



April 30, 2020

“Adopt the pace of nature: her secret is patience.”

Ralph Waldo Emerson

Dear Friends,

It is amazing how fast sentiment can change. It has been a short six weeks since domestic stock markets hit their bear market lows. While there have been hopeful developments around therapeutics (more positive data yesterday on Gilead’s Remdesivir) and a bent curve, the indiscriminate force that is COVID-19 soldiers on. For now. Through yesterday’s close the S&P 500 and Dow Jones Industrial Average, while still down over 13% and 16% from their February highs, have bounced 34-35% from their intraday lows on March 23. Steve passed along a soundbite heard on CNBC yesterday that if the markets hold up through today’s close, April will have been the best month for stocks since 1974, which at that time were coming out of a bear market that ran for over *two years* as opposed to less than *two months*. Huh?

We know the market is forward looking, but give us a break! I haven’t felt whiplash like this since the summer of 1995 when my ’88 Oldsmobile Cutlass was hit by an elderly priest with questionable eyesight and worse depth perception. Within two weeks we’ve gone from fretting on behalf of our clients over myriad truly dire scenarios to regretting having not bought more stocks than we did. And, to be clear, we felt like we were on a pretty good pace of buying. Subject to having available cash, the list included Cisco Systems, Berkshire Hathaway, Albemarle, and, most recently, United Parcel Service. We’ll save discussion of earlier, pre-shutdown purchases ViacomCBS and Delta Airlines for another time (when they’re hopefully working better).

Whiplash and FOMO (fear of missing out) aside, we now have to think about what comes next given this *exceptionally* sharp bounce. Valuation levels, in many cases, are no longer on the bargain rack. For the moment we find ourselves thinking about whether we should be trimming a stock or two. An alternative is selling call options to generate cash flow and set up potential sales at higher prices. But many stocks are still far from their highs. As a result, we have a shopping list and some targets in mind, but we expect the rate of additions to slow. As always, the battle will be fought one stock at a time.

Though we do not believe we will revisit the March lows, patience will be required. Potential pitfalls? The most obvious is that despite the hopeful developments, the damage to the economy has been widespread and will require time to mend. The ramifications are fluid and evolving. We are just into earnings season for the first quarter. Companies are recalling their guidance for the full year. We expect the second quarter will be truly awful and there is serious debate about the rate of improvement thereafter. While there is a lot of talk right now about loosening restrictions and re-opening the economy, the pace will still be largely dictated by the course of the virus. Not the president. Not governors.

While we wade through this together, we intend to channel Emerson and encourage you to do the same...take your cues from the pace of nature and embrace patience as a virtue. If you have other thoughts, please pass them along. We’ll take all the help we can get.

Stay healthy!

Steven N. Spence
Senior Vice President
Senior Portfolio Manager
Financial Advisor

Marcia M. Hull
Senior Vice President
Senior Portfolio Manager
Financial Advisor

Christopher P. Klavins
Senior Vice President
Senior Portfolio Manager
Financial Advisor