Forbes
Finance
Council

January 5, 2021

Coming to Grips with the Upheaval in Society and the Stock Market Caused by the Pandemic

By Robert Zuccaro, CFA

The coronavirus has done more to alter business prospects than any recession since World War II. It has not only affected all businesses, but also the living habits of all Americans. The chasm between the haves and have nots for our society as a whole has grown wider than ever.

From a business standpoint, forced shelter-in-place restrictions have benefited e-commerce companies such as Amazon, Target and Walmart and spelled a near death knell for the likes of Hertz, JC Penney, Forever 21, Neiman Marcus and many others.

The Stanford Institute for Economic Policy Research has reported that 42 percent of workers are now working full-time from home. Businesses that have made this adjustment are finding that workers are more productive than when commuting to work, sometimes under stressful conditions. In turn, many businesses can now reduce fixed costs by shrinking their office footprint at the same time that they gain an increase in worker productivity as workers fill in commuting time with more work. Google and Amazon will not be recalling their workers back into the office before next July at the earliest irrespective of any process made in the introduction of a vaccine.

We think that the spread of this virus is a seminal event with the potential to change society more than any political party can. There is widespread agreement that lifestyles will change as a result of the pandemic. Already we are seeing a booming real estate market with people fleeing the cities for the suburbs. The office footprint will permanently change because of sensitivity to social distancing which will give rise to sprawling low rise office centers in suburbia at the expense of city skyscrapers.

These demographics will inevitably lead to greater income inequality. More educated, higher earning employees are far more likely to work from home. They are also far more mobile in living where they want to and in seeking better paying jobs than those that are stuck in place at some physical location. It should be pointed out, however, that income inequality is a worldwide problem and common to every one of the 37 countries that comprise the Organization for Economic Co-Operation and Development which generates an estimated 80% of world trade.

What are the implications for the stock market? The time-worn orientation toward diversification across a broad swath of industries should be discarded and replaced with an emphasis on investing in the technology sector that is unimpacted or less impacted by the virus. In this regard, the best way to do this may be to switch out of the S&P 500 ETFs into the NASDAQ 100 ETF, symbol QQQ or into the internet ETFs which contain the FANG stocks (AAPL, AMZN, FB, NFLX, and GOOG), symbols FDN and PNQI. Investors are always better off investing in ETFs which mimic indexes than in individual stocks because the vast majority of professional fund managers have been unable to achieve success in picking stocks.

Today, the S&P 500 Index is represented by companies in the airline, car rental, department store, lodging, and restaurant industries – some of which will disappear in coming years. Why would any investor choose to own an index with possible future fatalities?

Investors are better served in adopting a market basket approach to investing given the poor record of mutual funds and equities hedge funds over time. The annual SPIVA report (S&P 500 Index vs Active Managers) shows that only 13% of active fund managers have been able to beat the S&P benchmark return over the past 15 years. The smart money will recognize what's coming down the pike and seize a better but unconventional opportunity by heavily emphasizing tech securities in their portfolios.

Disclaimer

Target QR Strategies, LLC ("Target") is an investment adviser to private investment funds. This material is for general informational purposes only and does not constitute a solicitation or offer for any investment product or service. Certain information may be derived from third-party sources and is believed to be reliable, but its accuracy and completeness are not guaranteed. Opinions, estimates and projections constitute Target's judgment and are subject to change without notice. Past performance is no guarantee of future results and it should not be assumed that any investment or strategy will be profitable or will equal the performance of any example or illustration. Different strategies will have varying risks, potential for return, and costs which should be understood prior to investing. Investing involves risks and you may incur a profit or a loss. The investments or investment strategies discussed herein may not be suitable for every investor. CFA® is a registered trademark owned by CFA Institute. Data shown is through the date listed on article.