# J.W. Burns & Company
## Investment Counsel
### Quarterly Update - April 2020

# Keeping Rational and Cool While Coronavirus Fever Spikes

***"We grossly overestimate the length of the effect of misfortune on our lives. You think the loss of your fortune or current position will be devastating, but you are probably wrong. More likely, you will adapt to anything, as you probably did after past misfortunes." -*** Nassim Taleb, Investor and Author

***"The four most expensive words in the English language are: "This time it's different." -*** Sir John Templeton

Dear Clients and Friends,

As you know, I have shared with you many times that we consider our clients as family. So, to begin, I want you to know that it is our sincere prayer that in

these momentous times, you and your family are staying safe, healthy, and, in fact, blessed.

Needless to say, the first quarter of 2020 was brutal. Here are the ugly facts:

- The Dow Jones Industrial Average was down 23.20% – its worst quarter since 1987 and its worst first quarter in history.
- The S&P 500 Index was down 19.70% – its worst quarter since 2008 and its worst first quarter in history.
- U.S. small-cap stocks were hammered, down 30.61%.
- International stocks continued to give little to no diversification benefit; the MSCI All World ex-USA Index was down over 23%.
- The Lipper Balanced Index, which has a significant bond component, held up the best, down 12.84%.

These numbers – as bad as they are – actually mask the breathtaking decline that occurred from the market's high reached in mid-February. In fact, in just 23 trading days, the S&P 500 dropped 34% and the Dow 37% – the fastest decline ever recorded in the U.S. stock market.

While the explosion of the coronavirus in China was in the news marginally at the beginning of the year, it wasn't until the virus had clearly penetrated America's shores that stock markets took a sudden turn for the worse. The Russia-Saudi oil price war further irritated markets, but it is obvious that the coronavirus is the issue for the global economy, markets, and humanity. ***This is where we are today.***

By now you have heard all of the health recommendations to avoid getting or spreading the coronavirus. So, I am not going to waste your time by rehashing this. Instead, we have decided to move right into your most pressing questions that you have about your wealth and the road ahead.

***Q: What are you doing with my portfolio right now?***

***A:*** Our valued clients pay us for our wisdom, judgment, and experience including intense research work on the economy, financial markets, individual stock selection, and continued monitoring.

Furthermore, we construct a cohesive and refined portfolio of superb growth companies to help you reach your long-term investment goals.

Now, as you know from our previous client communiques in March, we are largely staying the course, but have made some tactical adjustments such as selling out of both U.S. and International small-cap ETF positions. We believe small-cap stocks globally are significantly more challenged from a balance sheet and fundamental standpoint from this economic dislocation. As such, we have raised some cash and will gradually and prudently invest in various individual, high-quality companies that are 15, 20, 30% – or more – from off their highs. These include some companies you may already own as well as new positions, businesses such as Starbucks, McDonald's, Microsoft, Google, Pepsi, and Johnson & Johnson, among others. All of these companies are world-class franchises with cash-rich balance sheets, consistently growing earnings and dividends streams, and a historical track record of an above-average return on shareholder's equity. ***Now more than ever, we believe our proven investment discipline is the best approach to achieve superior returns in the years to come.***

While the recent events are both painful and frightening, I think it is very important to view this decline from the most rational context possible. You own a portfolio of high-quality growth companies, and with the Dow Jones Industrial Average already down about 22-25% from its February peak, selling now seems imprudent.

***Q: What criteria do you use to decide when to deploy some of my cash to invest during these turbulent times?***

***A:*** Rather than engaging in panic selling based on the latest headlines, we remain focused on owning the highest quality brand-name American businesses within a cohesive portfolio structure. I should note that most of the companies you own are deliberately selected because they have a ***built-in margin of safety***. In other words, most of the companies we own are of higher quality than the typical stock in the S&P 500 Index and should, therefore, weather market volatility better over time. And, in fact, your portfolio companies on the whole seem to be holding up at least somewhat better than almost all the equity market indices.

From a news perspective, the data in April will be horrific. Coronavirus cases and deaths will surely increase, and first and second quarter earnings reports will be very ugly. However, keep in mind that the stock market is a discounting system, and I believe much of this shorter-term negative news has already been priced in. As such, we will be focusing on the earnings reports but paying particular attention to the ***forward guidance*** of the companies we want you to own. As portfolio managers, we have experience in getting a real sense as to the confidence and conviction of managements' outlook, especially now with the tough road ahead. So, we will remain opportunistic as pricing avails and will make adjustments to your portfolio accordingly.

***Q: How do you expect the coronavirus outbreak to unfold and how will it affect my portfolio? Do you believe the market bottomed in March at Dow 18,000?***

***A:*** Well, it is hard to say if the market bottomed because there are so many unknowns around the duration of the coronavirus – duration being the critical factor here. Currently, investors are not focusing on the fundamentals because the timing of any earnings recovery is unknown. ***Eventually, however, coronavirus cases will decline, the pandemic will burn itself out, and the economy will start to recover in whatever fashion that takes.***

Most importantly, investors globally are defensively positioned, holding staggering amounts of cash and bonds earning next to nothing – or even a negative return. So "when the last bear sells out," as the old Wall Street saying goes, I believe the levels of liquidity will provide the backdrop for potentially "face-ripping up days" in the order of 8-12%, maybe more. And I want us all to be there.

Finally, I want to share with you some insights from my 33 years in the investment trenches. During the financial crisis over a decade ago, the U.S. stock market bottomed on March 9, 2009. The headline that morning on the front page of the N.Y. Times quoted a trader from the N.Y. Stock Exchange: "**THE ONLY HOPE WE HAVE IS THERE IS NO HOPE**." In retrospect, it is hard to remember how scary a time that was because it is human nature to downplay unpleasant memories and feelings. Nevertheless, on March 9, for absolutely no fundamental reason, the stock market went up – and ***the Dow Jones Industrial Average would go on to rally 57% from there through the end of the year!*** This despite the fact the economy and unemployment data continued to deteriorate. I mention this because the stock market is a forward pricing system, and it is my contention that when risk appetite returns, investors won't be looking out 6-9 months as usual but in fact 2-3 years. They will compare 0% returns on 10-year government bonds to the 3% yields on many quality stocks – like the ones you own.

How long it will take to return to the mid-February 2020 highs is honestly anyone's guess. If the social distancing measures are continued to be followed (and I do believe they are working) and access to testing, ventilators, etc. continues to be expanded, the curve will indeed start to flatten. And stocks will rally – probably powerfully.

***Q: How has J.W. Burns & Company adapted to the coronavirus outbreak, and will it impact the management and service of my portfolio?***

A: As a financial services company, we are considered an essential business. Therefore, we always have 2-3 of our portfolio managers in the office throughout the day. While here, we do practice social distancing by staying in our own offices and avoiding common spaces (the kitchen, copy room, etc.). We also always wear gloves when handling both incoming and outgoing mail.

Additionally, our entire staff is fully set up at home to work remotely. I am truly proud of how they all have risen to the occasion and maintained superb professionalism. ***Keep in mind, we can all be reached by both phone and email and are able to conduct all business operations and client requests in a timely fashion***. You will also receive your quarterly statement from us as usual.

Our portfolio managers continue to monitor your portfolio performance, holdings, and weightings. We regularly have some well spaced out meetings in the office, on the phone, and even via skype. So, our team's cohesion remains healthy, and we remain focused on you.

In closing, I have heard it said that courage is simply "confidence in uncertain situations." I want you to know that I truly believe that ultimately there will be some positive improvements globally that come out of this tragedy called the coronavirus. Most importantly, I am certain that our country will continue to rise to the occasion, and its best days are ahead.

Here's to better days ahead.

Best Wishes,

Jim

James C. Burns, CFA
President & Chief Investment Officer

**P.S.**
The recently passed stimulus bill last month and the SECURE Act last December contain some relevant changes that likely impact many of you and your investments. In the next week or so, we will be sending out a separate communique giving you the basic investment information you need to know about these two laws. Stay tuned.

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