocks, we must see opportunities before the market does. To do this we must seize on information that has not been fully incorporated into market prices. Once an investment is made, the real work begins. We must have conviction in our ideas, but also be willing to reverse course if our assessments change as data reveals itself. However, we cannot be too short-sighted. Value is entirely dictated by future growth and profits that are many times difficult to accurately quantify. Being very flexible and adept at discerning future events is at the core of being a successful active manager.

In mid-September, we determined that the probability of a Biden victory was sufficiently high enough to begin to transition portfolios. The last several years, and in particular the post pandemic period of time rewarded a focus on non-cyclical, asset light, new economy investments. With a Biden victory, and the eventual mitigation of the pandemic health crisis, the economy will emerge looking very different than it

has for the last several years. Investment portfolios will need to adapt to the post-Trump, post-pandemic economy. We see opportunities in cyclical companies, infrastructure, 5G communications, and renewable energy. As Wayne Gretzky has been famously quoted as saying, “skate to where the puck is going, not where it has been.” This Gretzky quote is as pertinent to active stock investing, as it is to ice hockey.

There will always be unknowns when making forecasts. As we look into 2021, from an economic and market perspective, we first identify high probability, mostly known expectations. These expectations are as follows:

- A Biden administration will inherit a pandemic hindered economy.
- There is approximately a 60% chance that the Republicans will maintain control of the Senate.
- It is highly likely that 50% of the U.S. population will have taken a COVID-19 vaccine or anti-body treatment by the end of the third quarter of 2021.
- The post-work from home economy will likely see many pandemic work and consumer activities adopted to communicate and consume virtually become the “new normal.”
- The secular transition from a carbon energy economy to a renewable, green economy, will get a “shot in the arm” by a Biden administration.
- With interest rates near zero in the U.S. and around the world, further economic stimulus, which will be necessary to help the economy get back to its full potential, will need to come from fiscal investment. We expect 2021 to be the year when we finally get serious about infrastructure spending.
- Both technology advancements and urgent climate change action will likely dominate public and private sector investments for the foreseeable future. Technology advancements necessitating significant capital investment include 5G wireless broadband communications, artificial intelligence (AI), the software move to the cloud, and autonomous transportation systems. With regard to climate change, the next twenty years will see a major switchover from carbon fuel-based energy to solar, wind and hydrogen-based energy systems. This switch over will necessitate an overhaul of our electric transmission grid, the development of energy storage systems through major advances in battery technology, and a digitization of our transportation infrastructure. These changes will rival in scope the transformation that our country experienced from 1935 to 1960 with the building a national electric grid and interstate highway system.
- The COVID-19 pandemic has pulled forward the development of RNA-based treatments that Pfizer’s recently announced COVID-19 vaccine is built upon. Other areas of medical science have also been boosted by the urgency to develop vaccines and treatments for COVID-19, such as anti-body science and cell-based therapies.

Then we turn our focus to the more uncertain factors which will impact investment economic and investment outcomes.

Identified Unknown Factors:

- The majority party in the U.S. Senate will not be known until early January and how this turns out will dictate how much fiscal stimulus the economy can look forward to over the next three to five years and conversely, how much the current personal and corporate tax code is changed, with a bias toward both higher corporate taxes and tax rates for high earning Americans.
- The ability of countries to produce, deliver, and administer, to the vast majority of their citizens, a safe and effective COVID-19 vaccine is an open question.
- How the stressed relations between China and the United States will impact the ability of global technology standards to be developed around innovations such as 5G wireless, artificial intelligence, and climate change driven technology adoption, is unknown and will determine the size of growth opportunities for companies, and the pace of global economic growth.
- Will the era of ultra-low inflation persist, or will the double barrel monetary and fiscal stimulus that lies ahead rekindle inflation at levels which put upward pressure on market interest rates?

We believe that when we look back on this period, the COVID-19 crisis and the slow-motion catastrophe of climate change, those companies that harness scientific and technological discovery to innovate solutions will be this era's version of "The Greatest Generation." Based upon the stark outperformance of innovative technology and health science companies over the last fifteen years, the market has foreshadowed a future driven by innovative leaders, think Tesla and SpaceX, Amazon, and Google.

We may see temporary outperformance of old economy stocks in the future, but we believe that those brief periods will be more so the pause that refreshes, as opposed to some type of significant mean reversion. Valuation will still matter, but it will not be "your father's valuation" that relied upon backward-looking financial statement derived ratios, it will be almost entirely forward-looking. Valuation in today's age of innovation problem-solving must factor in creative destruction, market share increases driven by rapid disruption, and scale being developed in a fraction of the time that it has in the past. What this means is that future market leading companies can disrupt an industry rapidly, appear significantly over-valued from a traditional sense for an extended period of time, and grow to be multiple hundred billion dollar or even trillion dollar companies within ten years.

Technological and scientific innovation over the last 30 years has changed the way businesses are formed, the way that they grow, and the how they evolve. This revolutionary change has dictated that investors remain flexible and willing to learn new methods of measuring to value and divining the future.

Seven Summits Capital has never identified itself as a “growth” or “value” investor. We have always tried to build significant flexibility into our process of security selection. For this reason, we are not constrained by preset sector weightings or market cap targets. We have a buy/sell discipline that is long-term focused, dynamic, and can adapt to a wide variety of different types of companies.

We have always believed wholeheartedly in our process. 2020 tested every money manager's process and exposed those who are still clinging to a methodology that has been rendered ineffective by the age of innovation. Never before has the value of our application of our unconstrained approach to equity investing been more apparent than during this tumultuous year. It is very gratifying that during a period that has been so difficult for most everyone, that we could deliver such strong results within our equity portfolios.

All of our focus is now on 2021 and beyond. The equity markets do not reward complacency. Successful active management demands anticipation and constant adaptation to ever-changing events and forecasts. We look forward to leaving the tumult of 2020 behind as we progress through 2021 as we strive to discover new and prosperous investment opportunities.



CURT R. STAUFFER

(C) 717 877 7422

(O) 717 735 0013

cstauffer@ssummitcapital.com

Disclosure:

Advisory services offered through CS Planning Corp., an SEC registered investment advisor.



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