April 14, 2020

Dear Fellow Investor:

I doubt any of us will soon forget the first quarter of 2020. Financially—and I restrict my comments to financial matters as many have done a better job than I can with the political, economic, and, above all, *human* dimensions of the times in which we live--after a really good stock market in 2019, and an economy stronger than we have seen since the early days of this millennium, we were presented with an unprecedentedly swift and severe bear market; and an economy that did not slow then tip into recession—big parts of it just stopped!

The culprit, of course, is the Covid-19 pandemic (although an abrupt price war between two of the world's leading oil producers, Russia and Saudi Arabia, made things a little more, ahem, *interesting*), the advent of which has affected all of our daily lives in one way or another.

The S&P 500 declined about 20% in the quarter and the performance of the accounts for which we are responsible was about in line with the market.

Weybosset Research and Management LLC (WRM) has become, for the time being, a stay-at-home enterprise, a development that has been at worst a slight inconvenience for us. Thus, we are emailing you this missive in lieu of our ancient ritual of sitting around a table in my office, signing, folding, stuffing, stamping and licking envelopes. My colleague Justin Deutsch has a message which I think admirably summarizes the right attitude for a *long-term* investor which, after a few remarks of my own, I append to this epistle.

We at WRM preach (*ad nauseum,* some would say) that we do not look to trade the stock market, to divine the next BIG MOVE and capitalize on it, but to identify a handful of outstanding businesses in which we can invest (at reasonable prices) and hold for long-term (years, decades, generations) income and appreciation.

Thus, when disaster struck, the question that ran through my mind was, how does all this affect the conduct of our businesses? As Justin put it, none of our companies are near the "blast zone": we own no cruise lines, no airlines, no casinos in China, no malls in Milan. (And, Hallelujah, no energy stocks!) Many of our businesses are involved in activities that people are likely to continue no matter what, like eating. Our healthcare companies are probably busier than ever, and one of them, Johnson & Johnson, is on the cutting edge of developing a vaccine against the novel corona virus. Some, on the other hand, are profoundly affected: TJX, for example, a real retail marvel, has, for the time being, closed all its stores; in the lockdown, roads are nearly empty meaning people aren't crashing their cars as often--bound to impede business at Copart; and so on.

But whatever the case, all our companies sport excellent balance sheets. None are attempting risky transactions. None carry onerous debt burdens. All enjoy liquidity adequate to wait out the crisis. There WILL be a recovery, and we will be there to enjoy it, however twisted the path to recovery may turn out to be.

And speaking of adequate liquidity, the asset allocation (to use a highly hackneyed Wall Street term) we have long advocated is: 1) adequate liquidity, defined as a year or two's worth of living expenses stowed in some place where you KNOW you can get to it under the worst of circumstances (short-term investment grade bonds, US Treasury securities or insured bank deposits) coupled with 2) productive assets such as businesses or real estate or farms. (We specialize in choosing businesses.) Given the high levels of economic uncertainty out there, item 1) looks perspicacious. We can afford to wait for item 2) to work out. And it will.

The point I would like to make here is that a disaster like the Covid-19 pandemic, or any other disaster, for that matter, market-related, economic, or personal, can happen without warning at any time. We must be prepared for the worst. With the rest of our money, we can go out and make money.

So that is my sermon, brethren and sisteren,

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Justin has some perspective to add to the discourse:

I hope this letter finds you safe, healthy, and as my father used to say, spending "quality time" with your loved ones. The last month and a half have been a whirlwind for all of us, as markets and our lives have been upended. It is in these difficult times that we must take a step back and put things in perspective.

2020 will surely be an awful year for operating businesses. The economy will most likely be in shambles for a period of time but that tells us nothing of whether the stock market will rise or fall.

Never forget our country has faced awful travails. Two world wars, multiple panics and depressions, malaria, Aids, SARS, food rationing to name a few. America has had no shortage of challenges. The one common theme they all have is that they end. Without fail we have overcome all of them.

I would never make a bet against the ingenuity of this great nation. We have unleashed human potential like no other system. We have every major pharmaceutical and biotechnology company racing for a therapy and a cure. Surely they will be successful.

In the face of all these obstacles the market has risen 75% of the time over the last 60 years. Unfortunately I cannot predict the winning and losing years, however, I can tell you that over time the winning years produce much larger gains then the losing ones. During the 20th century the Dow Industrial Average has increased 175-fold.

The 2008-2009 Great Recession is the most recent analogue we have. During that period it took the market two years to correct some 40%. So far in 2020 the market corrected peak to trough 35% in 15 trading days. It is the swiftness and violence of the sell-off that shocks. In actuality the market did its job quite efficiently. It priced itself to a point where every single business would be shut down for at least a year. With lessons learned from the past the Fed and US government has stepped in with an unprecedented amount of stimulus and aid to both Main Street and the markets.

Weybosset portfolios weathered the 2008 storm and as an investor your money was made whole within two years, four years out you had doubled your money from the lows. So today's situation looks similar to us. It is extremely difficult to look out to the next week or month, however when you take a longer timeline, looking out two to three years, one can have the confidence of your convictions that our businesses and our shareholder returns will come out better than they were before.

Though we do not have to worry about the US banking system we do have to worry about thousands and millions of mom and pop businesses. It is in these times of great stress that we go back to our key criteria and stick to our knitting. Our companies have rock solid balance sheets, excellent management teams, and a ton of cash. Most of them are "essential businesses" -- think agriculture, government services, diagnostic testing, and electric infrastructure to name a few. They are not only going to survive; they are going to emerge into a landscape that speaks to their strengths.

In regard to Charles Schwab, Jeannine informs me that they are doing a wonderful job. However, due to the increased activity there might be longer lead times when it comes to transactions. If you are planning on sending money please ask us for wiring instructions so we can keep everyone out of the office and safe.

We have spoken to many of you during these difficult times and urge you to reach out to the team and myself. Let us know how you and your families are doing and if your financial situations have changed. We are here to help. We are grateful for all of you and especially those who are on the frontlines battling this virus. Stay safe.

America’s best days lie ahead.

Justin