Range of Uncertainty
June 2020

We continue to see much uncertainty in how the pandemic is going to end. Even though this is contrary to what the news might have you believe, this is to be expected. People have guesses, but no one really knows with a great amount of certainty. It might be a good idea to stop listening if someone is promoting ideas in absolutes (“always” and “never” are powerful words!).

Most of us have done our share of reading on this situation. Frankly, we have a lot of extra time in pandemics to learn. Then we all sit around and attempt to arrive at conclusions on how best to act ourselves and how to help those around us. As things open back up, many companies are having to make uncertain decisions based on these conclusions:

- How do we open back up?

- How do we try to keep employees and customers safe?

- How do we deal with confirmed cases?

Fundamentally, I keep coming back to the thought that this is a giant risk experiment. Not being medical experts, I do not think arguing over the medical intricacies is helpful. We just don’t know what we don’t know. However, companies do need to make decisions without having perfect information. We need to start somewhere and possibly place some value on what we might be learning from how we manage risk in other parts of our lives. For us, we deal with uncertainty in investments every day. I believe some investment analogies are helpful in building a “pandemic model”.

Probabilities and Volatility

When business owners open back up, the first realization is that the risk of COVID-19 entering the workplace is not 0%. There is simply too much that we do not know about the disease to be certain it can be kept away. The carriers of the disease are people, so the only way to ensure a disease-free environment is not having people at the business. Thus, something must give. Being honest and upfront about uncertainty can be helpful later when cases happen. Ensuring good processes are in place can help reduce risk, but not eliminate it.

Like investing, knowing your personal risk capacity at the start is important. Then once that is assessed, make decisions based on your best probabilistic outcome. Finally, continually reevaluate and monitor after that initial decision as information and situations change. Update your approach accordingly.[1]

We deal with uncertainty in investing by diversifying our investments. We do not know which ones are going to zero and which are going to be wildly successful. We do not want to let the uncertainty of one bad investment destroy a portfolio. Uncertainty in pandemics can be managed through diversification as well. For example, washing hands frequently, not touching unnecessary things, and not being in close proximity to other people for long periods of time. Not relying on just one method to get through this uncertainty.

Federal Reserve

Fed Chairperson Jerome Powell had his press conference last Wednesday to update the nation on what they are seeing and what they are doing in response. These are helpful data points in evaluating and monitoring future government responses. The Fed's job is not to predict the economy. Its mandate is to promote maximum employment and stable prices.

In his remarks he acknowledges that the range of uncertainty in the economic outlook is currently very high. Chairperson Powell even made mention of "how humble we have to be about our ability to really have confident predictions as opposed to just predictions". Here is a person with access to seemingly unlimited data acknowledging the limits of what is possible to know. What a powerful statement!

Because the Fed's job is not to predict the economy, it is more helpful to understand what they might do given certain events. Interpreting his speech, it appears they are much more concerned about getting people back to work than they are about prices becoming unstable. Thus, we should expect there is a higher probability that they continue to keep interest rates low, keep purchasing bonds to provide liquidity, and continue to increase loans into the market.

Social Investing

What is the purpose of companies? If the purpose is to make money, then it is easy to evaluate whether a company is a success or failure. In statistics class, they call this binary outcome. Did you make money? If yes, than good. If not, than bad. Life is simpler if looked through this prism.

However, what if the purpose is more complex than that? What if the purpose of a company is to stand for something more than profits? This past month, the world has begun to take notice of issues outside the world of profits. The demand has increased for institutions and people to re-evaluate how they treat each other. We are not sure what this means longer term for how institutions change, but certainly something to be aware of.

We are continually referencing back to your personal goals, so if this has caused something to change please do not hesitate to discuss this with us.

Good News

There are plenty of sad stories to be heard every day. Tough to see, but we cannot ignore them if change needs to happen. In addition, we should not ignore the good news. The MGFIN team had four 8th graders graduate and one high schooler graduate this past month. Congratulations to our 8th graders Abbie, Aidan, Andrew, and Anna (our 4 A's 😊), our high school graduate, Maegan, and all the other graduates in our readership too!

These graduates got a firsthand look on how uncertain life can be. As many of you know, life can sometimes be defined on how well we adapt to change.

All the best to you and your families.

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[1] "When my information changes, I change my mind. What do you do?" – Economist John Maynard Keynes