

# Market Commentary Third Quarter 2020

Dear Clients,

One reason I read broadly is to identify potential areas for investment. I found some intriguing ideas in the book, *The Future of Humanity: Our Destiny in the Universe* by physicist-futurist Michio Kaku, who notes that being a physicist is relevant to being a futurist because, "scientific revolutions come in waves, often stimulated by advances in physics."

We've already experienced three waves of revolutionary technology. The nineteenth-century first wave benefited from advances in physics that generated innovations like the steam engine. It was followed by a twentieth-century wave that produced "dynamos, generators, TV, radio, and radar," says Kaku. In this century, the transistor and the laser have enabled the "supercomputer, GPS, and the explosion of tiny chips that have permeated every aspect of our lives."

We're now in the middle of a fourth wave of "artificial intelligence, nanotechnology, and biotechnology" that will allow humans to make the planet Mars habitable. Kaku adds that it will be succeeded by a fifth wave that will enable humanity to "move beyond the solar system and explore the nearby stars."

The idea of living on Mars sounds pretty wild, but the technology that Kaku imagines getting us there seems more achievable. For example, he discusses "self-replicating robots, superstrong, lightweight nanomaterials, and bioengineered crops."

A discussion of quantum computing in Kaku's book intrigued me enough to look for related investment opportunities today. He foresees "the ultimate computer, a quantum computer capable of operating on the smallest transistor possible: an atom." However, the technology needed for this quantum computer is still about 20 years away, so it's not yet viable as an investment. Nonetheless, Kaku has alerted me to technologies that I'll follow over the years to come.

While not a mass extinction, dealing with a pandemic clearly causes widespread disruption. Kaku's book also puts mass extinction in perspective: "The earth has already sustained five major extinction cycles, in which up to 90 percent of all life-forms vanished from the earth. As sure as day follows night, there will be more [extinctions] to come."

A University of Chicago *Big Brains* podcast about the impact of an earlier pandemic—the Black Death of the mid-1300s—reinforced that feeling. The Black Death, known to us as the bubonic plague, devastated Europe in 1348, but it didn't end that year. It remained "endemic," meaning that for Europeans, it became "just a normal thing that people get ... the way we're used to there being a flu season every year, where it comes back regularly, and it remains endemic like that until the 18th century," says Ada Palmer, associate professor of early modern history at the University of Chicago. However, as Palmer says, today we have the big advantage of modern science in tackling COVID-19.<sup>1</sup>

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<sup>1</sup> Palmer, "What Historic Pandemics Could Teach Us About Coronavirus" (Episode 48)

We understand how infectious diseases work and we know that eventually, there will be a vaccine.

Life will remain challenging until a vaccine has been widely administered and COVID-19 treatments have improved. We may have to live with the preventative behaviors of wearing masks, social distancing, and contact tracing for many years. To get through, we need what some military sources call "mental armor." The mental armor that I rely on to keep me focused at work and at home has several components.

The first component of my mental armor is meditation, which I use to blunt the "noise" of the daily news and other distractions. I use different kinds of meditation, some that are inner-focused and others that are more outwardly directed. These techniques help me to focus, and to "clear the decks" so I can get through my challenges.

The second component of my mental armor is finding a purpose beyond myself, as suggested by Viktor Frankl, the psychiatrist and concentration camp survivor. In *Man's Search for Meaning* Frankl wrote, "Those who have a 'why' to live, can bear with almost any 'how.'" On a related note, I also adhere to the ideas expressed in Mihaly Csikszentmihalyi's *Flow: The Psychology of Optimal Experience*. He said, "It is by being fully involved with every detail of our lives, whether good or bad, that we find happiness, not by trying to look for it directly." For me, that means having clear goals, doing things slightly above your ability, and engaging in some sort of physical activity. I see these thinkers' philosophies reflected in my efforts to raise money to fight cancer by running marathons and climbing mountains because my wife and I

both lost a parent to cancer. I also feel good about financially supporting an Asian cancer researcher because my father performed research at a biotech firm. It's uncanny, but the cancer researcher looks a lot like my father.

Finally, I find the Greek Stoic philosophy helpful. My interpretation is that I try to control what I can control, while not worrying about anything I can't control. Epictetus (50 A.D.–135 A.D.) said, "Happiness and freedom begin with a clear understanding of one principle: some things are within our control and some things are not. It is only after you have faced up to this fundamental rule and learned to distinguish between what you can and can't control that inner tranquility and other effectiveness become possible."

While our long-term investing strategy has not changed—like my practices to deal with this pandemic phase—tactical adjustments were needed due to COVID. During the past quarter, I made few changes to client portfolios after moving to exploit opportunities earlier in the pandemic. I raised cash and increased hedges. But I'm trying to hold on to nascent sectors that I still believe in for the long term. If prices decline, I will buy additional physical assets.

All that being said, we are adjusting to dramatic changes in the fixed income market in the last six months. With the ten-year treasury yield falling from around 2% in December 2019 to its current level of 0.663%, dynamics in investment grade corporates as a hedge when the market swooned may be gone for the foreseeable future. As a result, correlations in particular risk assets seem to have converged, and consequently, running portfolio strategies must be adapted to the new environment going forward. This may mean greater-than-average levels of cash

during periods where we are waiting for risk asset prices to adjust to where we are comfortable with specific asset valuations.

As always, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,

Li Chang