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

Brilliant At The Basics

"The difference between winning and losing is often not quitting." - Walt Disney

"Simplicity is the ultimate sophistication."
- Leonardo Da Vinci

Dear Clients and Friends,

When legendary football coach Vince Lombardi took the helm of the Green Bay Packers in 1958, he had a media session with various sports reporters. As the story goes, he was immediately peppered with pointed questions on exactly what he was going to change in order to turn around the hapless Packers.

Lombardi calmly replied, "I am not going to change anything. We will use the same players, the same plays, and the same training system. But we will (now) concentrate on becoming brilliant at the basics."

Whether it is football, life, or investing, to be successful one must master the basics. In fact, here at J.W. Burns & Company, our relentless focus on "the basics" has rewarded our clients handsomely over the years. Indeed, your portfolio is invested in a collection of the world's finest growth businesses with compounding earnings power, rising dividend streams, and a dominant position within their respective market. That is how we stay "***brilliant at the basics***."

Unfortunately, all too often I see the basics of investing thrown out the window, especially during periods of intense market declines. For a mere 23 trading days during the months of February and March, the Dow Jones Industrial Average plummeted 37%. As has been reported in the media, many individual investors began to panic and sell out of most or all of their portfolio at or near the market bottom, convinced that the coronavirus would decimate their portfolio holdings.

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To be fair, it was a scary time for everyone invested in stocks; so, I can sympathize with the many investors across the country that did sell out.

Sadly, for most investors who did sell out during the decline, this has likely resulted in a permanent impairment of their capital that will take years to recoup. Fortunately, we kept almost all of our clients from making these costly mistakes and instead stayed focused on the basics – ***keeping our clients invested in great growth companies for the long run.***

And, in hindsight, it's a good thing we did!

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After all, the second quarter of 2020 was the ***best quarter for the stock market since 1998*** with the S&P 500 Index up 20.54%, the Dow Jones Industrial Average up 18.51%, small-cap stocks up 25.42%, and international stocks up 16.20%. Bonds performed modestly in a near 0% interest rate environment with the Barclay's Aggregate Bond Index gaining about 3%. It should be noted that as we enter mid-July, the S&P 500 Index and Dow Jones Industrial Average are still roughly 9% and 4% from their respective February highs.

Overall, we were very pleased with how your portfolio rebounded during the quarter, proving again that attempting to time the stock market is a losing proposition.

I think it is obvious to say that, thus far, 2020 has been an extraordinarily difficult year for all of us. However, considering the shock of COVID-19 on global commerce, it is remarkable that U.S. large-cap stocks are back within striking distance of their all-time highs. As I mentioned in our early June client communique, the stock market is a forward-looking mechanism and is expecting an eventual economic recovery that will be supported by some sort of vaccine. Of course, the time table and range for this eventual recovery is uncertain, but modest economic improvements combined with positive vaccine developments will likely continue to push markets higher as we head through the back half of 2020.

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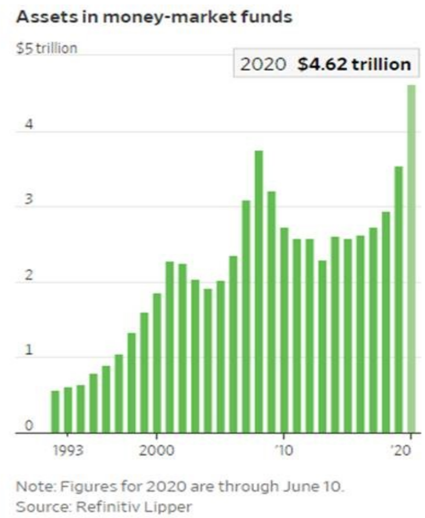
Indeed, in our research, we believe investors are laser focused on four primary factors that will drive stock market performance over the next 6-12 months.

1. Liquidity and continued Federal Reserve support

The Federal Reserve has taken unprecedented action by lowering interest rates to 0% and backstopping asset prices. In fact, thus far the Federal Reserve has allocated over $2.3 trillion in monetary support; purchasing treasuries, corporate bonds, mortgages, and stocks. In addition to being willing to spend additional money to support the economy, the Fed has committed to keep interest rates at low levels for the foreseeable future.[1] **Furthermore, there is ample liquidity to support equities, with over $4 trillion sitting in money market funds earning literally nothing!** This massive liquidity is working its way into the equity market which is a positive and provides a reasonable downside buffer for stock prices.



2. Stimulus - How Powerful?

It would look bad for either political party to not come to the table and get a second round of stimulus passed before the election. The question is, how powerful and effective will it be? In general, the market is expecting something to get done and likely to view any stimulus as a positive, although this may already be priced in.

3. Vaccine development

I am an optimist on this one. As many of our long-term clients probably know, J.W. Burns & Company has always had strong positions in the best-in-breed American healthcare companies, several of which are committing the best doctors, researchers, and resources toward finding a coronavirus vaccine.

It will happen!

4. Flattening of the curve or second wave?

The reopening of the economy has been delayed by recent outbreaks in various states. This likely represents a real threat to the economy and stock market. We will be watching this very closely, as it is severely hampering a V-shaped recovery. However, thus far, the markets are digesting the recent surge in cases quite well, and it has not prevented investors from continuing to bid up stocks.

There are two classic Wall Street sayings that I believe are apropos here: "Don't fight the Fed" and "Markets climb a wall of worry." Currently the Federal Reserve is on the investor's side, there is little euphoria in equity markets, and there certainly is ample amounts of fear. As such, we continue to believe that the trend in your portfolio is a slow grind upward and that stocks will likely be higher a year from now.

However, clients and friends, please do not expect a straight shot up; indeed, after a 40%+ surge since March 23, a market pullback(s) is likely, and probably should be welcomed by investors. I also expect some declines and volatility depending on the pace of reopenings and new infections.

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So, let's all do our part: wear a mask, keep a reasonable distance, and let's reopen this economy!

Now, let's get onto your questions.

Q: How will the 2020 elections impact the markets? What adjustments will you make to my portfolio in the case of a Joe Biden/Democratic sweep in November?

A: Politics and investing have always been spoken about in the same breath.[2] Afterall, it makes for good theater. However, contrary to what many expect, the 2020 election will likely have very little effect on your portfolio. Consider this: over the last 12 years, eight under President Obama, and approximately four under President Trump, only two major pieces of legislation were passed: The Affordable Care Act in 2009, and The Tax Cuts and Jobs Act in 2017. The truth is, our country's system of checks and balances seriously impairs any President's ability to re-engineer the economy.[2]

In fact, after President Trump's election in 2016, I distinctly remember hearing many investment professionals in the financial media recommending buying infrastructure, banks, energy, and industrial stocks because it was believed a Republican Congress and President would favor these industries. The reality has been the opposite, as these sectors have been among the worst performers during the Trump administration.

As such, we strongly advise that our clients ignore the political noise and stay focused on owning quality companies for the long run.

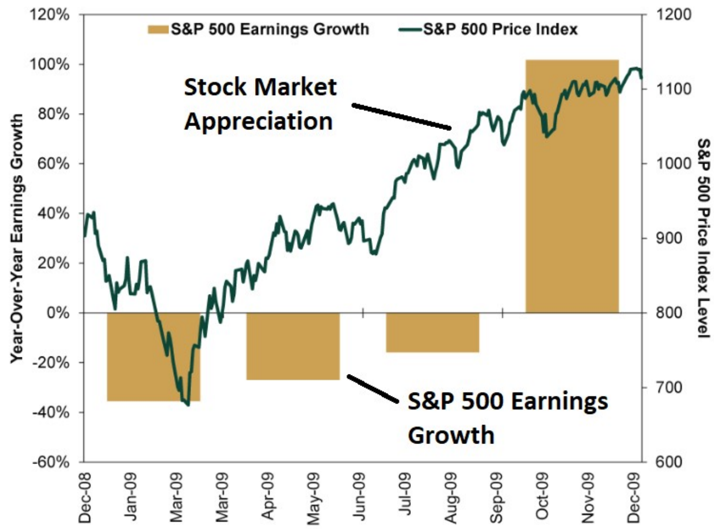
Q: Is the worst of the economic and unemployment data behind us?

A: While a continued spike in coronavirus cases could threaten this economic recovery, the recent data points to continued improvement. In fact, the U.S. economy added a record 4.8 million jobs in June, as reopenings took full force across the country. Additionally, the unemployment rate fell more than 2% though still stands at around 11%.[3] This is in stark contrast to predictions back in April of 25% or 30% unemployment. Remember that?!

On the earnings front, Q2 earnings season (which is currently underway), is expected to be the trough quarter for this recession with the average S&P 500 company seeing a whopping 44.60% year-over-year decrease in their earnings. However, from here on out, earnings are expected to rebound and after negative but improving Q3 and Q4, are actually expected to post 10-12% growth by Q1 2021.[4] I think this number may be low as both recent economic and earnings per share figures have actually been better than dire forecasts just a few moths ago.

Historically, coming out of a recession, the stock market usually forges ahead of corporate earnings and economic data – as you can see here in this chart with 2008-2009 as an example:

Exhibit 1: Stocks and Earnings Growth in 2009



Source: FactSet, as of 6/9/2020. S&P 500 Price Index level, 12/31/2008 – 12/31/2009, and S&P 500 earnings growth, year-over-year, Q1 2009 – Q4 2009.

So, it is my belief that as corporate earnings and the economy start to catch up –with some hiccups along the way – the stock market probably will continue to move higher.

In closing, it is again worth stating that the stock market is a leading, not lagging, indicator. Forward looking investors currently believe things will get better. Clearly, they are not expecting anything in terms of earnings or economic growth in 2020, but, as I have mentioned in previous client letters, they are instead looking out two-three years. I am an optimist; I believe that an effective vaccine is coming, that our country will adapt and slowly return changed, but stronger, and our best days are in fact ahead of us.

Meanwhile, here at J.W. Burns & Company, we remain focused on being brilliant at the basics and helping you and your family prosper.

"***Optimism is essential to achievement, and it is also the foundation of courage and true progress.***" – Nicholas Murray Butler, winner of the Nobel Peace Prize.

Enjoy the rest of the summer!

Jim

James C. Burns, CFA
President & Chief Investment Officer

1 Cheng, Skidmore, Wessell. "What's the Fed doing in response to the COVID -19 crisis?" Brookings Institute. 19 June 2020.

2 Levitt, Brian. "2020 US Presidential Election." Invesco. July 2020.

3 Cox, Jeff. "June Smashes Jobs Expectations." CNBC. 2 July 2020.

4 Earnings Insight. Factset. 10 July 2020.