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"What do we know? That we'll get through it. We'll learn a lot and it will be hard but we'll get through, just like all of the last times."

Peggy Noonan, Wall St. Journal, 4/4/20

Dear Friends,

We don't know about you, but this sheltering in place business (any place that is except for the office where we have all the associates and tools we need to do the job we aspire to do) is getting a bit stale. Then there are the social issues associated with working from home such as your writer's spouse who was heard to mutter this week, "I married you for better or worse but not for lunch." Now she is stuck with me for all three. We forecast a bull market in marriage counseling for the second half of the year.

The End of the Beginning

It is a bit hard to imagine that the Dow traded at 29,568 on 2/12, just over sixty days ago. A month later the index hit 18,214, a decline of 11,354 Dow points. Literally one for the record books. The triggers? Three factors are clear, two of which could not be easily foreseen (can you say pandemic?), an ocean of oil with nowhere to go, and a stock market that was the most expensive in relation to earnings for nearly twenty years (see our January 2020 client letter on our website for this assessment). Not a good mix.

The subsequent March decline (-38%) is certainly worthy of the moniker: Bear Market. Next up? A fifteen-day April rally covering nearly 5,800 Dow points or +31%: aka, a Bull Market. Please pass the Dramamine. At this writing we have settled down at 23,538 on the Dow, a pullback from about a week ago of roughly 2%. If you enjoy volatility, this is your game.

Can we make any sense of this? As long as we are permitted to use 20/20 hindsight, the answer is a guarded *yes*. The month-long down leg probably correlates to money simply leaving stocks that were not in what we will call natural hands (aka long-term committed owners). In recent years risk averse investors gravitated to stocks simply because 2% on a five-year bond did not get the job done. But those participants were likely never fully comfortable. We assume they are gone. Another subset can be called the *action crowd*. When the largest stock by market capitalization in the world (Apple) doubles in just over a year, how can you rationalize not participating? Easy money! Finally, there are the day traders which can be large institutions boasting mathematical models, programmed computers and just plain folks with a penchant for risk. Many if not most owned stocks on margin. The blood of all three of the above speculators was flowing in the streets by late March. The stock they owned more than likely gravitated into the hands of deep-pocketed long-term investors at *bargain* prices. The forces described above lead to our byline *The End of the Beginning*, in other words, the first in a series of steps in the process of de-risking.

Next up? A rally, often very sharp and very short. Quite exciting and likely to induce traders who were glad to get out to start to worry about having sold on the bottom and now being left behind. Large price changes now come about on less volume than in the decline as above. After that? Expect time and a good deal of choppy sideways activity. Healing of an economy and for deflated pocketbooks takes time. Post the 2008-09 bear market only modest progress was made until after *August* of 2010.

What we have described in the foregoing is simply human nature coupled with stock market dynamics. What about COVID-19… the coronavirus… aka the pandemic? Uncharted waters. The *best* we can do in this department was contained in the last paragraph of our April 1 letter to you and referred to what we termed as *aspirational predictions*.

> "Before we write to you again, we hope to see a breakthrough in one or more of the following: testing, a constructive announcement out of Gilead on the efficacy of their product Remdesivir, or at minimum, that the curve is beginning to bend on the rate of new diagnoses."

A trifecta! All three developments have at least in part come about. Testing is more widespread and new antibody tests are under development: a potential big win for humankind and an opening of the door for the slow process of healing to commence. Remdesivir showed evidence of improving outcomes for sufferers, and the most impacted regions are beginning to experience a bending of the curve. If you will, *The End of the Beginning*. (With emphasis on beginning.) Much damage has been done and clearly it is not over yet. Vast amounts of money are being used like Bactine in hopes of preventing further infections in forms <u>other than</u> COVID-19. The ultimate road to normalcy runs through world-scale vaccinations, no small undertaking. In the interim (a year for the vaccine?) identifying those who now hopefully have developed an immunity to the virus should also help to grease the wheels to get the world's economy moving again.

But make no mistake, this will be a slog undoubtedly producing disappointment along the way. The businesses we own are highly motivated to do the best job possible for their customers, clients, and employees. That happens to be a dandy shareholder proposition as well. We expect setbacks along the way, have great concerns about the amount of debt that is being incurred, and recognize that we will all experience doubt and discomfort along the way.

In closing we ask that you go back to the quote from the Wall Street Journal's Peggy Noonan with which we began this note. Peggy is onto something. Something important.

Stay well. Stay safe.

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