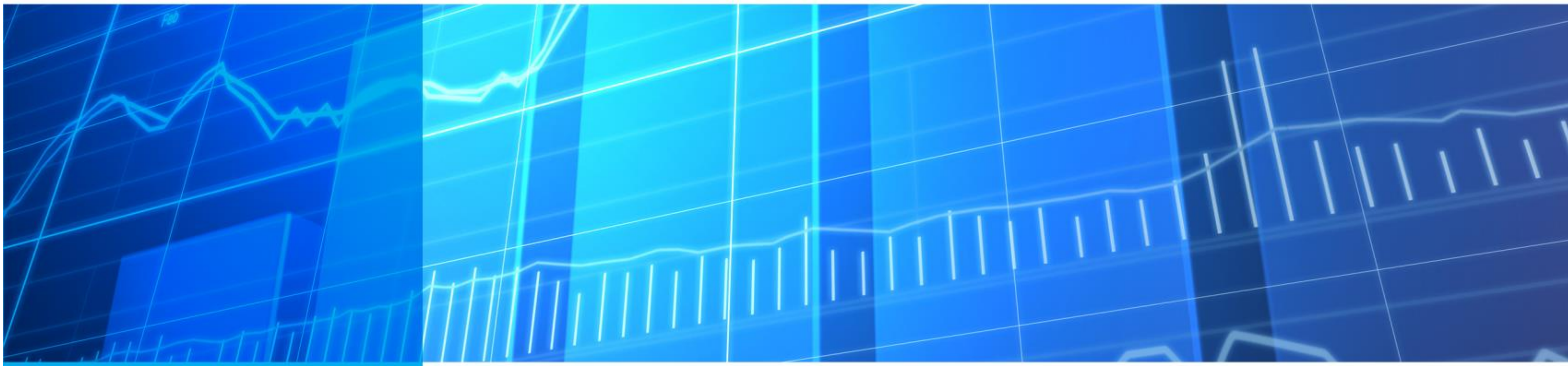

Mike Absher, CIMA®

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Oeconomia Interrupit

The title is Latin for economy interrupted. Given the absolute chaos and panic of the past three weeks, the title seems apropos. Before the Great Depression, a stock market decline was generally described as a 'panic' as opposed to the modern phrase 'bear market'. I think the word panic is a better description of the current market atmosphere than anything else. The reason that I chose the title is that this coronavirus pandemic has interrupted almost all normal economic activity for the world. As always, fear and uncertainty are toxic for stock market prices. While the worldwide COVID-19 outbreak grows, so too grows fear and uncertainty. This is normal, though the frenetic speed and magnitude of this downturn have felt different, and hence my choice to refer to this as a panic. If ever there was a time to step back for a better perspective, it is now. It is fruitless to discuss the economic outcome of the coronavirus while it is still such an unknown. However, we don't own the economy. We own businesses that operate in the economy. I want to focus on that.

What does it mean to own a stock?

I realize this may seem like a very trivial question. However, it's not. There are people who like to trade stocks or play the market. Those folks are gamblers or speculators in my view. We are investors in businesses. As such, we consider two different and correct definitions for the share price of any given stock:

1. Today's share price reflects the current market value of a stock. It tells you what a buyer will pay you right now for your share in a certain business. On a happy day, that value may be much more than the intrinsic value of the underlying business. Likewise on a scary day, that value may be much less than the intrinsic value of the underlying business. The best analogy might be real estate if you could receive an all-cash no-contingency offer for your home every half-hour of every business day. It would probably bounce around a lot more than we like to believe, but we are fortunate enough to not see those offers during a snowstorm or recession.

2. The other answer that we consider appropriate for the price of a share of stock is more complicated, but I believe more important. The current share price ***SHOULD*** reflect the net present value of all future cash flows, or at least be a market-appropriate measure of the current cash flow. We like to own stocks from companies that pay dividends and have historically raised those dividends. In that way, they resemble rental properties with less ownership hassle. We value our holdings based on their current dividends, free cash flow, balance sheets, and expectations for future growth in those dividends and free cash flows. This again should remind you of valuing real estate. Much like real estate, there are times that the price in column 1 is drastically different than your estimate for value in column 2.

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"The investor who says, this time is different, when in fact it's virtually a repeat of an earlier situation, has uttered among the four most costly words in the annals of investing."

~ Sir John Templeton

We own stock in fundamentally sound and well-positioned businesses that should be able to produce rising dividends and free cash flow for many years into the foreseeable future. We also seek to own them at a reasonable price. Our strategy is not in any way dependent upon nor influenced by the short-term economic cycle. To the contrary, we seek to own businesses that have proven resilient and solid through many previous economic cycles. We have learned from the great investors in history that economic forecasting is a fool's errand but owning businesses that you understand is a sound strategy.

Thinking beyond 2020

The coronavirus pandemic will have widespread implications for corporate earnings and the global economy in 2020. I want to think about earnings and the economy after this year. This is where an investor differentiates themselves from a speculator. In this current market panic, the selling is widespread and indiscriminate. Benjamin Graham was a mentor and advisor to Warren Buffett, as well as one of his professors at Columbia and later his employer. Benjamin Graham would describe this type of panic selling as a bad day for Mr. Market. According to Buffett, Graham would teach that the stock market often behaved like an emotional person rather than an orderly marketplace, and hence the moniker Mr. Market. I see the current environment as being a spectacularly pessimistic season for Mr. Market. While these short-term losses will prove traumatic and frightening for all of us, they also are almost certainly producing opportunities in many stocks. I want us to focus beyond the current economic cycle to understand these opportunities.

"You can find good reasons to scuttle your equities in every morning paper and on every broadcast of the evening news."

~ Peter Lynch

Almost every business will be impacted in some way during 2020, but we own several companies that I do not think are impacted long-term by this pandemic. Our strategy is based on owning businesses, not index funds or broadly diversified products, but a small group of high-quality businesses. Whenever this crisis passes, that distinction should matter. Some industries may not fully recover for many years, such as the cruise ship industry. Some companies may not have the balance sheet flexibility to survive a prolonged period without sales, such as a heavily indebted airline. We do not own businesses like either of these examples. I have focused and refocused our portfolio to look for companies that are well-positioned to benefit whenever the global economy returns to normal.

"You pay a very high price for a cheery consensus. It won't be the economy that will do in investors; it will be the investors themselves. Uncertainty is actually the friend of the buyer of long-term values."

~ Warren Buffett

Additionally, it should be noted that low interest rates and cheap oil should provide some support to the US economy during this crisis. Historically, you would expect Walmart, McDonalds, and many of our consumer businesses to see sales rise when their customers are spending less at the gas pump. The United States is the largest consumer of oil in the world and those prices have plummeted in the past few weeks. Historically, a drop like this in oil prices would act like a tax cut for many American households, though it also causes economic stress in oil-producing states like Texas and Oklahoma. Likewise, interest rates have fallen sharply since the stock market selloff began last month. The Mortgage Bankers Association reported on March 11th that refinancing applications rose 79% in the previous week. Much like the decline in gasoline prices, this won't calm the current panic, but it should be a positive development over time. The American consumer presumably will be buying cheaper gas this year and will have lower mortgage payments in the years ahead.

Our Portfolio

It may not be much comfort at times like these, but it cannot hurt to be reminded about the high-quality businesses that we own. I have highlighted some fundamental metrics below for our holdings that I find helpful to consider when fear and panic are so pervasive in the news.

Company	Dividend Yield (a/o 3/11/2020)	Consecutive Years of Dividend Increases
Emerson Electric	3.84%	63 years
3M	3.99%	62 years
Johnson & Johnson	2.88%	57 years
Abbott Labs	1.84%	48 years
PepsiCo	2.95%	47 years
Walmart	1.89%	47 years
McDonald's	2.66%	43 years
Mercury General	6.45%	35 years
Brown-Forman	1.25%	35 years
T Rowe Price	3.41%	34 years
Chevron	6.21%	33 years
Nestle	2.83%	25 years
Analog Devices	2.63%	17 years
Microsoft	1.33%	17 years
Amgen	3.22%	10 years
Intel	2.56%	7 years

Source; Investor Relations for each holding and FactSet Data

"In the business world, the rearview mirror is always clearer than the windshield."

~ Warren Buffett

"The key to making money in stocks is not to get scared out of them."

~ Peter Lynch

"For 240 years it's been a terrible mistake to bet against America, and now is no time to start."

~ Warren Buffett

In closing, I want to emphasize that this is a very uncertain time, but the companies that we own have been through many other moments in history that were just as uncertain. We are shareholders in businesses that are diversified by industry, geography, and size. Our heaviest exposure across our entire practice is in consumer businesses, such as Walmart, Starbucks, Ralph Lauren, PepsiCo, Costco, Louis Vuitton Moet Hennessy, Brown-Forman, Nike, McDonalds, and Nestle. Our next largest concentration of businesses are the industrial and technology companies, such as Emerson Electric, Microsoft, Intel, 3M, Analog Devices, John Deere, Visa and Fed Ex. These companies are not only global leaders, but they are not likely to be facing any structural changes in their core businesses as a result of the COVID-19 pandemic. As I consider the emotions that must be facing every investor today, I think it's helpful to look at what you own in your account and remember the wisdom of Warren Buffett.

"It's better to have a partial interest in the Hope diamond than to own all of a rhinestone." ~ Warren Buffett

Just as you would never consider selling your home below its fair value during a recession, we will not be selling stocks below their fair value during this storm. If given the chance to improve our holdings, we will do so. Otherwise, we will continue to focus on the fundamentals of each business seeking both the potential for rising dividends and steady balance sheets that provide us with a margin of safety.

The **Absher Wealth Management Group** is a team of experienced professionals who have a shared belief that professional development is critically important to their client's success. The members of the team hold many advanced industry designations and continue to work on additional professional designations. We believe prudently managed wealth serves as a means to get you where you want to go, and we're committed to delivering our best advice to help you get there.

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