

To our Business Partners:

- **A PERFECT STORM.** Over the last seven trading days of February the markets went from registering all-time highs to declines of 10% or more. Upsetting the markets has been the coronavirus which originated in China and has now spread to other parts of the world. While it's a very serious matter and the full ramifications are unknown, it will have a real economic effect. It has already disrupted the supply chains of many companies and will no doubt be reflected in weaker corporate earnings down the road.

The spread of coronavirus has been more a catalyst than a cause. The reason why it has created such a major impact on the markets has been the overall level of the market itself. The markets have been, in our opinion, significantly overvalued for months. Some would say "priced for perfection," with no margin for error. When valuations reach extreme levels, negative surprises sometimes have a way of appearing out of nowhere and usually have a significant impact.

As we write this, "Mr. Market" is displaying his usual schizophrenic behavior, with huge day-to-day swings in the popular stock market averages. The full extent and duration of the coronavirus is unknown and unknowable (just like the economy!), but the disease will eventually run its course; the economy will complete its cycle, as usual. Still, we try not to waste time or brain cells analyzing the big picture. As an investment pro said many years ago, "Ours not to reason why; ours but to sell and buy." *

Our approach to investing has not changed one iota. We "sell and buy" based on a rational analysis of the economics of individual businesses, seeking quality, financially sound companies that are trading at reasonable valuations which offer the prospect of satisfactory future returns. As always, the relationship between price and value is the basis for our decisions. Because we raised cash by scaling out of overvalued stocks while prices rose, there are now buying reserves which we will commit – gradually – when prices are attractive.

**This is a play on a line from Tennyson's 1854 poem, "The Charge of the Light Brigade" – "... Theirs not to reason why, theirs but to do and die ..."*

- **VALUATION.** Valuations of many stocks we follow have improved, as prices have dropped further below conservative estimates of intrinsic worth. We're adding to some you already own and have initiated positions in a couple new companies. The weighted average price-to-value of our portfolio group** is down to around 76%, which indicates better long-term upside potential.
- **RECENT RESULTS.** Stocks continued to decline in February, as the threat of the coronavirus gripped markets in the late days of the month. Indexes were down from 6-10%, with the Dow Jones suffering the largest decline and the NASDAQ Composite registering the smallest loss. Looking at the latest twelve months, only the large company indexes have positive returns. Small and medium sized companies continue to get clobbered, with declines of 6-10%, while the "average" stock of those traded on the New York Stock Exchange has declined over 7%. Over the last twelve months our group of portfolio stocks** compare favorably to most of the indexes, behind only the NASDAQ and the S&P.

Steve Nichols, CFA

Bill Warnke, CFA

**The group of "portfolio stocks" -- our Equity Composite for the purpose of evaluating investment performance -- consists of 19 stocks that are held in our clients' accounts. Portfolios might hold some or all of these stocks, depending on investment guidelines unique to each client, the timing of purchases and sales, and start dates of accounts. The performance of this group of stocks is a good proxy for our equity performance but might vary widely among accounts. Of course, past performance is not necessarily indicative of future results.

We hereby offer to deliver to you without charge a copy of our current Form ADV Part 2, in accordance with the U.S. Securities and Exchange Commission's "Brochure Rule." Please contact us if you would like us to send you a copy.