The Investment Letter

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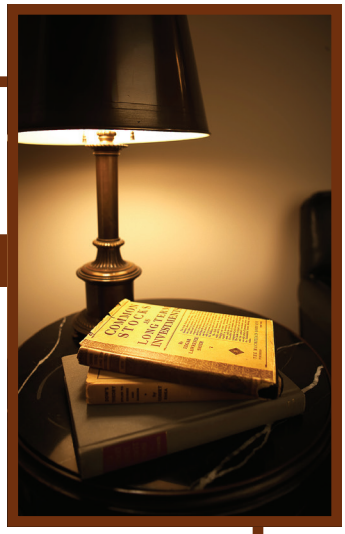

Issues of 1967 or 2020?

> *"The rally which began the last few months has pushed stocks well above recent lows and near the level of the first of the year. We doubt, however, if such advances are fully warranted. There are signs that the economy may be moving ahead again, but, as of yet, they lack confirmation. Corporate earnings are mixed at best, and inevitable higher taxes which loom on the horizon, will limit predictable earnings and will impact consumer spending. The serious riots in our cities, which represent a direct challenge to the capitalistic system, have been totally ignored in the marketplace. With so many stocks at high price-earnings multiples, a moderate reaction or correction would be timely and healthy."*
>
> **"*The Investment Letter*" August 5, 1967**

Three months ago, we faced the twin risks of COVID-19 and the government imposed economic shutdown. Coronavirus was surging unchecked throughout the US. Our economy closed down abruptly and at an unprecedented clip. Restaurants, sporting venues, anything that brought together large groups of people was ordered closed. Unemployment surged. Due to these risks, the markets sold off.

When the S&P 500 reached a record high in mid-February and then dropped 34% during the weeks following, we maintained our buy-and-hold approach. Our research determined that the economic pain was going to be disproportionately suffered by smaller companies and larger publicly traded companies would not be as dramatically impacted. We focused on the fundamentals, evaluating the earnings, dividend yields, and respective resiliencies exhibited by the companies in your portfolio. We did not panic. We instead relied upon our experience that taught us to keep our wits.

As we enter July, the virus is still with us. The economy is reopening, with new safety regulations in place designed to curb a new wave of coronavirus. The market has rebounded. By early June, the S&P 500 had erased its losses from 2020. The Nasdaq hit an all-time high, closing above 10,000. However, much of this market recovery appears to be due to speculation about the development of a vaccine and the massive federal government stimulus packages. Temporarily, employment has also been bolstered by the paycheck protection program (PPP) enacted by the federal government. In May, the national unemployment rate dropped to 13.3%, down from April's 14.7%, the highest unemployment rate seen in the US since the Great Depression.

While none of the underlying crises created by the pandemic have been eradicated, we have bought time to weather these problems while the pandemic runs its course. The World Bank has predicted that the global economy will contract by 5.2% in 2020. Also, it appears the US economy will enter a recession this year. The bull market of the past decade-plus officially ended in February, after a record 128 months.

Why hold stocks during such turmoil?

Even though we expressed our concern last September about the excess in the market, market

timing has never been an effective strategy. To be successful, one would have to be able to recognize a market top, sell, and then have the courage to buy at the darkest hour. In investing, it is hard enough to be correct once, let alone twice in a row. Vanguard's founder, Jack Bogle stated, "The idea that a bell rings to signal when to get into or out of the stock market is simply not credible. After nearly fifty years in this business, I don't know anybody who has done it successfully and consistently. I don't even know anybody who knows anybody who has." As it would have been a mistake to sell into the market's decline earlier this year, it is also unwise to react to the alternating waves of euphoria and fear now plaguing the markets. Reacting to short-term events is speculation, not investing.

Given what we know about the twin threats of COVID-19 and the economic shutdown, the shutdown is potentially the larger economic issue. While there likely are some stocks whose current price has been pushed below or inflated above their true respective values, we will continue with our buy-and-hold approach until the picture of the post-COVID economy becomes clearer.

Investment Counsel has persevered through more than ninety years by making long-term decisions, looking past short-term events, and studying the bigger picture. The best investment strategies do not let short-term events interrupt a plan for long-term growth that focuses on the fundamentals. It is not that we are unaware of these events, we just give them proper measure.

We've Been Here Before

Over fifty years ago, in 1967, the economy staggered along, watching with a concerned eye the unrest in society that looked much like the situation we see today. Instead of the COVID-19 pandemic and Black Lives Matter, the young baby boomers who lived in that society faced the Vietnam War and the Civil Rights Movement. Now, as in 1967, we face injustices to address and overcome. Through periods of civil unrest, time has eventually shown us, and will show us again, that the market will survive and that long-term investment strategies will win the day. Together, we can accomplish progress economically, socially, and in healthcare—if we show patience and the ability to work with one another.

"The more things change, the more they stay the same."

> *"The wise investor will find suitable haven for his or her funds in stocks which represent sound values in terms of underlying assets, earnings power and prospects for growth. Today, more than ever, is a time to stick to fundamentals."*
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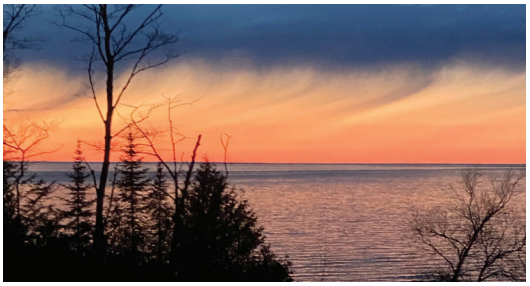
> **"*The Investment Letter*" August 5, 1967**

Investment Counsel News

Inside the Office

Our primary custodian, TD Ameritrade, is scheduled to be acquired by Charles Schwab Corporation. Many of you may remember that, years ago, we worked with Schwab. We will be reviewing what this change may bring and will keep you updated.

Outside the Office



With all the outdoor activities Northern Michigan has to offer, Chris is trying his hand at fishing. With very limited success, he now knows why it's called fishing and not catching. Maybe tomorrow they'll be biting!