

October 26, 2020

Dear Fellow Investor:

We at Weybosset Research and Management LLC hope all is well with you and yours and that you are negotiating these crazy times in good health and good spirits.

I am most pleased to report the investments which you have entrusted to our management are fine, thriving even. After a jaw-dropping, gut-wrenching plunge in February and March of this year—down more than a third in the space of only a few weeks! -- the broad stock market averages staged an equally remarkable rally and are now trading near all-time highs. For year-to-date 2020 through the end of the third quarter, the S&P 500 was up 4.07% (5.6% with reinvested dividends).

The accounts for which we are responsible trailed the broad averages as of September 30, at which point we were about breaking even with the end of last year. While I was shaking my head at trailing our benchmark by so wide a margin, our stocks for the most part have since caught up with the averages and, as I write, we're up low-to-mid single digits.

We are holding our own.

2019 for the market, but particularly for us, was one of those years for which investors fervently yearn, a big payday after years of oft-tested patience. To have held on to those gains through the onslaught of a global pandemic and the accompanying economic mayhem, a truly poisonous political cycle, and who knows what else beyond our borders, strikes me as cause for celebration. I'm counting my lucky stars and hope you are, too.

Justin has some thoughts to share with you on an especially important component in investing, and that is the role of *fear* in the process. An old Wall Street adage maintains investors are driven by two factors, fear, and greed. We at Weybosset Research and Management LLC best serve you when we eschew both impulses, strong though they may be at times, by *staying rational*. And that is the topic of Justin's essay.

But first, a brief digression. I have received numerous requests for my opinion of the upcoming general election, the effect different outcomes may have on the markets and the economy, and whether we at Weybosset Research and Management LLC have any strategies to deal with this outcome or that outcome. I am afraid my answer is not very exciting. For about 100 years now, the stock market has gone up about 75 percent of the time, and that is under Democrat and Republican presidents, liberals and conservatives. (I was surprised to learn, for instance, that on average the market has done better under Democrats than under Republicans, the latter being the avowed pro-business party.)

This, I think, is because, regardless of who is in Washington, regardless of the headlines, people get up every day and go to work. They work, yes, to put food on the table, but also to make better lives for themselves, for their children, for their communities, and to enjoy the good things life has to offer. These are the activities on which we are focused, the activities from which business and commerce arise. Of course, we monitor things like the regulatory environment, policy decisions, the price of money (interest rates), etc. But the primary focus is the outlook for our businesses, and I am happy to report the outlook is quite good right now. We do not anticipate any big changes in our portfolios.

Over to you, Justin!

--Fla

Staying Rational

“When things are overwhelmingly hard and scary, and the prognosis is generally not good, sometimes hope lies in the unknown, uncertainty and unpredictability — suddenly and surprisingly — are where there’s an opening for hope.” Julia Liss, New York Times, “Uncertainty is Hope”, Oct 8th, 2020.

Uncertainty and fear are an investor’s worst nightmare. However, they can also be our best friends. Out of fear comes hope. Fear and crisis can be turned into opportunity. Fear puts many people into action. Positive and negative action.

As an investor, fear can be palpable, it can be quantified. It is seen most dramatically in share prices, where expectations of the future get driven to extremely low levels and low prices (value). For those that have the patience and courage, surely good things will come to those fabulous businesses in which we have invested.

Though we believe it is by and large always a good time to invest in businesses if the price is right, when there is mass fear, these opportunities begin to appear like gold from the heavens.

The businesses we invest in are part of our DNA. They are products we use in some shape or form every day of our lives. They are not just stock quotes, ticker symbols, or the next worry of where the "market" is going.

Our investments effect the lives of the Janitor to the CEO, you and your grandchildren. The decisions are made with the utmost rigor, analysis and certainty, weighing the probabilities in our favor.

True wealth is not made in a year, it is made with the magic of compounding, over decades with patience and perseverance.

In March we wrote to you, "I would never make a bet against the ingenuity of this great nation. We have unleashed human potential like no other system."

As I go for my daily walk around NYC I am reminded of this every day. Stores have reopened, diners are filling the restaurants, outdoors for now, buildings are being built. People are adapting.

Yes, part of the economy is still in shambles, but many parts are ever changing, innovating, adapting, and most importantly thriving. They have taken action, positive action, to thwart the fear and uncertainty that lie ahead.

There is always something to worry about in business and in life. The structure of our investment criteria makes it possible for us to invest in businesses with sound fundamentals and capable leaders, leaving behind the fear and uncertainty.

Though the second quarter of 2020 was better than most people expected, year over year business as a whole was down north of 20%. As we approach the third quarter earnings season the indications are that the economy and our businesses are well, in fact, back to business.

Many of our investments are making new highs-- think wrecked cars, natural gas and electric truck engines, electric vehicle software, tractors, testing equipment for 5g and electric vehicles, and newspapers.

Most of our companies are not only surviving; they are thriving.

I suspect it is only a matter of time, perhaps when we get mass therapies and a vaccine, that the rest of our investments will follow.

Weybosset portfolios have so far weathered the storm of 2020 quite well, and as an investor your money has been made whole and then some.

Though the media portrays the stock market gains being led by only a handful of high-tech winners, this does not show the whole picture.

The market rally has been quite broad since the March lows. The consumer discretionary index is up roughly 81%, the industrials index is up 68%, and the tech sector up 76%.

With the market trading at or near all-time highs one would think investors would be euphoric. That is far from the case, as investors have parked 5 *trillion* dollars in money market funds, the vix (a tool that measures fear is above 25, anything over 20 is wide spread fear), and the American Association of Independent Investors bull index sits with only 34% of participants being bullish. These are all contrarian signals for equity prices to rise in the future.

“Investing is where you find a few great companies and then sit on your ass”. (Charlie Munger)

Let us not forget that bull markets start from a crisis, and usually last around 15 years.

Stay safe and healthy. If you have any questions, comments, or concerns please feel free to contact us, we would love to hear from you.

All the best,

Justin