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I hope you and your family are healthy and secure. It is challenging to sound reassuring when I am worried about the health of our families, but I will try with this letter. A colleague used a quote attributed to Vladimir Lenin: "There are decades when nothing happens; and there are weeks when decades happen." Last quarter I wrote about the crashes witnessed in my 40 years of investing. I've never seen anything like this. According to Barron's, "the S&P 500 Index has seen an average absolute daily change of 5.2% in March, exceeding the previous record of 3.9% set in November 1929." There have been back to back days of up and down 10%. A whole year's worth of market moves in a day.

Of the three crashes I've invested through, 1987, 2001 and 2008, 2020 has combined and yet surpassed them all in some way. In 2001, 9-11 came out of a blue sky, literally, and with the anthrax scare that followed, shut the stock market down for days. The feeling was bleak. On October 19, 1987, the market fell 20% in a day. It took a year for the markets to stabilize. The financial crisis of 2008 was climaxed by spectacular bankruptcies, a stage perhaps we haven't reached yet. Those three prior crashes had an element of a "Black Swan" event, as per Nassim Taleeb's famous metaphor of a high impact type, low likelihood event. Covid-19 is more of a Gray Rhino: "a highly probable, high impact yet neglected threat: kin to both the elephant in the room and the improbable and unforeseeable black swan. Gray rhinos are not random surprises, but occur after a series of warnings and visible evidence." (Michele Wacker). We have been warned by Bill Gates and others of the threat of a pandemic, similarly to a climate change related extreme weather event.

Like the previous crisis, it seems to me that we must not underestimate how bad this one could get or how long it can last. There are two techniques that can get us through this and out the other side: liquidity and, income. As Dr. Anthony Fauci says; "the virus makes the timeline" and it is the virus that will determine the economy's recovery. For now, governments are the economy and will provide the backstop. As Bill Nygren said in Barron's "No companies were built to withstand zero revenue for an extended period of time". Our portfolios are built to withstand disaster. Let me explain how:

1) Our portfolios are balanced. We never have everything in stocks. We have set a maximum, minimum and a target for the percentage in stocks. We are inclined to rebalance towards the target, but we are in no great rush to do so. Rather, as I did in response to previous crises, we intend to move gradually, in very small increments. I believe stock market bottoms take time. It's a process. When stocks go on sale, nobody seems to enjoy it.

2) We are diversified, not only between fixed income and equities but geographically and, by industry group. There are winners and losers resulting from this lock down and pandemic. For example, retailers like grocers and dollar stores have a big advantage by being open.

3) We have money invested in short-term government guaranteed bonds and deposits which provide liquidity and insurance against calamity. Their income is small, but their safety is large.

4) If this goes on for a long time undoubtedly some companies will "defer" their dividend payments. But, many of the companies we've invested in will continue to be a reliable source of dividends. Reliable income is my theme at the moment. For example, companies that make electricity that they sell to governments or which are regulated by governments; telephone companies whose customers are working from home and who would rather stop paying rent than give up their phones; grocers are essential. There are other companies such as Alphabet (Google), Amazon and Berkshire Hathaway which don't now pay a dividend but have many billions of dollars in reserve with which they could buy back their own shares. Last quarter Warren Buffett was criticized for not buying more Berkshire Hathaway shares and for sitting on some $124 billion of cash. I don't think that criticism will be repeated this quarter.

In September 2008 Seth Klarman was interviewed by Value Investor Insight: "As Graham, Dodd and Buffett have all said, you should always remember that you don't have to swing at every pitch. You can wait for opportunities that fit your criteria and if you don't find them, patiently wait. Deciding not to panic is still a decision."

We are in uncharted territory. Alexa, Margarita and I are working from home. Phone calls are being forwarded to us. Please call or email if you'd like. We may not be our usual cheery selves, however. We have much to worry about, but I truly believe your investment portfolio will recover. I wish you, above all else, good health.

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