

## Theme Power

July 6, 2020

Stock market observers are throwing up their hands in shock as news about the coronavirus worsens and certain sectors of the stock market continue to do well. What we see in this unexpected market rally is that the leadership is dominated by those companies that benefit from the impact of the coronavirus. The longer the crisis lasts, the better these stocks are likely to perform. Strength is not just in those medical companies that are searching for a cure or a vaccine for the virus. The winners are companies that benefit from federal, state and local government reactions to the virus—a national shutdown, stay-at-home orders and a requirement to wear face masks when in public places. There are all kinds of companies that benefit from this circumstance. Many of them show up on the new high list in the Wall Street Journal. Another place to look is the list of new issues that reflect investor interest in companies that are looking to cash in on the impact of the virus. When there are many companies benefiting from a situation but are not in the same economic sectors, one can say that they are part of a “theme.” The risk to investing in such a theme can be a reversal or termination of those events having a favorable impact on individual stocks. Investors who are placing big bets on a theme must be careful about the circumstances that keep the theme attractive and the consequences that could lead to the end of that theme.

The key theme that helped our growth equity strategy to achieve extraordinary returns during the late Nineties was Y2K. For those of you who do not remember this concern: Y2K is the shorthand term for "the year 2000" commonly used to refer to a widespread computer programming shortcut that was expected to cause extensive havoc as the year changed from 1999 to 2000. Instead of allowing four digits for the year, many computer programs only allowed two digits (e.g., 99 instead of 1999). Well before the deadline of January 1, 2000 was reached, there was a flurry of related business activity to avoid the supposed meltdown. This activity led to the creation of new business enterprises in the technology sector especially in those companies that proposed solutions to the Y2K crisis. In the late Nineties, this Y2K “theme” drove many technology stocks to unheard of prices and left the rest of the market in the dust. Then, along came January 1<sup>st</sup> and nothing happened. Investors didn’t catch on to the significance of this event right away but in the next few months, as sales and earnings collapsed for many of the big tech beneficiaries of Y2K, we saw the bursting of the tech bubble that led to the stock market crash of 2000-2003 and technology stocks were the biggest losers.

Themes can have a dramatic effect on stock prices of companies that are unrelated to general market moves. The length of themes is unknown as themes can last for less than a year or up to ten years or more. The Y2K theme was unique in that it ended on a specific date. The current coronavirus theme could forever change the way we do business and lead our personal lives meaning that certain sectors could see permanent changes while others could go back to “normal” once we get a definitive solution to the virus.