APRICUS

04.21

CYCLICAL AND STRUCTURAL CHANGE

It's spring and the azaleas have just bloomed here, the weather is warming, and we are seeing evidence of the economy leaving its Covid dormancy. I hope that this finds you in good health and enjoying this season of growth. In this note, my goal is to balance how two types of economic change can create opportunities in our portfolios. –JC

APRICUS UPDATE

We are thrilled to welcome Jim Gibson to the Apricus Wealth family. In 2019, Jim retired as Chief Investment Officer of Valley Forge Asset Management/Sterling Advisors, an investment subsidiary of Truist Financial Corp., a Fortune 500 bank. Jim brings to us a 30-year track record as a multibillion-dollar institutional money manager, analyst, and client advisor. Jim and his wife Dina live in Pennsylvania with their dog Harley.

There is an old one-liner about a man who refuses coins at the checkout because he fears change. Over the last year, we have been presented with a great deal of change (not pennies and nickels) and I want to speak about two types of change that impact our portfolios. According to a Federal Reserve conference paper, two types of change that impact economies and markets are cyclical change and structural change and while change can be scary, it's always a two-sided coin.

Cyclical changes are temporary changes likely to revert to average levels much like seasonal changes in temperature. Historically, unemployment rates, corporate profit margins, and consumer confidence exhibit cyclical patterns around long-term averages. Structural changes are changes that are long-lived and potentially permanent much like moving from a cold city to a warm local. For example, the increase in online shopping is likely here to stay. In a 2012 paper*, researchers from the International Monetary Fund estimate that 75% of "surprise changes" (our term) in unemployment come from cyclical factors versus 25% from structural factors. **The key point here in our view is that 3/4 of economic surprises revert back to average and only 1/4 are long-lived or permanent.**

As investors, our approach is to see changes as opportunities to improve our portfolios' relative long-term performance. We do understand there will be times when the economy and markets will move in cycles but we view those periods when a return to normal is likely, such as early in 2019, as long-term opportunities. Currently, we are interested in how renewed consumer spending, cyclically high government spending, and the potential for higher inflation will impact corporate profits over the next two to five years. We are also focused on how structural changes to taxation, environmental policy, and regulation might alter the competitive position of the businesses we own.

SPRING FAVORITE

A 2005 Gallup Poll reported that of Americans

36% FAVORED SPRING

11% FAVORED WINTER

Gallup has asked this question three times in the last 75 years and spring has always topped the list.

New Evidence on Cyclical and Structural Sources of Unemployment, March 2012, Chen et al.