

Market Crises and Strategic Opportunities

During the 2008 Financial Crisis, former Chief of Staff to President Obama Rahm Emanuel said that “You never want a serious crisis to go to waste.”¹ We think the same is applicable to our portfolios. Selling hopefully reached a crescendo this week with stocks suffering their fifth worst daily loss since 1926 on Thursday (see charts on page 2).² Even safe-haven assets such as U.S. Treasuries and gold sold off, as there was a flight for liquidity.

The selling was indiscriminate with even the highest quality companies, businesses that are unlikely to face much long-term disruption (such as Microsoft) declining close to 10%.³ While markets tend to be forward looking, we think one reason for the severity of this selloff is that the forward outlook is so uncertain. That uncertainty would dramatically improve with a coordinated federal response. With fiscal stimulus, improvements in health care availability and Covid-19 testing, along with aggressive monetary easing by the Federal Reserve, we think markets will rebound on an improved outlook that anticipates (1) containment of the viral spread, (2) additional liquidity to support credit markets and (3) protections for susceptible businesses and employees from financial hardship. We do not know where the bottom is, but we suspect it is close as the increasing number of infected Americans and market distress will force policymakers to put aside partisan differences and act.

As investors, the key question is what to do now. Now is an opportune time to review portfolios with a fresh set of eyes and assess what to own as if we started with fresh capital today. In many instances our portfolios would likely look the same. However, there may be some cases where companies we own have dramatically changed outlooks compared to just last month, and the capital could be better deployed to firms whose stocks now trade at an extreme discount to recent valuations.

While many stocks may be down 25% or more, it is unlikely the long-term outlooks for the underlying businesses are 25% worse. Many companies with solid growth outlooks for their goods or services, a history of delivering solid financial results and whose balance sheets have limited debt are now trading at levels with attractive long-term entry prices. The only positive aspect of this sell-off is that it may give investors with long time horizons an opportunity to allocate capital to quality firms at a discount. Eventually, the virus will be contained and with the right fiscal and monetary measures in place, the economy should avoid a prolonged recession and widespread company defaults. We don't think this is a time to take on aggressive risk, but we do think valuations have declined enough to warrant a fresh look at the investment landscape and which companies offer investors the best upside with the least amount of risk.

We created a list of firms in which we would consider initiating long-term investments. We plan to make it available to you upon finalization. If you would like to review your portfolio with us, please do not hesitate to reach out. In the U.S. stock market's history, every major selloff has eventually created longer-term opportunities. We don't think this time will be any different.

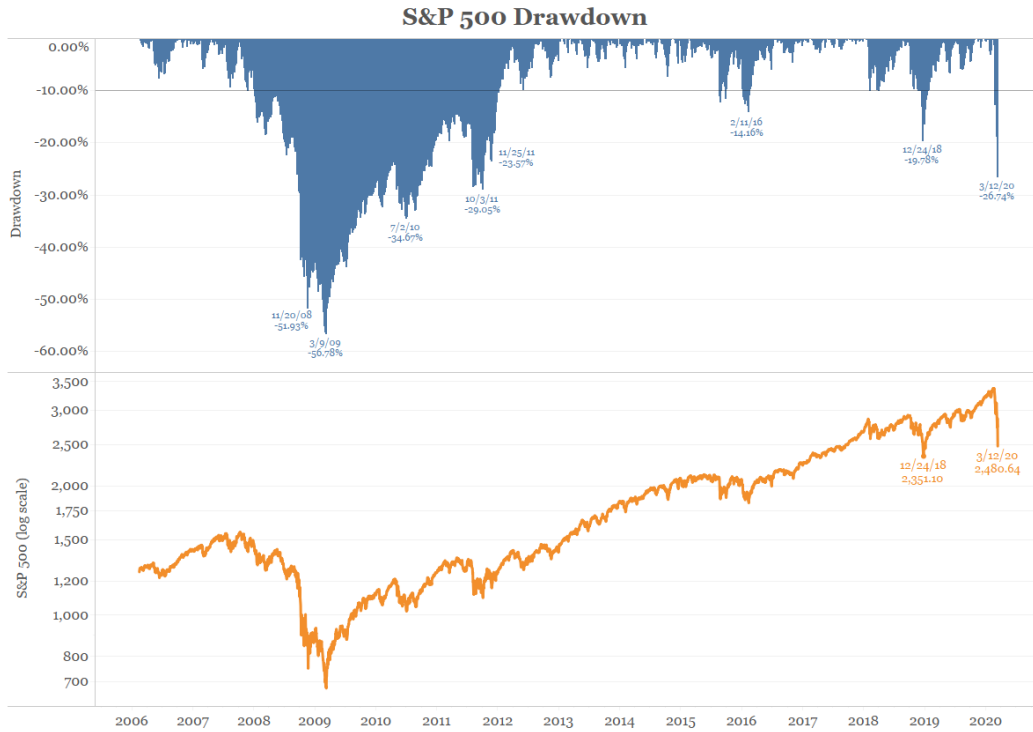
Sincerely,

A handwritten signature in black ink, appearing to be 'Peter Karmin'.

Peter Karmin
Managing Member

A handwritten signature in black ink, appearing to be 'Stuart Loren'.

Stuart Loren
Director



Source: Bloomberg

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Biggest % Losses Since 1926			
Rank	Date	S&P 500	% Change
1	10/19/1987	224.84	-20.47%
2	10/28/1929	22.74	-12.94%
3	10/29/1929	20.43	-10.16%
4	11/6/1929	20.61	-9.92%
5	3/12/2020	2480.64	-9.51%
6	10/18/1937	10.76	-9.12%
7	10/5/1931	8.82	-9.07%
8	10/15/2008	907.84	-9.03%
9	12/1/2008	816.21	-8.93%
10	7/20/1933	10.57	-8.88%
11	9/29/2008	1106.39	-8.79%
12	7/21/1933	9.65	-8.70%
13	10/10/1932	6.42	-8.55%
14	10/26/1987	227.67	-8.28%
15	10/5/1932	7.39	-8.20%
16	8/12/1932	7	-8.02%
17	7/26/1934	8.36	-7.83%
18	6/16/1930	20.56	-7.64%
19	10/9/2008	909.92	-7.62%
20	3/9/2020	2746.56	-7.60%

Citations and Disclosures

¹ The Wall Street Journal, *In Crisis, Opportunity for Obama* (Nov. 21, 2008).

² Bianco Research (March 13, 2020).

³ Bloomberg (March 13, 2020). All market data in this letter is from Bloomberg unless otherwise cited.

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