

# ASHDON

Investment Management



## ***Market Data Summary***

The first quarter of 2020 was historic. As all of us know, all of human activity was impacted by a global pandemic. Stocks were soft in January but began to sell off in February before panic selling took hold in March as the reality of coronavirus came in to view. The S&P 500 Index fell -18.07% for the quarter while the international EAFE Index lost -23.49% (in USD terms). No companies, industries or sectors were immune. Consumer Staples, Health Care, Technology and Utilities were less weak. Energy, Financials, Industrials, and Consumer Discretionary stocks were the weakest, with Energy being very much weaker than other sectors (-53%). The bond market was strong compared to the stock market. Unusually, bonds were not immune from the selling. For three days during the worst for the selling, US treasuries were selling as well. Usually, one would expect treasuries to benefit from a “flight to safety”, but the selling during the second week of March saw investors selling any asset to raise cash. Fortunately, timely (and massive) Federal Reserve policy changes restored order to the bond market and prices recovered. At the end of the quarter, the Barclays Aggregate Bond Index was up +3.25%.

## ***Special Topic – Investing and National Elections***

All out investors understand by now that the COVID-19 pandemic is a significant event that has impacted virtually every human on the planet in some way. Evidence of the impact is beginning to become clear. Impact ranges from public health to economics to stocks and bonds. At this moment, we are operating with the knowledge that the key questions we all have – how bad it will get and how long it will last – do not have reliable answers. And answers will only be known in hindsight.

When the virus had taken hold in Europe and was beginning to impact the US, many forecasters had the base case of a strong recovery in the second half of the year. But it soon became clear that a social response of an unprecedented magnitude would be needed to save lives.

The economic knock on effects began coming into view and the original forecasts became uncertain. One of the biggest uncertainties was that the underlying driver of the economic crisis was a public health crisis – and no one from the economic forecasting community has any expertise in that field – it was not in the models.

At the end of the quarter, we knew much more. First, we knew that the US economy, and likely the global economy, was in recession. The employment data alone showed an unprecedented impact. In the US, the Federal Reserve responded by putting programs in place to shore up the economy. At the same time, the US Congress has passed laws intended to support American workers and companies. In the short term, these programs have had the desired effect in the short term. But the impacts for the long term are less clear.

As we noted in the Market Data Summary, the response of the stock and bond markets as this crisis evolved matched the gravity of the crisis. The selling was painful and investors who felt out of control can be forgiven. But panic selling gives an investor the valuable opportunity *to do nothing*. For the most part, we did nothing. To be clear, we were not complacent. Instead, we were confident in the actions that we had already taken as a matter of our process. Every portfolio we oversee is allocated with purpose and we work to be sure that the portfolio stays close to its target allocation – or, if our investors’ goals have changed, the portfolio is aligned with the new goal. For investors with short term goals where assured access to liquidity is paramount, portfolios had sufficient allocation to cash or bonds to assure that investors’ needs could be met over the medium term. For investors with long term wealth compounding goals and who can tolerate short term volatility, we have allocated heavily to stocks. As in all client portfolios, our stock portfolios built through strategies that invest in high quality companies: strong balance sheets, low debt, competitive products/services, and investor-focused management.

We invest this way because there is always the possibility of market drawdown. Our confidence in our portfolio construction and our underlying holdings gives us the ability to stay clear headed no matter the environment. During this selloff, we were focused on understanding the rapidly evolving environment with an eye toward sensing the emerging risks as opportunities. In this case, we had rebalanced portfolios in February (trimmed stocks after the strong 2019 rally) and invested in bonds or short duration cash reserves. For new portfolios, we made incremental invests in stocks in March at the height of the selling. We considered rebalancing back toward stocks for our seasoned portfolios, but concluded that we should maintain an underweight, conservative posture for now. We face two outcomes ahead; the market could quickly rally back toward

highs or sell off further. If the market recovers strongly, we will be back on target soon. However, if the market sells down further, we are in a better position to protect value and rebalance with a clearer view.

Our view now is that the evolution of the pandemic and the subsequent economic restart/recovery have months or quarters ahead. More remains unknown than known. But we do have confidence in the portfolio companies and our investing partners. We intended to stick to our discipline and maintain our preparations to take advantage of opportunities that arise. We are happy to speak with all our investors if you have further questions.

Thank you for your trust and confidence,  
Ashdon Investment Management

#### ISSUED BY

#### **Ashdon Investment Management**

214 East Grundy Street Tullahoma, TN 37388

Phone: 931 461-5733 Fax: 931 461-5735

[INFO@ASHDON.COM](mailto:INFO@ASHDON.COM)

#### DISCLAIMER

In the preparation of this presentation, Ashdon relied on data taken from sources it believes are creditable. As such, Ashdon believes such data to be accurate and reliable. While Ashdon has taken efforts to insure the data's accuracy, Ashdon cannot verify that the data used are free of error. Ashdon has relied on such data to calculate and offer hypothetical scenarios in this presentation. Ashdon has presented such data in historical context and for historical hypothetical purposes. Historical results are not a guarantee of future investment performance. Ashdon has not used such data to intentionally mislead, nor has Ashdon intentionally omitted data that is relevant to its hypothetical scenarios. Ashdon assumes no responsibility for errors or omissions that result from the data it has relied on in this presentation, the sources of the data, or the calculation of such data.

This presentation makes no offering of investment. The investment options discussed here must be offered through specific presentation of the terms and risks of the specific offering.