

October 15, 2019

Dear Friends,

U.S.-China trade negotiations and a slowing global economy led to some volatility for the S&P 500 and our portfolios in the third quarter, but the big news is the decline in interest rates in the United States. At the beginning of the year, you, or anyone, could have bought the ten-year U.S. Treasury bond and been guaranteed a 2.7% return for ten years. Now if you buy a ten-year U.S. Treasury you can only get a 1.7% return. Interest rates around the world are collapsing, and “all things being equal”, it means stocks are theoretically a lot more valuable than they were at the beginning of the year.

Of course “all things” are never equal and the stock market has not rocketed higher because of the widespread concern about the upcoming recession. When will it come? How bad will it be? I have been doing this a long time and I can tell you, “Nobody knows.” And even if they could know, they couldn’t know how much has been priced into the stock market or any individual security. The most vicious drawdowns that I have seen over the past thirty years were not widely expected. I have no crystal ball, but I know what I see, and I see growing companies in growing industries trading very cheaply relative to bonds.

In an effort to spare you too much Wall Street jargon, let me fill you in on what happened in the third quarter, what we think is likely to happen in the future, and how we are positioned.

The S&P 500 Increased Slightly as Accommodative Central Bank Policies Helped Reduce Concerns About Slowing Economic Growth and the U.S.-China Trade War. Despite some daily volatility, the third quarter of 2019 was a relatively slow one for the S&P 500 with the index neither increasing nor decreasing more than 2% in any one month. U.S. companies continued to outperform with the S&P 500 increasing 1.7% versus the MSCI World ex USA Index down -1.8%. Defensive stocks generally outpaced economically sensitive sectors despite the short-lived rally in value stocks during September.

Our Base Case Remains the Same as Last Quarter: The Federal Reserve Will Keep Rates Low; the U.S. and China Will Not Come to a Meaningful Trade Agreement; and Economies Outside of the U.S. Will Stay Weak. Our base case investing scenario is that interest rates both long and short will stay relatively low; that China will no longer think of the U.S. as a reliable trading partner and therefore will have to create parallel technological capabilities; and, that the U.S. economy, powered by the U.S. consumer, will stay strong relative to the rest of the world.

Which is Why We Continue to ABCD: Average Up. Buy the Business. Cut Losses. Derisk. Rinse. Repeat. The big theme of the quarter has been to continue to reduce economic risk in the portfolio. We did this by adding to our positions in precious metal companies and buying stocks in two consumer oriented food and drink companies that had fallen out of favor with Wall Street. We used proceeds from stocks that were not meeting our expectations to fund these purchases.

The world was risky when I started on Wall Street thirty years ago and it still is. But when I think of how much the world has changed since 1989, and how much it is likely to change by 2049, I come to work excited every day to try and invest your portfolios in companies that will benefit from that change.

With all best wishes,

A handwritten signature in blue ink, reading "Manny Weintraub". The signature is fluid and cursive, with the first name "Manny" being more prominent than the last name "Weintraub".

Manny Weintraub, CFA
Founder and Principal