Sic Transit Gloria – What Now?
By Alan Snyder

The incredible, long and delightful equity and debt bull markets are toast. No one knows dispositively or can prescriptively foretell the exact financial impact of COVID-19. Nevertheless, as stewards of investment capital, we cannot be like the quivering white rabbit sitting frozen while looking into the eyes of this scary snake. Portfolios as well as investors demand that capital be deployed productively and safely.

No, we are not Henny-Penny, Cocky-Locky, Ducky-Daddles or a latter-day Cassandra. Yet, let's offer a backdrop of what we believe:

1. Many, many businesses will not survive.

2. Animal spirits typically buoying the markets will be inconsistent if not in bouts of hibernation.

3. Helicopter money, heroic Fed action and fiscal stimulus are required with yet more to come. These necessary actions are not free and should be considered a potential drag on the future.

4. "Rent" payments of all shapes will be under extreme pressure with the most obvious in real estate.

Remember the sunk cost fallacy. We can't look back with the "should have," "could have," or "might have" regrets. We must look forward, directing our energy to what will be despite imperfect information. We believe there will be great investments to be found and, yes, our country will survive, albeit battered and bruised. Some specifics to ponder for your reaction and to stimulate your advice:

1. Bankruptcies will increase and require restructurings. One bankruptcy expert we consulted is building capital to be ready for purchasing these claims. His admonition: coming, but too early today, stay tuned.

2. Asset backed lenders are stressed. We are seeing several sparkling investments emerge from repricing of collateral.

3. Corporate debt beware. Default risk and recovery metrics must be jointly considered. Specifically, asset-light companies with cash flow problems may never recover, e.g. restaurant chains, airlines (highly leveraged), and entertainment cannot inventory their services yet their expenses are inexorable.

4. Changing behavior impacts. With rolling lockdowns, car usage is limited. Progressive insurance, a property and casualty auto insurer that many believe to be best in class and financially strong, will enjoy fewer loss claims resulting in improved earnings.

5. Hard asset lending. While almost every market is under pressure, residual values will not be ephemeral nor vanish. Fine art lending against museum quality collateral remains compelling due to short duration, low loan-to-value percentages and attractive yield.

Our own art lending efforts remain active. We closed another co-investment this week with more in the pipeline. Our diversified fund remains open to new investment as well. Come join us in either approach and let us know which best suits your buy box.

We are shameless in our pursuit of investment strategies, specific opportunities and portfolio constructs. We welcome your thoughts. And most importantly, please stay safe.