

July 2020

Thus far, the year 2020 has not been one most of us would like to repeat. A pandemic, a sharp and deep recession, social distancing, civil unrest, and political uncertainty have left most people, much less investors, with severe anxieties. I've mentioned before that a professional investor is, or should be, a professional worrier. In that regard, this year has filled the plate of most investors. On the other hand, we have long subscribed to Mr. Buffett's maxim that, in order to successfully invest, "one must be cautious when the majority are bold and bold when the majority are cautious." This year, likewise, has supplied large portions of caution and, recently, even a little boldness.

So, where are we now? We believe it is obvious that the economy hit bottom in April and has begun to recover. It was a quick, but devastating, two-month recession that saw the economy come to a virtual standstill, the result of governmental and social efforts to mitigate the impact of COVID-19. Since May, the economy has been battling to reopen, although a resurgence of infections in many regions and lasting damage done to many service industries is producing a slower-moving recovery than anyone would like. Our economists have been telling us, however, that virtually *all* recoveries from recessions disappoint as to speed, and the peculiarities of the current situation will not change that.

We are indeed in recovery, but all recoveries are also *uneven*. In other words, we shouldn't be surprised if "a few steps forward" are followed by "one step back" every now and then. This rhythm disappoints many who want a quick, straight-line recovery, but that's even contrary to human nature. I'm reminded of one of C.S. Lewis' most memorable characters, the old demon, Screwtape, who wrote to his young apprentice, Wormwood, "Has no one ever told you about the law of Undulation? ... [Humans'] nearest approach to constancy ... is undulation – the repeated return to a level from which they repeatedly fall back, a series of troughs and peaks. If you had watched your patient carefully, you would have seen this undulation in every department of his life – his interest in his work, his affection for his friends, his physical appetites, all go up and down." And, we might add, his mood about the economic and investment future.

It's the stock market that has surprised most occasional observers. "How can the market be going up when there is so much trouble around?" I refer to the above-noted Law of Undulation. Did the *value* of American businesses really drop by 35% during four weeks in February-March? No, in my estimation, but market prices did so drop, affected as they are by undulating emotions. Market prices have risen sharply since then. A little good news triggers that classically American emotion: optimism. Will pessimism return, at least for a little while? Of course, this is how economies and stock markets always work: they undulate as they make forward progress. A pandemic merely adds a new factor to the undulation.

Last night I had the pleasure of watching my oldest grandchild graduate from high school, employing virus-safe practices, on a video broadcast via the internet. As I saw my grandson

and his friends, one after the other, take off their masks momentarily to pick up their diplomas off the table and smile for the camera, I was thrilled. These hard-working young people are sustaining extraordinary difficulties and yet are enduring them with aplomb, full of the optimism of youth. We need that. It's what keeps us, and the nation, going.

Our country has been through many troubles in the past, and we are going through more now. But through all these undulations we've managed to make quite a bit of forward progress along the way. I fully expect more of the same. We are investing that way.

We appreciate your confidence in us.

Gratefully,

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CEO and Chief Investment Officer

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