



March 18, 2020

“Work the Problem People”

Flight Director Gene Kranz, Apollo 13 Rescue

Dear Friends,

It is becoming increasingly obvious to all that the current sharp sell-off is not your run-of-the-mill cyclic event. We try and remember that among our primary responsibilities to you is communicating: early and often. Longer Letters and hard copy do not facilitate the process. Frankly, nor does relying exclusively on the telephone one-on-one. For the next six to eight weeks we plan on getting a note off to you about every two weeks largely driven by events and opportunities worth commenting upon.

When I was in college about 52 years ago (scary) there was a great publisher who produced summaries for us lazy students called *Cliff's Notes*. They could take the world's best novels and boil them down into about 50 pages. Not sufficient to get an “A” in the course but at least you had a shot at a “B-.” Herewith follows our version of Cliff's Notes and it applies to a wonderful editorial the Wall Street Journal did on Tuesday, 3/17 entitled *Financing an Economic Shutdown*. The editorial addressed the reality that the current malaise is not like '08-'09. This is not a banking crisis. This is a health crisis and different solutions are called for if they are to be effective. Herewith follows some keen insights from the Journal's editorial.

“Well, that didn't work. The Federal Reserve on Sunday went all in with its 2008 bag of monetary tricks and financial markets continued their stampede like frightened cattle. Someone has to turn the herd and that will take new tools and better leadership.... You can't close a modern economy for months, or however long it takes to control the virus spread and not have thought about how to keep companies and individuals liquid and solvent.

The Fed is deploying its tools from 2008, but this isn't a bank solvency panic... this is a liquidity panic over how huge chunks of the US economy will stay afloat while American commerce essentially stops. You can't tell everyone to stay home for 8 or 16 weeks, except to shop for groceries, and expect businesses to resume in July where they were in March... Policy makers need new tools to deal with this black-swan event. The best way to do this is by government lending to stop the liquidity panic from becoming a solvency crash... The Fed can create a new facility that could lend to companies hit by the economic shutdown not merely banks and financial institutions.

Borrowers would have to present good collateral... and have been solvent before the viral panic took hold...The Fed needs the permission of the Treasury Secretary under 13(3) to do this, but presumably Steven Mnuchin would approve... We don't like this temporary government role in commerce, but then state and federal governments are essentially ordering the economy to close.

Ideally the Treasury would present it to the public in a way that also offers more financial relief for individuals whose income may also fall as the economy closes. Our preference would be a tax cut rather than more spending or tax rebates that may not get to people for months... All of this will take more vigorous leadership and explanation than we've seen so far from the Fed, the Treasury, the White House or Congress... .”

We agree. When quality companies, especially banks (as a proxy for the economy) are selling as low as 4x *currently* estimated earnings and sporting 8% dividends it is fair to assume that the markets see much of what has transpired from our elected and appointed representatives as wanting. One of our challenges on your behalf is that by the time the Journal's views are put into motion, it will likely be too late to unpack the dry powder we are still holding and put it to work. Individual stocks could open up 10% or more from the prior night's close, better than a full year's average return in the markets. With the broad market averages already being down over 30%, the best solution by our experience is to take a gradualist approach and spend a portion of the cash reserves (generally held in the form of very short term CDs) on what we believe to be among the best opportunities out there.

There is a rule in physics which says that for every action there is an equal but opposite reaction. We believe the same concept applies at least in part to investing. There is no need to speculate. The designer originals have shown up at Nordstrom Rack. We just want to hold back some funds so that we can visit the store frequently and still have the resources to scoop up more bargains. Keep the faith! Back to you shortly.

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