Founder's Corner

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WEALTH MANAGEMENT

As Covid Cases Rise and Elections Approach, Stay Focused on the Long Term

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Over recent days, markets have been rattled by a rise in Covid-19 cases, and the uncertainty surrounding next Tuesday's election has many investors worried. Depending on the election outcome, we could see considerable volatility due to potential shifts in fiscal policy. In these very difficult and uncertain times, I encourage investors to maintain long-term perspective.

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Often during this eventful year, I have been reminded of how innovative humankind can be in the face of challenges. Yesterday, U.S. GDP data was released: For the third quarter, the U.S. economy demonstrated its resilience by growing 7.4%, which represents an annualized rate of 33.1%. Companies and countries around the world are adapting to new norms. Vaccine development is proceeding at a pace never before seen in history. We owe a debt of gratitude to all involved in these efforts as well as to those who have been on the frontlines of the pandemic.

From an investment standpoint, we are in a market that favors bottom-up security selection, guided by rigorous fundamental research and an understanding of the thematic forces shaping the world. While the economic rebound we've seen so far is encouraging, many companies—both large and small—continue to struggle through a solvency stage that could be quite lengthy. Although consumers overall are holding up well and have healthy balance sheets, many households are still under a great deal of pressure.

Fiscal policy is a key driver of economic conditions and the specific opportunities in the market. We are prepared for fiscal policy uncertainty to result in volatility, market rotation and leadership shifts in the wake of the election. Regardless of the election's outcome, it is my fervent hope that we see solution-focused dialogue that results in appropriate fiscal policy and regulation levels for the months and years to come.

For investors, my advice is:

1. **Do not try to time these markets.** There is too much short-term uncertainty, especially because election results may not be immediately known. There is a very real risk of being whipsawed—selling on the downturn and then missing the rally.

2. **Stay diversified.** This year, a handful of stocks have dominated market returns—and investor interest. "Crowded trades" can create added risks because if sentiment shifts, there's a rush to the door. In other words, "safety in numbers" does not apply. It's important to maintain a well-diversified asset allocation, including areas of the market that may be relatively less followed, such as international equities.

3. **Favor active, experienced managers who can use volatility to their advantage.** In the wake of the pandemic, some companies have been able to adapt more readily, while others face an uphill climb as they adjust to the new normal. Additionally, the political environment sets the stage for many different scenarios about which sectors and businesses will enjoy the strongest tailwinds. Active managers can benefit from a selective approach that can adjust to changing situations. Also, for the active manager, the flipside of volatility is opportunity.

4. **Remember that risks cannot be avoided, but they can be managed.** Before I founded Calamos Investments, I served in the United States Air Force, as a combat pilot during the Vietnam War. That experience taught me about the importance of being prepared for many outcomes and staying calm under pressure. These are lessons that I've also applied as an investor. Our investment organization has decades of experience navigating challenging market environments. We work together and use time-tested processes and rigorous fundamental research to make sure that we are avoiding unintended risks and are well compensated for the risks we choose to undertake. We don't make decisions based on emotion. Instead, we rely on discipline and fundamental research.

5. **Don't hesitate to contact your wealth advisory team.** Another lesson I learned in the military is that teams are key to success. If market headlines or events in the world are keeping you up at night, you don't need to go it alone. Our advisors and advisory team are always available to provide our clients with guidance, no matter the circumstances.

Conclusion

With more volatility on the horizon, investors are likely to have many questions about their asset allocations over these coming weeks. Please check back to our website (wm.calamos.com) often for new resources and thought leadership about the markets.

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