

The Importance of King Consumer

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A confluence of events has contributed to the first extended bear market in stocks since 2009. The “V”-shaped market of 2020 was a short-term anomaly caused by the pandemic and the subsequent knee-jerk government response. The result has given us a record surge in inflation that we have not witnessed since the early 1980s. Throw in the government’s attempts to throttle domestic oil production and a war in the Ukraine and you have the perfect storm.

What do these events imply for the stock market going forward? An important consideration is the fact that consumer consumption accounts for roughly 70% of economic growth and events that affect their buying habits have important consequences. Take for example the invention of the smart phone and the global proliferation of that device. Do you still have a landline? Didn’t New York just finish removing the last pay phone booth? The younger generations do not even know what an old phone looks like as they have become accustomed to the smartphone and all its additional features -- not to mention the camera capabilities that have wiped out most cameras requiring film and even the once-cool digital cameras. This consumer trend alone has shifted not only how productivity should be measured but also how GDP growth should be calculated.

Another example is online grocery shopping and meal delivery via Instacart and Door Dash, respectively. The former existed before the COVID pandemic and offered only a few entities to choose from. Today, you can get goods, not just groceries, but items from the following stores: Publix, CVS, Costco, Bed Bath & Beyond, Michaels, Petco, Walgreens, Best Buy and more! Instacart even tells you how many hours you have saved by using their service. Door Dash was a lifesaver for many during the pandemic and still thrives today due to consumer demand and the desire to have a nice dinner at home without having to do all the work. Both services are not only attractive to consumers in general but to people who want to have a flexible and independent work schedule. Every time you order from one of these entities, remember that you are giving someone a job that they want to do!

The same can be said about Uber and Lyft allowing drivers to control their schedules that can fit family and other activities. These types of services have created a whole new entrepreneurial environment for many people in the lower to middle classes that had no choice but to work for minimum wage at a job that was not particularly interesting. Finally, several online services such as DocuSign and Zoom that grew exponentially during the pandemic, have forever changed the way large and small companies alike do business. Being able to track documents with a legal time stamp has reduced the need for legal representatives while conference calls held over the internet have saved corporations thousands of dollars in travel expenses.

The bottom line is that consumers adapt their behavior based upon the environment. As professional investors, we focus on identifying themes that may impact how the consumer spends money and how corporations shift business strategies to capitalize on these trends. Diversifying across our King Consumer, Productivity Enhancers and related themes has allowed us to produce above-average returns over the long-term.