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## Three Stories For A New World Order

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## Three Stories For A New World Order

*Two roads diverged in a wood and I – I took the one less traveled by, and that has made all the difference. – Robert Frost*



Mr. Frost would be taking that walk very differently in May of 2020. He would need to maintain at least 6 feet from the others on said path. In particular he would need to cover and protect himself from the ones who were taking the more traveled path. These travelers would likely be required to wear masks and have a hat on so that no one can see their **sequestration hairdo**. Thank you for the inspiration Mr. Frost – **the less traveled road has officially become the new autobahn.**

Today's intent is not to discuss two roads, but three. **Three different paths must be considered as the world begins to "gather itself."** I don't want to give the typical best case/worst case contrast, but it's necessary to some extent. We have all heard about the scary speculation surrounding future outbreaks, rolling shutdowns of the economy and absolutely massive unemployment. We've also seen the stock market show a little life with the expectation that our central bank and federal government have created the financial elixir to deliver us to victory. Somewhere in the middle is the muddle. We grind our way through until certainty can be seen through the fog with the clarity of healthcare solutions – vaccines, etc.

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W E A L T H P L A N N I N G

## **Here we go then - Three StoryLines for this new world we live in**

**Story #1 - COVID-19 continues to spread, businesses and gatherings shut down and stay that way, governmental influence wanes and money isn't really money anymore.**

Let's start with a tornado rather than a rainbow. Please stick with me as you'll see why I don't think this is our most likely outcome. Nonetheless, sometimes things do need to get worse before they can get better.

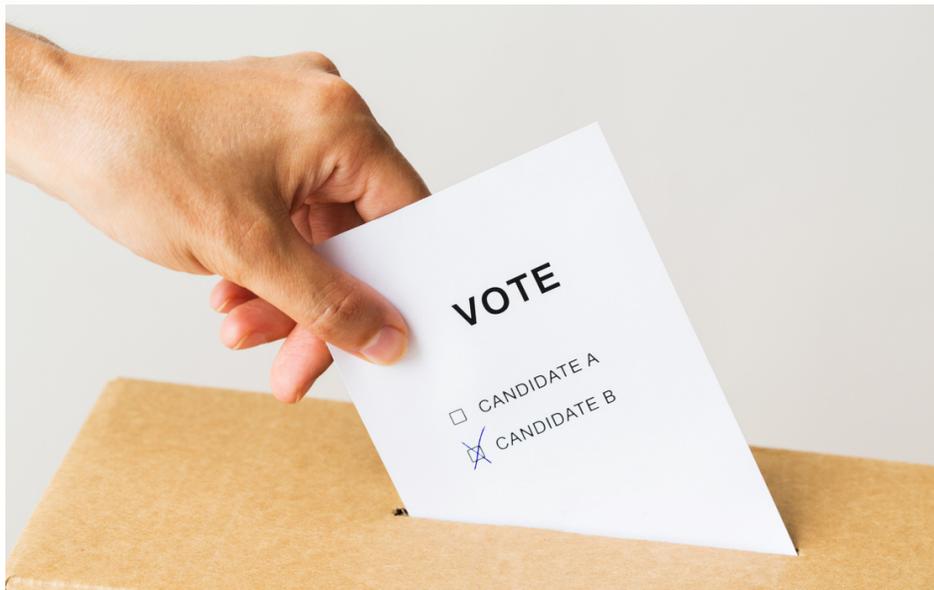
This storyline includes an uncertain healthcare solution. Barring the availability of a vaccine where people can congregate and frankly, spend money, things will be dire. We have created a service economy in the United States that depends on interaction and the social networks. If we can't go to the gym, eat out, cheer for football teams, celebrate music or go to college then we have to expect unemployment the likes of which we have never seen. If people do not have jobs, they cannot pay their rent, they cannot buy a car, they cannot support their local yoga studio and they cannot/will not create an environment where the economy can grow. The tendrils of this – landlords, banks, small business, suppliers, energy and non-profits is chilling indeed. Stock market declines of greater than 30% could occur and a potential change in the world order.

Ray Dalio has become a popular sage over the last few years. Please spend an hour and watch his video on YouTube – What coronavirus means for the global economy. A new world order is his thesis as we see a long-term debt cycle come to an end. Along with this new world order is a reset in the debts of nations, the dollar as a reserve currency and a decline in our interdependence globally. I could include some of Ray's thoughts in any of the three storylines. He describes a breakdown of money and credit, a crisis different than anything we've experienced in modern times – a depression. He also sets the stage for a great new time of innovation and collaboration. But, we will have to figure out who is going to pay these bills and if we're willing to be "good" with each other in this rebuilding.



## The Election

The pandemic has created new challenges for our November election and I'm sure you'll all agree – we don't need any more political challenges. I heard Ian Bremmer at the TD Ameritrade conference discuss the possibility of a contested election this year. Dear reader, this was long before COVID-19. This new environment is ripe for fraud, judicial challenges and potential voter suppression (if one can't vote in the traditional sense). I'm already dreading the evening news in October with political ads, insane vitriol and an overall soup of hyperbolic nonsense. My prayer is that we actually know who the President is in November of 2020.



## The End of the European Union?

“Many of the countries in the European Union entered this crisis with weak economic growth...it does not have the political will and the fiscal resources to put the stimulus package in place that is needed to maintain the economy. As a result, with Great Britain leaving the EU, we believe that the Eurozone will not be able to continue to exist in its current form and will eventually be reconstituted.” – Winthrop Capital Management.

## **Well, we can't stay in the "Storm" forever people! Let's move on to Story #2**

### **Story #2 – A muddled story of fits, starts and a new churn toward prosperity.**

The recent stock market moves up from the bottoms of a few weeks ago isn't unexpected. Bear market rallies are common and this one has been invigorated by all the government programs that seem to arrive daily. How this stimulus gets invested and, eventually, paid back will tell the market's future story.

This is from David Rosenberg –

*“But you can't run away from the facts indefinitely. Since the beginning of March, the 12-month forward consensus forecast for S&P 500 earnings has plunged 19% from around \$180 per share to \$143. Slap a 15x multiple on that and you get around 2,145 fair value in the (S&P 500) index.”*

**We are currently at 2,865 from highs around 3,300 earlier in the year.** When we buy stocks we are buying what companies are projected to earn. When we buy the market as a whole through index investments we only benefit when the price we pay is lower than the price we end up selling it for. The market won't give you a return because the economy is advancing or take away your return if it is receding. It will give you a return if these companies are expected to deliver on their mission and grow their companies in spite of the economic environment.

I say all of this to portend that we have much to work out before we can see a clear path for companies to stabilize their earnings and their work forces. This second scenario assumes that we do find a vaccine, but it's a clumsy and inefficient delivery. It also assumes that it takes most of 2020 to find footing in a socially distanced world. Rolling, not immediate, starts that allow customers into restaurants, gyms, sporting arenas and casinos are likely in this scene.

My friend Greg Hahn from Winthrop Capital says –

*“Our base case is 45-60 days in quarantine and a 3x multiplier to move into economic recovery. For every day we are shut down it takes three days to recover. That takes us to the end of August. We think we will figure out gatherings with an “assumption of risk” type of liability.”*

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## Story #2 - Continued

I think August is optimistic depending on what you define as quarantine. I'm picturing the YMCA in August. Will anyone be willing to do a group exercise class? Will they want to renew or restart their membership when their access will be limited? How can we socially distance when we're sweating, **gasping (in my case)** and using community bathrooms? Tricky, for certain.

So what you eventually see in this scenario is good news on a weekend and the market's rally. This is followed by a bad weekend or overnight crisis and these gains are given back. This investment story includes a resurgence of quality active stock management. Those with the expertise to find value, good pricing and stable businesses might be more rewarding to investors than the passive style of investing we have enjoyed over the last ten years.



## Story #3 - We get better and we get back to it!

I was at a cocktail party in December of 2008. I had just left Wells Fargo's Private Bank and was working for Smith Barney, soon to be Morgan Stanley. A local entrepreneur was discussing how his business was suffering with the economy and stock market malaise. I'll never forget what he said near the end of our conversation. *"It's bad, Matt, and I don't see any way that it will EVER get better."* That, my friends, is the feeling that usually accompanies the end of a bear market – **hopelessness.**

## Story #3 - Continued

In our final story, we get through this with great hope for the future. The bear market ends quickly, a vaccine shows promise and we all can get back to work in new ways. **This will also set the stage for what could be a really cool era of innovation.** Capitalizing on new ways to work and interact will be rewarded handsomely.

JPMorgan's upside case includes – “Growth and investor sentiment rebound strongly and yet central banks prove willing and able to hold down bond yields, increasing the relative attractiveness of risk assets...a much quicker rebound in confidence and hence a quick recover back to pre-virus levels.”

## Sounds Good - Let's raise a glass to Story #3

This is my opinion on the **probability of the three scenarios**. Not a forecast, but an educated opinion on how this might play out:

**Story #1 – The Tornado of Suck - 15%**

**Story #2 – The Muddle Through – 60%**

**Story #3 – Oh Happy Day - 25%**

Things rarely play out as expected, but having studied prior bear markets and absorbing the intellectual content of my peers and mentors causes me to believe we are in for a grind. Once things have been reset, we move on to a great period of technological and educational growth. But first, we might feel like my friend at the cocktail party. **Don't stay there – things can and will get better.**



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W E A L T H P L A N N I N G

## Two Questions

**#1 - How do we invest given these three stories?**

**#2 - How do we manage our financial plans in the new world?**

### 1. How do we invest?

**Cash** - overweight or neutral. It's imperative to have cash reserves of safe money to live on if retired and for emergencies if not. Building this safety bucket with thoughtfulness will be incredibly important.

**Stocks** – Quality and Defensive – think good value companies like Warren Buffett owns. Google and Microsoft are practically utilities now and utilities tend to hold up well. Think of things that we need like Campbell's Soup – recession proof companies that have survived other difficult periods. If Story #3 starts to play out then less defensive positioning will make sense. Maintain an underweight to international and emerging stocks.

**Bonds** – Zero percent interest rates and the end of a long term bull market will make this a market that requires active management and a persistent eye on diversification. All the money going into the system makes one wonder if inflation is possible when we recover. This would bode well for inflation protected securities.

**Gold** – this is everyone's new golden child – pun very much intended! Gold did well in 2009 as the crisis receded. We will keep our eye on gold and hold the positions that we already own. It doesn't produce cash or interest like a stock or bond, so a disciplined sell process is important.

**Other Stuff** – managers who can hedge effectively will be interesting. Those using options wisely may also likely perform well.



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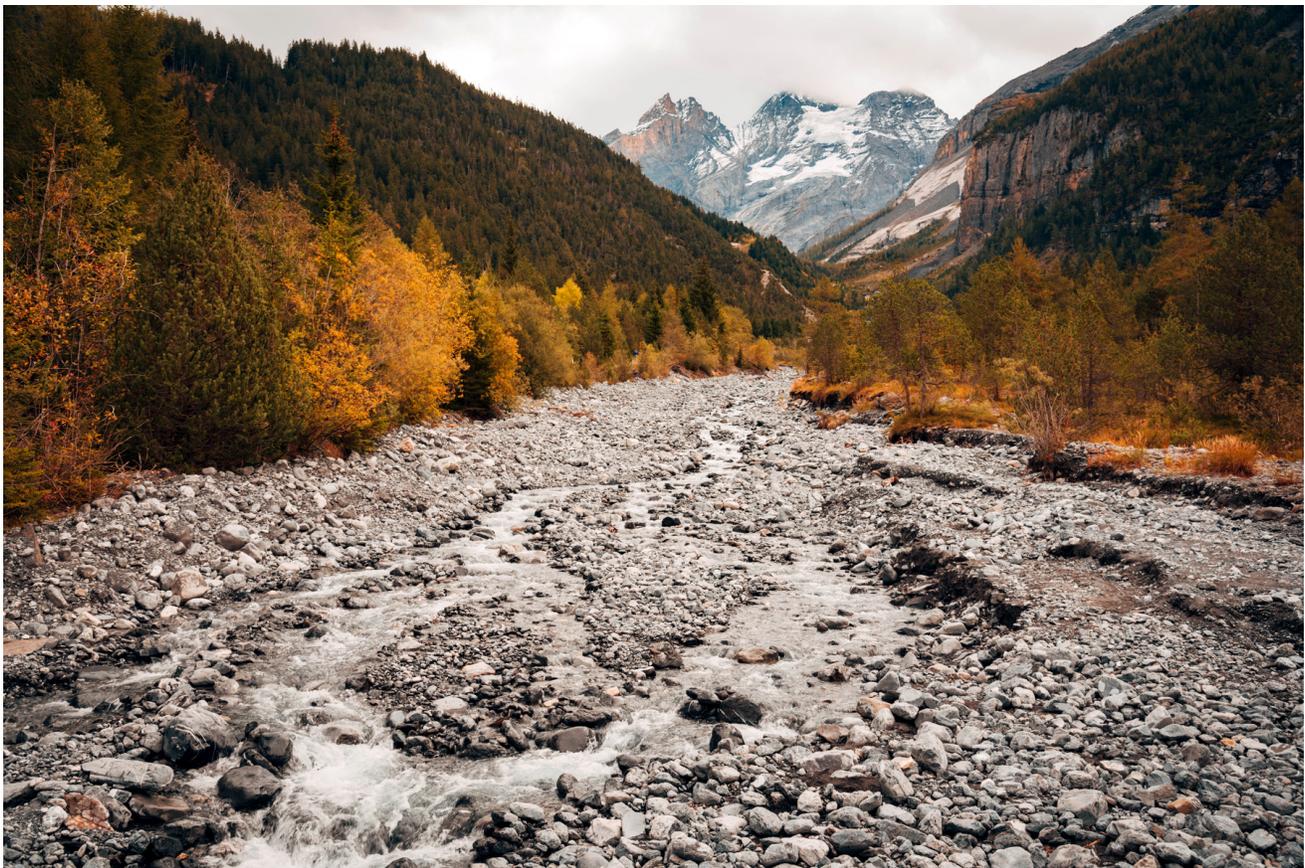
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## 2. How do we plan?

Tax planning is vital right now and implementing that tax plan into retirement cash flow and non-retirement cash flow planning will be helpful. PrairieFire is taking an active role in our client's tax planning as it pertains to today and tomorrow.

Roth conversion is something everyone should examine. I am witnessing required minimum distributions adding a sometimes severe tax burden to clients in retirement. Proactive planning in coordination with asset location (having the right stuff in the right account) can be highly advantageous.

If you haven't taken advantage of the life planning services we offer at PrairieFire there has not been a better time than now. Examining your philosophy, your "return on life" and how future transitions might impact your life is time well spent.



## Talk about that Daddy!



When Matthew Jr. was a tot, he would bring me an obscure piece of literature. (*No comments on the hair please!*) It could be John Deere catalogs, a helicopter construction magazine, or Rolling Stone. He would pile onto my lap and proclaim – **“Talk about that Daddy!”** He just wanted me to talk about what we were seeing. What we were seeing together.

Together we are seeing a scary virus, terrible death statistics and an economy on the brink. We are also seeing first responders risk their lives for their community. We are seeing brave leaders guide from their head and their heart. A quiet unity is forming in parts of the country. Looking at this picture book, all of us could tell each other a different story. I choose to tell a story that holds onto reality, but also grasps onto a future hope. **Please join me – be safe, be safe, be careful, be careful and be ready to enjoy a new day.**

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