Value Added Partners
Helping clients since 1981

July 2023

$160,000,000,000,000

One hundred and sixty trillion Dollars. According to a recent report from McKinsey & Company, that is the increase in the value of the world's investment assets, including real estate, between 2000 and 2021. It is an almost unimaginable figure.

How big is it? If, instead of getting this investment return, you received the sum total of the economic output of every man, woman and child in Japan (the world's third largest economy) during the same 21 years, you would not get nearly $160 trillion. In order to match that investment gain, you would need to add the GDP of the sixth largest economy, France, to Japan's for the same 21 years. At the risk of stating the obvious, we have been the beneficiaries of an amazing two decades for investors, likely unprecedented in human history.

If you saw this coming on New Year's Eve, 1999, kudos to you because almost no one else thought that we were on the verge of an investment 'Golden Age.' It is not that prognosticators were pessimistic. The Clinton years were kind to the economy and the markets. It is simply that very few people thought that returns would turbocharge as we entered the 21st century. They would have thought it even less likely had they known that the following calamities would occur in the coming decades:

- **The Tech Bubble Bursts**: An abrupt and significant reduction in tech investment following years of Y2K outlays pushed the US into a significant recession.

- **9/11**: America suffered its largest loss of life from a terrorist attack on native soil since the Civil War, followed by grinding wars of attrition in Afghanistan and Iraq.

- **Great Financial Crisis**: Residential real estate prices rose to bubble territory, causing many of the nation's largest financial institutions to teeter on the edge of insolvency when valuations on their collateral came back to earth. The resulting recession was the nation's worst since the Great Depression.

- **European Debt Crisis**: Greece all but went bankrupt, necessitating action by the European Union.

- **Covid 19**: A new virus caused both elevated mortality and a massive worldwide hibernation. As a result, the economy contracted as dramatically and as quickly as had ever been seen.

Of course, not all of the economic news in the 21st century has been bad. In an effort to counterbalance the impact of the Great Financial Crisis, central banks took extraordinary actions to keep the world's economy moving. As a result, the cost of borrowing money stayed quite low during much of this period. In addition, the tech sector's innovations (many of us were working on flip phones in 1999!) translated into historic profitability and growth.

So, what are the lessons, if any, to draw from what has transpired since 1999? We think that there are two. First, as financial advertisements always say: past performance is not necessarily indicative of future results. There is every reason to be optimistic about the long range economic prognosis for the world. If the pandemic demonstrated anything, it is that people are both adaptive and innovative in great measure. We expect to see progress in technology, food cultivation, medicine and other areas in the decades to come, and we expect investors who take reasonable risks in those sectors to be rewarded. That said, we would not be surprised if the total reward for investors for the 2020s and 2030s will be less than $160 trillion. That's particularly true given how much central bank policy and interest rates have changed just in the past eighteen months.

Second, and more important, we strongly believe that markets will be volatile and that surprising and unsettling news will pop up throughout the next twenty years. At times, we may doubt whether investments which have declined in value will recover or whether our portfolios can maintain their purchasing power. At those times, we hope that the performance of this century through 2021, which was fabulous even in the face of several awful calamities, will reassure us. Certainly, we want to have sufficient liquidity to get through tough periods, and it is imperative to have the right balance between riskier and less risky holdings. However, we do not want to allow bad news, such as the recent spate of problems at banks, deter us from pursuing long term strategies which should work to our advantage. We plan to be in touch with you soon to review where we stand midyear. If you have any questions before then, please feel free to give us a call.

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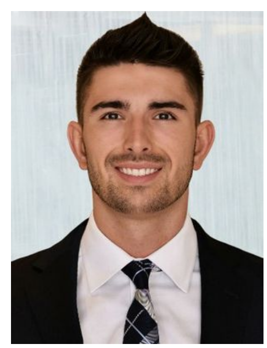

We look forward to hearing from you.

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