



July 8, 2020

Dear Money Management Client:

Quite frankly, we have only seen one other stock market with a worse risk/reward profile than today's. Seasoned investors will find great similarities with today's massive outperformance of "Cloud" stocks and the "Dot-Com" tech bubble of 1999. All the accommodative bond buying efforts of the Federal Reserve, and massive fiscal initiatives from the government are fueling a liquidity inspired exuberance in stocks that benefit from a COVID-19 lockdown and/or the "Cloud." It is impossible to predict when this over-valuation will end, but if history is any guide, there will be a 60 to 80% correction in many of those stocks at some point.

Without a really good treatment protocol or vaccine, the economy will remain hostage to the coronavirus. That means any business in hospitality will either remain shuttered or operating at diminished capacity. Many businesses have relied on the Paycheck Protection Program to retain their employees and many unemployed individuals have relied on unemployment insurance and the supplemental \$600 a week provided by the CARES act. But with the supplemental assistance scheduled to expire at month end, and without some new government programs designed to help struggling businesses and state and local governments, massive layoffs will resume.

During this past quarter, bankruptcies in the U.S. reached levels last seen in the first quarter of 2009. Back then, it took five long years for the stock market to claw back those losses, but here we are with the stock market back to within 80% of previous highs in just one quarter. We've enjoyed the benefits of this liquidity inspired rally, but call us skeptical. Price discovery of what things are worth has never been worse, because companies are abandoning forward guidance due to uncertainty. If management teams have no handle on forward looking sales, how should we?

In summary, we are maintaining much larger cash balances than normal and are waiting with great interest for the second quarter earnings releases to begin next week. Those earnings and the management guidance moving forward will help with our outlook and investment allocations for the remainder of the year. We remain optimistic our 30 plus years of experience will provide for rewarding portfolios this year, in spite of all the problems.

As always, we remain committed to a conservative investment philosophy, which emphasizes the preservation of capital. If you have any questions or would like to discuss your portfolio, please do not hesitate to call.

Very truly yours,

Clay Campbell, CPA