# Cyclical and secular changes interact in dynamic ways.

Cyclical changes are short-term economic fluctuations, such as booms and recessions and bull and bear markets that can speed up or slow down investment in innovation and the adoption of new technology. Secular changes, on the other hand, are long-term shifts driven by fundamental transformations in technology, society, or the economy. Railways, the telegraph, transistors, the internet, artificial intelligence, and of course electricity are just a few examples. Many innovations have resulted in benefits measured by a reduction in the time to complete tasks, communicate, or travel. *Isn't it ironic that after centuries of innovations giving us more time, we seem to have less?*

In the 1950s, two agricultural extension agents from Iowa, Beal and Bolen, modeled technology adoption using five psychographic categories. Their work has become a foundational model for understanding technology adoption. This framework highlights how different groups embrace new technology at varying rates, from the trailblazing innovators to the more hesitant laggards. In case you were wondering where you might fall just think back to when you bought your first smartphone.

1. **Innovators (<5%): First smartphone before 2007**
2. **Early Adopters (15%): First smartphone before 2010**
3. **Early Majority (30%): First smartphone before 2014**
4. **Late Majority (20%): First smartphone between 2014-2018**
5. **Laggards: First smartphone in 2018 or later**

In most cases such as the dot-com era, there is often a lag between the hype surrounding new technology and profitability. Many early-stage internet companies saw skyrocketing valuations ultimately leading to the bubble's burst in 2000, well before achieving long-term sustainability.

## POLICY SPOTLIGHT

Investment portfolios can have multiple goals. Before we begin the construction of a portfolio, we often collect portfolio objectives into four broad categories.

### LIQUIDITY

**Access to funds for major outlays—taxes, home, travel, car**

### PRINCIPAL CONSERVATION

**Minimizing the risk of loss**

### INCOME

**Regular, material, and growing cash income**

### GROWTH OF PRINCIPAL

**Long-term appreciation**

We view the four goals as independent, competing, *and* complimentary. For example, an excellent way to conserve principle is to grow it prudently and a good way to create liquidity is by investing for income. We believe that regular, material, and growing dividends paid by profitable and enduring businesses can contribute to achieving all four objectives.

**The U.S. economy is cooling, and we expect storm clouds to continue to build for the rest of 2024. Excess household savings are largely depleted and delinquencies on credit cards are rising. Higher longer-term interest rates are slowing refinancing, reinvestment, and job growth. The unemployment rate is currently 4.1% which is still low but ½ a percent higher than one year ago. And, the supply of job openings per unemployed worker, which peaked at just over 2, is quickly approaching 1, an indicator that unemployment will continue to rise.**

## LOOKING FORWARD

As the economy slows, we expect weaker businesses' profit margins will suffer the most and first. Stable, growing, and enduring businesses make obvious sense in an economy under stress but importantly they have been shown to outperform on an absolute basis over an entire cycle.

## CAKE

In a comprehensive overview published in the *Journal of Portfolio Management* authors Blitz, van Vliet and Baltussen show that low-risk stocks outperform alternative factors persistently over time and across markets. The paper *The Volatility Effect Revisited* shows that the low-risk effect is a **"have your cake and eat it too"** outcome. In short, historical data reviewed in this study and replicated in others supports the conclusion that less risky stocks have produced higher long-term returns. This finding called the "low-risk effect" is robust across geographies, industries, and time, and is a key reason why we build our portfolios with a focus on stable, and relatively predictable businesses.

## SECURITY

In today's digital age, it's crucial to be vigilant against phone, email, and text scams. Scammers often impersonate trusted institutions or individuals, attempting to steal personal information, money, or access to your accounts. Always verify the identity of the sender or caller independently, avoid clicking on links or downloading attachments from unknown sources, and never share sensitive information like passwords or social security numbers. Protect yourself by staying informed and cautious.