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INVESTING IN CHALLENGING TIMES

What's most important to us at this time of anxiety and uncertainty is the health and safety of our clients, families and friends. We are thinking of you and wishing you all the best. In addition to your personal health, we know you are also concerned about your financial health. We are here to help in any way we can, so please call us with any questions or concerns.

As COVID-19 spreads in the U.S., the rising numbers of infected people continue to unnerve investors with the S&P 500 declining 15% in the past week and dropping 29% for the year. We have been monitoring the impact of COVID-19 on our high-quality businesses since the initial outbreak in China had companies like Apple and Starbucks closing their stores in China. The good news is that both companies have since reopened their stores in China after the pandemic was mitigated in China due to the social distancing that we are now doing here in the United States.

In the blink of an eye, the entire world has changed dramatically. A month ago, the strong U.S. economy enjoyed historically low levels of unemployment. Now, a sharp recession is expected with unemployment rising substantially in the next quarter due to the unprecedented economic lockdown brought on by the coronavirus pandemic. However, many of the jobs are expected to come back in the second half of the year once the economy begins to recover from the pandemic.

What the Government is Doing

Governments around the globe are implementing massive monetary and fiscal stimulus programs to help support the worldwide economies. Combined with monetary stimulus from the Federal Reserve, Treasury Secretary Steven Mnuchin said the U.S. government is planning to provide \$4 trillion in stimulus to support the economy. This includes planned loans for small businesses to keep workers on their payrolls with expanded sick leave; enhanced unemployment insurance for people laid off due to the pandemic; and checks distributed directly to American families to help them during this challenging time.

The IRS has postponed the filing and payment of federal taxes until July 15, 2020. However, if you are due a refund, they encourage you to file right away. If you need to borrow from your IRA due to Covid-19 circumstances, you may borrow up to \$100,000 without penalty. In addition, you would have three years to ratably spread out the taxes owed on any IRA distributions and three years to replace the money borrowed from your IRA without it being considered a contribution.

All these efforts and more will help many Americans better navigate this crisis.

What High-Quality Companies Are Doing

This is what our **HI**-quality companies are reporting, which we post daily on our website. Here are some of the highlights from last week:

UPS is assisting with the logistics planning and operations to support the opening and regular operation of drive-up Coronavirus community-based testing sites in several cities. **Johnson & Johnson** is running its Tylenol manufacturing at maximum capacity in North America in order to contend with surging demand for the product due to the fast-spreading coronavirus outbreak.

Since the COVID-19 outbreak, **3M** has doubled its global output of N95 respirators to an annual rate of over 1.1 billion per year, or nearly 100 million per month. The company is also maximizing production of a wide range of other products used in the COVID-19 response globally including hand sanitizers, disinfectants and filtration solutions as the pharmaceutical industry works to find a vaccine to fight the virus. 3M is working with governments, medical officials, customers and distributors around the world to help get supplies where they are needed most.

As the world grapples with the vast scale and human impact of COVID-19, **Starbucks** CEO Kevin Johnson says Starbucks has the financial strength and resilience to manage through this extraordinary time. The company is seeing continued recovery in China, with 90 percent of stores now open. Starbucks announced that its Board of Directors has authorized the repurchase of up to 40 million shares of the company's common stock. **MAXIMUS** announced that its Board of Directors has authorized the expansion of purchases of MAXIMUS common stock of up to an aggregate of \$200 million.

Ross Stores and **The TJX Companies** announced the temporary closing of all their stores with both companies suspending their share buybacks to conserve cash due to the uncertainty regarding the duration of the coronavirus and overall impact on consumer demand. **Tractor Supply** is committed to staying open to support the rural communities it has served for over 80 years as it supplies essential animal feed, pet food, pet medicines, agricultural supplies and fuel.

Microsoft said that its Team chat and conferencing app has reached 32 million users in March amid a surge in remote work by companies around the world in response to the coronavirus outbreak. **Accenture** also reported strong global demand for their services to help remote work by clients. While modestly lowering their outlook for earnings and revenues for the fiscal 2020 year, Accenture's strong cash flows and financial strength with more than \$5.7 billion in cash and investments is enabling them to continue to pay a dividend that is 10% higher than last year, buy back substantial stock and make acquisitions which will enable them to continue to gain market share. After listening to their conference call this past week, we added to our Accenture position at very attractive valuations.

What Healthcare and Technology Companies Are Doing

Healthcare and technology companies around the globe are working together to rapidly develop treatments and vaccines to combat the coronavirus. "The solution to COVID-19 is not likely going to come from one person, one company or one country. This is a global issue, and it will be a global effort to solve it," said Peter Lee, corporate vice president, AI and Research, Microsoft. "Making critical information about the immune response accessible to the broader research community will help advance ongoing and new efforts to solve this global public health crisis, and we can accomplish this goal through our proven TCR-Antigen mapping partnership with Adaptive."

Microsoft co-founder Bill Gates urged people to remain calm in the face of the coronavirus pandemic. He said, "If a country does a good job with testing and 'shut down' (social distancing), then within 6-10 weeks they should see very few cases and be able to open back up." Gates has been focused on health for many years as part of his work at the nonprofit Bill and Melinda Gates Foundation, which receives significant financial contributions from Warren Buffett, CEO of Berkshire Hathaway. You can find more of Bill Gates' comments on the coronavirus here: <https://www.gatesnotes.com/Health/A-coronavirus-AMA>

What We Are Doing

Out of an abundance of caution, we swapped the Schwab Value Advantage Money Market fund to the Schwab U.S. Treasury Money Market fund, which has a bit less yield but is invested only in U.S. Treasury securities.

While the stock market decline has been swift and extremely unsettling given the uncertainty surrounding the coronavirus outbreak, we believe the indiscriminate selling of all stocks has created buying opportunities among high-quality companies which will not only survive this crisis but thrive afterwards as they gain market share from weaker competitors. If Costco announced a 30%-off sale on toilet paper, people would be flocking to the stores to buy. At the same time, the stock market is currently running a rare 30%-off sale on all stocks, and a distressed Mr. Market is fleeing the stock market with toilet paper stuck to his shoe. This provides patient and disciplined long-term investors like us plenty of time to shop for quality merchandise at bargain prices. Stock market volatility continues to be high which results in stock prices becoming disconnected from the underlying value of a business. As Ben Graham said, "Price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal."


This week Nike, Paychex and FactSet will be reporting their financial results, and we will be listening closely to their conference calls, conservatively updating our valuation models based on management's outlook for a challenging 2020 and posting their comments on our website.

Over the last 30 years, we have invested during past challenging times including the Crash of 1987, the dot.com bubble and the Great Recession of 2008/2009 brought on by the financial crisis. We know to act prudently, think long term and not panic by selling into a distressed market. While no one knows when the healthcare crisis will be over, we do know that the stock market and economy will recover...the future has not been cancelled. Bear markets often end as abruptly as they began, with a quick rebound that is very difficult to predict, which is why timing the market is vastly less profitable than staying the course. Unnecessarily turning paper losses into permanent losses is not a successful long-term investment strategy.

We have always structured your portfolio to mitigate risk and to have ample liquidity to meet your withdrawal needs even during inevitable market downturns. Generally, we have at least five years of your withdrawal needs laddered in fixed-income investments so that it is unnecessary to sell stocks during market declines. However, we understand that your financial circumstances may change. For example, you or a family member may lose a job during this crisis and need to draw upon your savings. If that is the case, please give us a call to help you.

Please also call 703-361-6130 or email us if you have any other questions or just want to talk.

Wishing you and your families well,


Ingrid R. Hendershot, CFA
President