



**Kevin O'Leary**

## Managing Through Adversity

Kevin O'Leary, Mr. Wonderful from TV's "Shark Tank" program, and his business partner Connor O'Brien addressed NAIFA's Leadership Day and spoke about the ways COVID-19 is changing business and investment strategies, and how company leadership is crucial during a crisis and at normal times.

## Reasons for Optimism

The SARS epidemic 11 years ago partially prepared the markets for the COVID-19 outbreak, according to O'Leary and O'Brien.

"It was a difficult one, it caused a lot of grief as well. Not as much economic turmoil, but certainly loss of life," O'Leary said. "But since then, there's probably been a five-fold increase in biotechnology and the ability to use artificial intelligence and other elements of science to advance therapeutic research. And of courses there's the seeking of a vaccine."

World indexes follow the optimism or lack thereof on news coming out of New York, in what O'Leary labeled "the Cuomo index." The situation in New York is improving, which raises optimism across the markets.

The government's Paycheck Protection Program also altered the landscape. Before the PPP, most CEOs of consumer goods and services companies looked to furlough 50% or ask for 50% salary cuts from employees, O'Leary said. The PPP changed that. "Everyone stops right thereover the weekend and says, 'Wait a minute. Whole new deal. We're not firing anybody.'"

Companies found that they were not getting PPP money immediately, but had the same cost of doing business with no revenue. They needed cash to pay employees and comply with the terms of the PPP. Many small businesses stopped paying rent.

Separately, all kinds of businesses were forced to operate remotely. Some companies have had the best quarters they've ever had – sanitation products, home office supplies, office furniture, etc. "We're doing this without any office space and without any retail space," O'Leary said.

O'Leary said he holds stakes in 51 companies, and in those companies "we think we can reduce our need for commercial office by about 20 to 25% and drive an additional 7% free cashflow into the portfolio."

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This is good for the market, but is likely to have negative implications for commercial real estate and real estate investment trusts.

The COVID-19 crisis and response increase the risk of inflation a few years out, he added. "So if you're going to buy long-duration assets, including real estate and utilities and government bonds, for that matter, you're taking on huge risk."

"But a little bit of inflation is actually a very tasty item in an economy if you own a great company that has pricing power," he said. "You've got that growth, you've got pricing power, you can expand margin, sometimes. So it's a very interesting time."

"So I think of the old adage of 50/50, fixed income and equity, I'm not signing up for that anymore. That used to be my portfolio. I'm moving to 70% equities now. I've sold all my government bonds and I've taken my real estate exposure from over 30% down to 8 and that's quite a big change for me."

But overall, there is a case to be made for optimism.

"I think we're going to come out of this in pretty good shape with some sectoral shifts in asset allocation," he said.

"We are conservative investors," O'Brien added. "Capital preservation and generating and building income are important."

## How Advisors Can Lead During COVID-19

"I don't hire advisors for performance, I hire advisors for preservation of wealth to force diversification," O'Leary said. This strategy applies to many people over age 50.

Advisors need to help clients find opportunities but avoid rash decisions.

"In the retracement back up, whether it takes two years or it takes a year, or in this case a few months, the majority of the returns come on a handful of days," O'Leary said. "If you're not participating in a day where you're going up 8% you will never get that back. Trying to time the market when it's volatile is a huge mistake, which many people generally do once. And they realize how much they left on the table trying to do it and they never do it again."

The role of the advisor is to calm investors and prepare them to accept volatility. Clients are looking for a game plan, O'Brien added.

O'Leary also suggests speaking to clients about asset allocation on the preservation side. It can be a tough conversation because bonds have been good for so long, but inflation will hurt bonds. He believes the greatest strength is in high-quality equities with strong dividends.

## Company Leadership

"Great leadership is about pivot," O'Leary said. "It's about, 'Okay, I didn't see that coming, but here's what I'm going to do about it.'"

The COVID-19 outbreak requires many businesses to completely reorganize and adapt. Great leaders make it possible. Pivoting, as a leader of a company, also includes placing employees into different roles to adjust to the new business landscape.

For example, he said that in many of his companies they "were able to redeploy the employees to do other things toward selling direct to consumers, doing social media campaigns, and working on fulfillment logistics."

Finally, great leaders tell the truth, O'Leary said. They are optimistic, but they don't offer phony optimism. Leadership, especially during COVID-19, requires them to explain the good and the bad, because people understand there's a lot that's bad.

Great leaders also understand priorities.

"If you're the owner, you're last on the list," O'Leary said. "Customers first, employees second, and you're last. That's the way it always should be."