



PORTFOLIO NOTES

JULY 2020

To our Business Partners:

- **"CLIENT RELATIONSHIP SUMMARY (CRS)."** As of June 30, investment advisers and broker-dealers registered with the SEC are required to prepare and deliver a client relationship summary (Form CRS) that provides information about investment-related services and fees. Its purpose is to reduce confusion for "retail" investors (people who receive services primarily for personal, family, or household purposes), and assist them when deciding whether to (1) establish an investment advisory relationship, (2) engage a particular firm or individual, or (3) terminate or switch a relationship or service. While we think it's a rehash of what we already file with the SEC in ADV Forms 1 and 2, the Commission emphasizes that Form CRS (ADV Part 3) would be an important tool for clients and prospects to compare investment services.

The SEC demands a strict plain-English format, limited to two concise pages. Points of emphasis are the services provided, the costs of managing your money, the fiduciary responsibility to "act in your best interests," and any possible conflicts of interest. On the latter point, it's important to note that our interests are directly aligned with yours in two ways: (1) as your account values rise over time, the static annual percentage management fee results in rising fee revenue for us and, (2) the Warnke and Nichols families' retirement and savings money is invested in exactly the same securities as you. We believe very strongly in the investment philosophy and process!

Form CRS is enclosed or attached to this memo as instructed by the SEC, and we're also required to direct you to www.investor.gov/crs for adviser research tools and more information on our firm. Search for "Warnke/Nichols Ltd." or CRD (Central Registration Depository) #112181.

As a parting shot, on an investment note, we continue to fret about the huge disconnect in the marketplace between sky-high stock prices/valuations and depressed company profits. There'll be more on that later.

- **NEW WEBSITE!** We have completely revamped our website. Please navigate to www.warnkenichols.com to check it out. We welcome your feedback. One tweak will be the eventual addition of photos of your two writers once we work up the courage to pose.
- **VALUATION.** Not much has changed in the last month, as our group* sells at around 71% of value. We'll continue to tiptoe into the cheapest companies when prices weaken. Why, you might ask, don't we hold more tech (see below)? Because they're grossly over-priced and over-owned, which will lead to poor future investment returns, in our analysis.
- **RECENT RESULTS.** Stocks had mostly modest gains in June, with gains in the 1-3% range. The NASDAQ Composite continued as an outlier, registering a gain of 6%, as "investors" continue to pile into a small group of technology stocks. For the first six months of the year, all indexes, except for the NASDAQ, have produced losses within a broad range of down 4% in large-cap to down 18% in small-cap stocks. Over the last twelve months, the picture is much the same. While the S&P and are up year-over-year, small company stocks are still down 8-12%. Our group of portfolio stocks* has performed in line with the broader market but trails the tech-heavy NASDAQ and S&P 500.

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.

Investing with a margin of safety.™