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We certainly do not wish to downplay the concerns related to COVID-19, as the disease is highly contagious and can be transmitted by those who are not currently showing any symptoms, and its spread from China to points around the world is disconcerting. However, in terms of the long-term impact on the economy and equity markets, a review of previous significant epidemic/pandemics shows that stocks performed quite well during the 1918-1919 influenza pandemic and the 1957-1958 Asian Flu. More recently, the 2002-2003 SARS scare, the 2009-2010 Swine Flu outbreak and the 2014 Ebola hysteria all proved to be fine times for long-term-oriented investors to add to their stock holdings. And, HIV, which has purportedly killed more than 32 million and counting, traces its start back to 1981, right near the beginning of the great Bull Market.

Yes, this time is different, given the interconnectedness of the world, but there is always something unique about every frightening market event. In this report, we offer perspective on epidemics and the equity market turbulence associated therewith as we have long believed that the secret to success in stocks is not to get scared out of them, while we are always focused on the long-term, multi-year prospects of the businesses in which we are invested. Happily, capitalism's immune system is quite strong.

VIRAL HEADLINES

No doubt, the news related to the novel coronavirus (COVID-2019) has been disconcerting, with more than 80,000 global cases reported and a death toll that has risen to more than 2,800 as of this writing. And, with new outbreaks reported outside of China all around the world, fears about the disease spreading have been heightened. Further, the very sad saga of those quarantined at sea on the Diamond Princess cruise ship off the coast of Japan and who were eventually repatriated via mercy flights from various foreign governments attracted plenty of media attention. And, rightfully so, as some 700 passengers were said to have contracted the disease, with several already having succumbed to the illness.

Certainly, we do not want to downplay the risks to our health related to COVID-19, even as the 97% to 98% of those diagnosed have survived the disease, while the death rate from the SARS version of the coronavirus back in 2002-2003 was upwards of 10% and the Western Africa Ebola virus killed 11,300 people from 2014-2016. And, we respect that the Centers for Disease Control and Prevention (CDC) sounded the alarm on Feb 25, stating that Americans must begin preparing for a possible pandemic outbreak in the U.S. with schools considering internet-based tele-schooling, local communities and cities potentially modifying, postponing or cancelling mass gatherings, and businesses replacing in-person meetings with video or telephone conferences.

Scary stuff, indeed, even as the CDC did concede that there has been a grand total of two COVID-19 cases (now, apparently there are three) thus far that were contracted through person-to-person contact in the U.S., while there was little media fanfare associated with the sobering CDC statistic that in the latest reported week ended Feb 8, 2020, there were a combined 2,495 deaths from pneumonia and influenza just in the United States, down from a whopping 3,293 deaths the week prior. Further, we find it interesting that more than 350,000 people in the U.S. alone have died from pneumonia/influenza over the last decade, yet not everyone gets a flu shot.

And, we might add that Dr. Arthur L. Reingold, the Division Head of Epidemiology and Biostatistics



tics at Cal Berkeley told KNX 1070 Radio listeners on Feb 25 that the COVID-19 mortality rate is likely far lower than the disconcerting 2% or so number that has been highlighted in the press, given that many who contract the ailment but are asymptomatic or minimally symptomatic are not counted in the denominator of the equation as they have not sought treatment or been formally diagnosed. Further, the good doctor said he would have gone to Malaysia for a meeting the week prior, without any worry related to being stuck in a potentially lengthy quarantine than any health issue, but the organizers canceled the event.

CAPITALISM'S IMMUNE SYSTEM IS STRONG

And therein lies the rub, as the curtailment of international travel and attempts to quarantine or restrict movement in parts of China, Italy and elsewhere are disrupting businesses around the world and severely hurting the global supply chain. Clearly, there is very real concern for our wealth, given that the U.S. stock markets have run into significant turbulence with companies like Apple, Microsoft, Proctor & Gamble, Mastercard and United Airlines warning about COVID-19 impact on their top- and bottom-lines. Obviously, global economic growth will take a hit, even as many countries were just beginning to see an upturn. As the International Monetary Fund (IMF) wrote in a blog post on Feb 19, 2020, "Given the cooling of trade tensions with China after disappointing growth in 2019, we began to see signs of stabilization and risk reduction, including the Phase 1 U.S.-China trade deal. In January, the IMF projected growth to strengthen from 2.9% in 2019 to 3.3% in 2020 and 3.4% in 2021. This projected uptick in growth is dependent on improved performance in some emerging market and developing economies."

The IMF was quick to cite the impact of COVID-19 as a major risk to the outlook and we know that forecasts for global and domestic growth have been trimmed, even as the latest forward-looking index of U.S. leading economic indicators came in well above expectations. We also note that Federal Reserve Chair Jerome H. Powell said recently, "We'll be watching this [coronavirus] carefully. The question for us really is what will be the effects on the U.S. economy? Will they be persistent? Will they be material? That's really the question...There's no way to be confident about anyone's assessment, and there are a range of assessments...Of course, policy is not on a preset course. If developments emerge that cause a material reassessment of our outlook, we would respond accordingly...I think you can expect the Chinese government to do lots of things to support economic activity, and they've said that they're open to cushioning the economic effects."

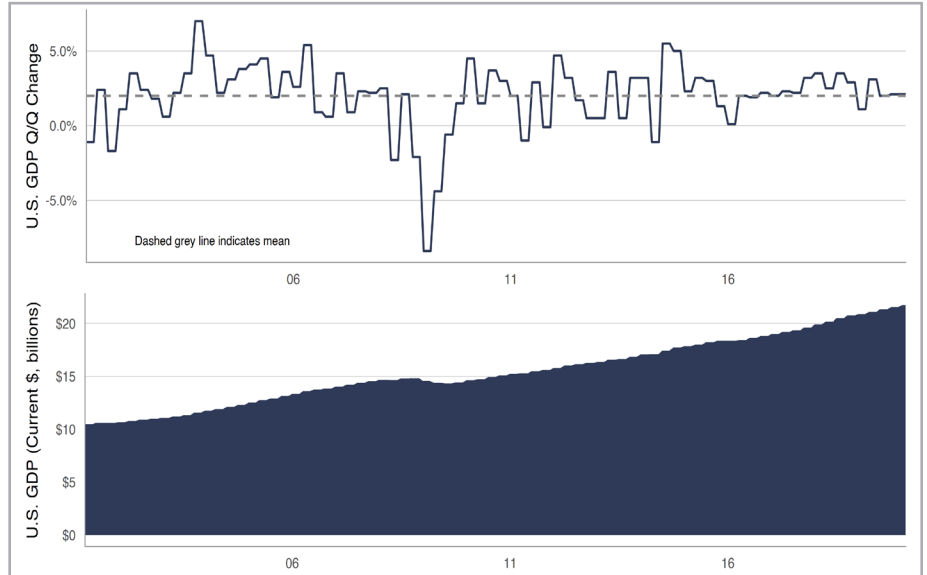
While central bankers around the world seemingly are prepared to do what they can to support growth, the latest odds, per Bloomberg, of an economic recession, at least here in the U.S., presently reside at 25%, an elevated level that is likely to rise, but the most recent periods of higher probability readings in Fall 2011 and Spring 2019 were precursors to terrific equity performance. And, we note that the latest (as of Feb 27, 2020) Bloomberg consensus projection for real (after-inflation) U.S. GDP growth stands at 1.8% for 2020 and 2.0% for 2021. Yes, those numbers are likely overly optimistic, but as Figure 1 illustrates, the long-term trend in economic growth is up, and even modestly negative real growth would see an expansion in the nominal GDP.



FIGURE 1

U.S. Economic Growth

From 03.30.01 through 01.31.20.
 SOURCE: Kovitz Investment Group
 using data from Bloomberg Finance L.P.



A MARKET HISTORY LESSON

Although we are not ready to quote FDR in stating, “The only thing we have to fear is fear itself,” we note, as shown in Figure 2, that equity market volatility is very much a normal occurrence with the current setback the 12th skid of at least 7.5% just since the end of the Financial Crisis.

FIGURE 2

S&P 500 Moves of at least 7.5%

S&P 500 Index moves on a closing basis of at least 7.5% without a comparable move in the opposite direction since 2009. SOURCE: Kovitz Investment Group using data from Bloomberg Finance, L.P.

S&P 500 Down Moves			S&P 500 Up Moves		
Start	End	Change	Start	End	Change
01.19.10	02.08.10	-8.10%	02.08.10	04.23.10	15.20%
04.23.10	07.02.10	-16.00%	07.02.10	04.29.11	33.30%
04.29.11	08.08.11	-17.90%	08.08.11	08.31.11	8.90%
08.31.11	10.03.11	-9.80%	10.03.11	10.28.11	16.90%
10.28.11	11.25.11	-9.80%	11.25.11	04.02.12	22.50%
04.02.12	06.01.12	-9.90%	06.01.12	09.14.12	14.70%
09.14.12	11.15.12	-7.70%	11.15.12	05.21.15	57.50%
05.21.15	08.25.15	-12.40%	08.25.15	11.03.15	13.00%
11.03.15	02.11.16	-13.30%	02.11.16	01.26.18	57.10%
01.26.18	02.08.18	-10.20%	02.08.18	09.20.18	13.60%
09.20.18	12.24.18	-19.80%	12.24.18	02.19.20	44.00%
02.19.20	02.26.20	-8.00%	6.17	7.12	-0.95
Average Drop		-11.9%	Average Drop		27.0%



Meanwhile, Figure 3 debunks mathematically the headlines on Feb 25 that screamed about the worst two-day drop (it was brutal but ranks only #79) in the Dow Jones Industrial's history.

FIGURE 3

Big 2-Day Down Moves for the DJIA

From 12.31.27 through 02.26.20. The decade is presented in the column header and the year is presented in the row labels. The intersection is the number of days with a two-day drop of more than 6.59% in that year. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

Ending Year	192-	193-	194-	195-	196-	197-	198-	199-	200-	201-	202-	Total
---0		4	3	-	-	-	-	-	1	-	1	9
---1		8	-	-	-	-	-	-	2	-		10
---2		19	-	-	1	-	-	-	1	-		21
---3		5	-	-	-	-	-	-	-	-		5
---4		-	-	-	-	-	-	-	-	-		0
---5		-	-	-	-	-	-	-	-	-		0
---6		-	2	-	-	-	-	-	-	-		2
---7		4	-	-	-	-	4	1	-	-		
---8	1	-	-	-	-	-	-	1	10	1		13
---9	9	-	-	-	-	-	1	-	-	-		10
Total	10	40	5	0	1	0	5	2	14	1	1	79

More importantly, given that our concern is always with the long-term prospects of the businesses in which we are invested, we think it interesting to look at prior virus scares and subsequent equity market returns. Happily, we have five prominent magazine covers to document the dates in which those ailments became front-page news, with the performance of stocks detailed in Figure 4.

FIGURE 4

Newspaper Headlines and Stock Returns

As of 02.26.20. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

Event	Date	S&P 500 End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Events Through Present
Time Magazine: The Aids Hysteria	07.04.83	169	-2%	-1%	-9%	+49%	+61%	+1745%
Time Magazine: The Truth About SARS	05.05.03	927	+4%	+14%	+21%	+43%	+52%	+236%
Time Magazine: The Avian Flu Death Threat	09.26.05	1216	+4%	+7%	+10%	0%	-6%	156%
Time Magazine: H1N1, How Bad Will It Get?	08.24.09	1026	+8%	+8%	+3%	+38%	+94%	204%
Bloomer BusinessWeek: Eboa is Coming	09.29.14	1978	+6%	+4%	-5%	27%	50%	58%
		Average	4%	6%	4%	31%	50%	480%

CONCLUSION

Though Hollywood has made a tidy sum from dramas featuring a virus leading to the demise of mankind, we believe that COVID-19 will eventually run its course and/or therapeutics will be developed and/or folks will come to accept that coronaviruses are not that unusual. As the World Health Organization (WHO) states, "Coronaviruses are a large family of viruses which may cause illness in animals or humans. In humans, several coronaviruses are known to cause respiratory infections ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS) and Severe

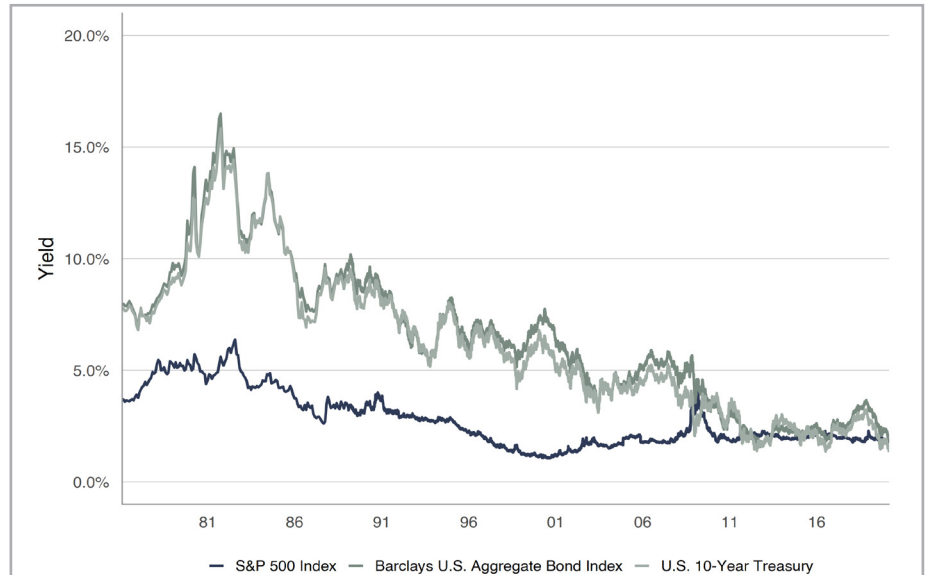


Acute Respiratory Syndrome (SARS). The most recently discovered coronavirus causes coronavirus disease COVID-19.”

That does not mean that stocks won't continue to struggle in the near-term nor that alarming headlines won't continue to lead the evening news, but just in the last four decades, we have managed to persevere through HIV, SARS, Avian Flu, Swine Flu, Ebola and a host of other ailments, not to mention the Crash of '87, the Gulf War, 9/11, the U.S. Credit Rating Downgrade and the Financial Crisis. Not without some severe bruising, of course, but we will get through COVID-19, and we note that during all those scary periods, save for early 2009, equities were not nearly as attractive from an income perspective (see Figure 5) relative to yields on fixed income instruments as they are today.

FIGURE 5
Equity vs. Fixed Income Yields

As of 01.30.76 through 02.26.20.
SOURCE: Kovitz Investment Group
using data from Bloomberg Finance,
L.P.





FOR MORE INFORMATION, PLEASE CONTACT:

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The dividend-weighted portfolio data is from Eugene F. Fama and Kenneth R. French. The dataset is broken into five groups: non-dividend paying, top 30% of dividend payers, middle 40% of dividend payers, bottom 30% of dividend payers and all dividend payers (weighted 50% of top dividend payers, 40% of middle dividend payers and 30% of low dividend payers). Non-dividend payers are stocks that do not pay dividends. Dividend payers are stocks that pay dividends. The capitalization and factor-based (book value-to-price) portfolio data is from Eugene F. Fama and Kenneth R. French. The dataset is broken into four groups: large value, large growth, small value and small growth. A large value stock is a type of large-cap stock investment where the intrinsic value of the company's stock is greater than the stock's market value. A large growth stock is a growth stock of a company with a market capitalization value of more than \$5 billion. A small value stock is a value stock of a company with a relatively small market capitalization. A small growth stock is a growth stock of a company with a relatively small market capitalization. The total return values presented in Figure 1 from Morningstar's Ibbotson Associates are grouped into small- and large-capitalization stocks.

The Russell 3000 index measures the performance of the largest 3,000 US companies representing approximately 98% of the investable US equity market. The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. A value stock is a stock that tends to trade at a lower price relative to its fundamentals (e.g., dividends, earnings and sales) and thus considered undervalued. A growth stock is a company whose earnings are expected to grow at an above-average rate relative to the market.

Large-cap stocks are represented by the Morningstar-Ibbotson Associates SBBI Large Stock Total Return index. Small-cap stocks are represented by the Morningstar-Ibbotson Associates SBBI Small Stock Total Return index. Short-term bonds are represented by the Morningstar-Ibbotson Associates SBBI U.S. 30-Day T-Bill Total Return index. Intermediate-term bonds are represented by the Morningstar-Ibbotson Associates SBBI U.S. Intermediate-Term Government Total Return index. Long-term bonds are represented by the Morningstar-Ibbotson Associates SBBI U.S. Long-Term Government Total Return index.

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