July 21, 2020

May you live in interesting times.

--Purportedly an ancient Chinese curse

Dear Fellow Investor:

These certainly are interesting times for investors! In the stock market, we endured a sharp, steep bear market in the first quarter of 2020, followed by one of the sharpest, steepest rebounds in history in the second quarter. When the closing bell rang June 30, on a year-to-date basis the S&P 500 was down 4% (-3.1% with reinvested dividends). Not a big change at the net, but, Lord, what volatility along the way!

The accounts for which we are responsible underperformed the S&P 500 by a handful of percentage points but were in line with the Dow Jones Industrial Average and considerably better than gauges like the Russell 2000 (small capitalization companies) or various international indexes.

The outperformance of the S&P 500 is almost entirely attributable to the make-up of the index. The top 5 stocks in the S&P—Microsoft, Apple, Amazon.com, Facebook, and Alphabet (Google)—now comprise 22% of the index, double their weighting only six years ago, and delivered the lion's share of the index performance. Strategas Research Partners calculates that the top five S&P stocks are *up* more than 30% in 2020, while the remaining 495 are *down* about 8%--more in line with our results.

Microsoft, Apple, Amazon et al. are undeniably excellent businesses, but their stock prices more than reflect that excellence, and I believe those prices also undeniably reflect a high degree of herding in the market. We at Weybosset Research and Management, LLC eschew high priced stocks and try not to follow the herd. At times like this, we pay for our caution, our conservatism, in the form of a few percentage points' underperformance; but over the long haul we have found that conservative investors sleep best.

I am happy to report that I'm sleeping well these days, thanks to the fundamental soundness of our investments, and wish you the same good fortune, despite the craziness out there. As I remarked in my last letter, whether by profound sagacity on our part or just luck, we own no businesses in the "blast zone" (Justin's term) of the current pandemic: no airlines or cruise lines, no hotels, no restaurants, no sports teams, and, Glory Hallelujah, no commodity producers.

And, very importantly, none of our companies entered the crisis bearing onerous debt. Thus, our lone retailer, TJX Corp., found itself with no business at all for a while, as all its stores were closed. But there were also no big debt payments to make, so TJX could afford to wait. Now that stores are beginning to reopen, customer traffic is markedly better than before the crisis. Pent-up demand for off-price merchandise! We will be just fine with TJX.

A similar story could be told for each of our investments.

I would add that our companies are headed by experienced management teams that have navigated a slew of crises, from financial collapse in 2008 to trade wars to negative interest rates (which I still don't understand) to persistently sluggish global economic activity. These people know how to respond quickly and appropriately when trouble arises. We are fortunate to have the likes of Phebe Novakovic

(General Dynamics), Jason Adair (Copart), Jean-Jacques Ruest (Canadian National Railway), Mark Thompson (New York Times), Pierre Brondeau (FMC Corp.), George Gleason (Bank OZK), or Warren Buffett (Berkshire Hathaway) running our businesses. We don't have to worry about what to do in an emergency because these people *know* their businesses and know what to do.

The current emergency is, of course, the Covid-19 pandemic. Pandemics have recurred from time to time in human history—the series of plagues in late antiquity that contributed to the collapse of the Roman Empire, most famously, perhaps, the Black Death of the 14th Century, and the Spanish Flu of 1918-20 come to mind. But fortunately, pandemics do not pop up often enough to have affected the hundred years or so for which we have stock market data. So, we are flying blind in this situation, without the benefit of precedent. Some things are going well---much of the world is gradually reopening, drugs for treating the disease are being introduced, and, crucially, it looks like a vaccine is on the way.

On the other hand, the pandemic is not a hoax—it is real-- and cannot be wished away by simply ignoring it. The number of cases and deaths both in the U.S. and globally continue to rise despite improvement in most developed countries. And we do not have a clear picture at all of the economic damage inflicted, though it could be deep and lasting.

Fortunately, we entered the crisis in a position of strength. The U.S. economy was in better shape than at any time in the past ten years when disaster struck, and I underscore the financial and leadership power of our companies. Our portfolio is designed to weather any and all storms, including one as unforeseen as the Covid-19 pandemic. Predictions are hard, as Yogi Berra pointed out, especially about the future, but whatever course we wind up taking, we have reason to expect a favorable outcome.

Justin has some worthwhile thoughts to share with you about recent developments in the stock market, so I cede the microphone to him. (Bye, now!)

-Fla

Saying the first half of 2020 was interesting is surely an understatement.

The S&P 500 went from its worst quarter on record to its best quarter in nearly 20 years in the span of six months. Though the markets have rallied quite well through the end of the second quarter, most people looking at the broader indexes would never see the damage to certain sectors of the economy.

Banks, travel and leisure, restaurants, and industrials have been left behind by investors for the hope and wishes of future profits in the tech world. Yes, there are fantastic tech companies that generate billions of dollars of profits for their shareholders but - what is a fair price to pay for those future profits?

What about the new companies that have no profits? Perhaps they never will? Currently, the market is rewarding the pure plays of specific tech industries, think electric vehicles, online shopping, and work from home stocks. The more negative the earnings are the more rank speculation there is.

These companies continue to garner the excitement and invested dollars from professionals and individuals alike.

We here at Weybosset stick to a few principles that have served us well for the last 28 years, and which will continue to be guideposts for us well into the future.

"I would rather be certain of a good result than hopeful of a great one," said Warren Buffet.

First and foremost, we look for companies that generate earnings in good and bad economic times. This leads us to the best of breed companies in their specific sectors. Companies that, over time, have continued to innovate and adapt as the world and its economies change around us.

Our industry-leading companies have substantial investments in all these areas; think electrical vehicle software, 5G, subscription news services, discount shopping, and even autonomous tractors. They even make money doing it! The current environment, however, is not fully rewarding these investments as companies that generate real profits have seen their multiples contract.

You may ask what will make the world change? Or, is it different this time?

We think, a year from now, it is probable a vaccine will have been developed and the world will slowly head back to normal.

Investors will once again realize the earnings potential of our leading businesses. It has been twenty years since tech stocks cratered and value stocks rose by more than 30% in a single a year.

Most people in the industry have either forgotten or never have seen such a rotation into real cyclical, financial, and industrial business. The markets may make us look out of step with the times or even foolish but we are confident of a good result in the future.

We believe the best result for your hard-earned capital, your retirement money, is the future profits from our handful of gems. These profits become our shareholder returns. In a world where speculation is rank would you not want to place your capital with an owner – like Warren Buffett - who has 100% of his capital in his own business? Would you not want to place your capital with a team that has their capital invested alongside you?

As always please be safe. Thank you for your continued trust and support. Feel free to contact me, or any one of us, with your questions, comments or concerns.

Best,

Justin