



# Second Quarter 2021

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## DECADES OF INNOVATION

I have a lot of different clients from all walks of life, but they all keep asking the same question: “How long can this market hold up with everything that is going on?” They recognize that the markets are being supported by government intervention and it is not only in the U.S., but also throughout most of the world. They realize that at some point this will come to an end and, more than likely, it will not be pretty. The big questions are: When? How bad will it be? Will it be this week, this year or 10 years down the road? Will it be a short pullback or a meltdown leading to a long recovery? Most of them understand that the markets move in cycles from one excess to another and the reversals can be abrupt.

The distortions in our economy are easily recognizable. We have supply chain, labor and food shortages, to name a few. Aid is being handed out by the government and people are lining up for Foodshare bags. Many businesses remain closed. I was at a mall the other day and was shocked by how many storefronts were closed. The Federal government is racking up debt, yet the markets keep going up. There are groups of investors bidding stocks higher and there are others concerned over a spike in inflation and interest rates. Although they are concerned about interest rates, the rate on the 10 year Treasury dropped from 1.7% to below 1.4%. This implies that investors are very pessimistic about the future. There are big concerns over the proposed increase in taxes. So far, we don't have anything solid and the market likes the gridlock. Finally, the new Delta virus variant is still wreaking havoc around the world. But the future does show promise and we should not put aside opportunity as it presents itself.

### Dawn Of The 20th Century

We could start in any century and see the same thing. The farther back we go, the longer it took for changes to take place. It was in the 20th century when the U.S. matured as a nation and there were incredible leaps in

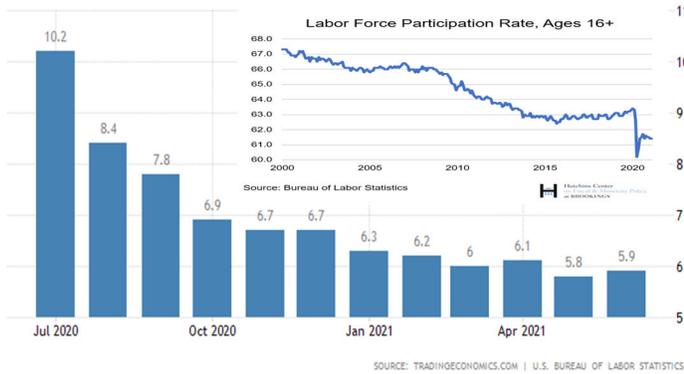


## A Little Rant On Tax

One of the big things on the minds of investors is proposed changes to the tax laws. So far nothing has been passed and it seems like it may come later than sooner. Since the government has been sending out checks and spending money like crazy, the pressure is on. Somehow we have to pay back all this federal debt, which may continue to grow with the proposed spending packages on infrastructure and a number of social programs, including college debt relief and even free college.

To do this, the general theme is to tax the rich. On the surface this “one liner” makes perfect sense. Tax a few billionaires and pay off the Federal debt. But it is not that easy. Billionaires are slippery little people. They have so much money they could do things that the average millionaire can not do. They can gift millions for the tax benefits. They can invest in equipment and buildings and continue to find havens overseas to bury money. After all is said and done, we can extract some tax from them, but more than likely, it won't be enough to make a significant impact on our federal debt issues. So we have to drop down to a lower tier and cast a wider net in order to capture some real dollars. Unfortunately this impacts the smaller business people.

There are a lot of small business people in any commu-



The Graphs show the decline in unemployment and the decline in workers.

technology that grew the economy. These were driven by the automobile, the airplane and the telephone.

### Early 20th Century: Communication and Travel

In the early 1900s, for the first time in human history, we were able to communicate with people that were not directly in front of us. We abandoned the animals we rode and the average person started to travel great distances at speeds incomprehensible a few years earlier. WWI was a catalyst that forced many of the technologies to come upon us at great speed. It was the first time mechanized warfare was used and the first time that surveillance, and even some bombing, was done by air. Ironically, as the war was coming to a close, the pandemic of 1918 took hold almost exactly 100 years ago.

According to a recent book the virus killed millions. The death toll was greater than that of WWI. Then somehow the virus lost its power and dissipated. The exact nature of this virus is still in debate. Strangely enough, most people and historians wrote and talked little about it. There were no heroes. Apparently war stories were more interesting and exciting and the virus became a footnote in the course of the war. But the pandemic moved the practice of medical research to a new level, spurring many new developments in the medical field.

### The 1920s

After the war and the pandemic, we had a rapid economic resurgence, now called the roaring '20s. This was a time when the advances in medical technology, autos, communication and aircraft found commercial applications. The economy expanded rapidly due to improved forms of commerce on many levels. The stock market surged. Then, suddenly in 1929 it all came to an abrupt end. The crash of 1929 was the precursor to a very long-term, multi-wave, economic depression that we really did not get out of until we entered WWII.

Germany was devastated by the depression of the 1930s

nity. They are members of a golf club with nice homes and cars. I see and work with these people all the time. In most cases, they worked hard to build up their business and look like they have done well. Many of them, however, may not be doing as well as someone in management at a Fortune 500 company whose benefits include a matching 401k, paid insurance and stock options. Entrepreneurs run their own business because they have a passion for what they do. They like the independence. As a matter of fact, I have to continually remind them that they are working 24/7 to build up their retirement income as I find it is something they don't think about. In a lot of cases their business is a little better than breakeven and they are living off of their spouse's income or some other income stream to make ends meet. But our society views them as being rich. They should pay their employees more, they should offer them more paid days off and greater benefits.

The fact is that most small businesses fail. They take a great deal of risk and borrow money to do something better than anyone else. In the process, they provide jobs and training for most of the working population. Unfortunately, I know many self employed business people that have built great companies from scratch only to get wacked with an unexpected economic downturn that puts them in bankruptcy. We get a little jealous when a minority of people, like Warren Buffet, Bill Gates, Steve Jobs or that-kid-with-the-hoodie—Zuckerberg, end up with multi-billion or trillion dollar businesses. We are seeing a lot more hoodies these days. But this success is akin to the few high school kids that make it to the NBA. Most kids don't get there.

It has become more commonplace to expect the government to save businesses from disasters. The Feds have been saving our economy for decades by lowering interest rates. This is reasonable. But then they started printing money. Then they started giving it away. Understandably these are difficult times and we don't want anyone to starve, and it is OK to help those in need. But some of these programs just kick the inevitable can down the road. Capitalism is about risk, reward, failure.

To save our economy we need real economic growth. We can absorb some tax increase, but too much will choke the economy into another recession. Investment is a good thing. When a company builds a plant or buys a machine, they will hire people and the economy grows. The big concern is that the small business person gets punished for financial success and hard work. We should not bite the hand of small business that feeds us. Hopefully rational heads in government will prevail. That, of course is an oxymoron. For now, the markets are loving gridlock.

and the sanctions put on it by Europe. It suffered from rampant inflation. The inflation in Germany is now the textbook example of how inflation can destroy an economy and the reason why inflation is still feared today. But new technology allowed Germany to rebuild from the war. This technology created wonderful things; trains, planes and much infrastructure. Unfortunately, they ended up building a mechanized war machine that was second to none. In response, the U.S. and the rest of the world were forced to rapidly industrialize in order to fight the aggression by Germany under Hitler.

### **The 1960s: Atomic Energy and the Space Age**

After all the destruction from the WWII, we ended up with the greatest advancement in history: nuclear fission. The atomic bomb and nuclear energy was a game changer. It was born from a field of theoretical physics that few could comprehend. Although it offered promise for a better world, it of course was scary. We now have some 13,000 nuclear warheads throughout the world (reduced from prior decades), mostly in the U.S. and Russia. Along with the weaponry, nuclear energy led to great advances in medicine and manufacturing, all contributing to economic growth.

The industrialization from the war easily adapted to commercial purposes. The precision manufacturing used in military aircraft led to the development of commercial jet aircraft, rocketry, spacecraft, automobiles and many other consumer products. This ultimately led to the excessive boom which was dubbed as the go-go years of the 1960s. It was a booming stock market. Then again, all that growth ended in 1969. There were market crashes followed by a very difficult recession of the 1970s. Markets retreated some 50%, inflation was rampant, interest rates climbed to 17% and growth slowed to a crawl. It was called stagflation. Inflation without any economic growth.

### **The 1980s, 1990s and Early 21st Century: The Computer Age**

We then moved into the dawn of the computer age as we entered the '80s. As the '80s progressed, the personal computer market took hold. Personal computers and mainframes were able to spur the economy by allowing for "just in time" inventory controls and efficiencies in various segments of corporate management. Automation took over a number of manufacturing processes and machines were starting to run off of computer programs.

Again, the markets crashed in 1987 in part due to computer technology moving stock trades too fast and investors getting way ahead of themselves. But as we moved into the '90s, the economy boomed as personal computers and laptops were the dominant growth industry. This growth led to a zero federal deficit. The laptop also opened the door to rapid trading and this led to an overvalued market that crashed in the year 2000. The subsequent recoveries were wiped out by the bombings of 9-11 and again by the financial meltdown of 2008. It took well over a decade for the major markets, particularly the tech indexes and the NASDAQ, to recover and break out to new highs after the meltdown of 2000.

But again, throughout that recovery, we experienced a massive acceleration in electronic technology and the exponential growth of the internet. The smartphone changed how we communicate. Everything started to move to the internet. At the same time, chip technology exploded. We can now fit some 350 transistors in a human blood cell, 6 million in a period at the end of a sentence, and some 13 billion transistors in an iPhone. Advanced electronic imaging technologies can process and compare images much like a human brain evaluates what it sees. The Mars Rover is now making decisions while it navigates on its own across the planet's surface 200 million miles away. For this reason, most of the growth in the S&P 500 has been due to computer technology stocks that have flourished, while many other segments of the markets have lagged. The economic growth over the past 20 years has been primarily attributed to advances in computer processing power and its many applications over the internet.

### **2020s and Beyond: Biotech**

But while electronic technology roared ahead, there was another technology that was rapidly evolving. This was in the world of biology. Scientists knew a lot about DNA and the concept that human cells can be prompted to fight disease on their own. But very recently the role of a worker bee, called RNA, became the focus of chemistry and biology. Breakthroughs in these fields have led to the advancement of gene editing. These tech-

*(Decades from page 3)*

nologies came to the forefront in the development of the new coronavirus vaccine. Although the coronavirus vaccines do not effect our DNA, the fundamental science was instrumental in these advancements.

The technique in gene editing that has gained the most notoriety is known as CRISPER. I will not attempt to explain it (because I can't), but what is important here is that this technique is revolutionary! In a recent book by Walter Isaacson, he mentions that the technique was so simple that he was able to perform a gene edit in a lab with some direction by the scientists he was writing about. These gene editing techniques may have vast implications to eliminate various diseases from future generations. On the flip side, like aircraft and nuclear fission, gene editing could have other applications. It could allow a parent to select a child's eye color, skin pigment or muscle mass ...possibly intelligence. Although scientists and politicians are trying to figure out how to regulate this type of editing, it seems like it would be hard to actually police it in the real world. What would stop someone from opening up shop on an island where the affluent could pay to have these modifications made?

### **Conclusion**

It seems that throughout history we have had many discoveries and inventions that have led to periods of very rapid economic growth. This is simply because the new technologies start new businesses that can grow extremely rapidly. In the early 1900s there was no meaningful auto industry and oil was not all that important. They became the dominant industries of the 20th century. Facebook and Amazon grew because they took advantage of a new technology. There are huge businesses based on cloud computing and cloud storage. These once unknown concepts are now commonplace. The dominant industries today are computer applications incomprehensible to most of us.

Moving forward, we may be at a point in our history where several electronic technologies, artificial intelligence and biotechnology come together. This combination could spur a level of growth like we had in the 1920s, after WWI or in the 1990s! Like prior wars and the 1918 pandemic, the corona virus has pushed us forward in our usage and development of these technologies. The virus vaccine is proof that what was only a theory months ago is now a proven technology.

This pandemic has already spurred companies to change their working structure and save money with so many employees working from home. Gradually, the workforce of many companies will go back to the office, but many will continue to work remotely. We are rapidly moving ...or have already moved, into a new age and there will be great investment opportunities.

**But** ...at the same time we have to understand that markets run to extremes and, with all the distortions in our upside down economy, the financial clouds are still lurking in the background. It is a long list that includes our internet security, China, the Delta virus, taxes and excessive debt. Unfortunately, any one or a combination of these could be the catalyst to end to this current stock market run. So far, however, we have had extremely low interest rates and this continues to push investors toward stocks to get any kind of return. That still seems to be the main driver of this market.

So we need to be very cautious not to get caught up in the hype, but at the same time know there are great opportunities for growth in the future.

Cheers to a healthy, bright and better future!

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