



INVESTMENT COUNSEL

INSPIRE TRUST. INVEST WELL.

April 3, 2020

Quarterly Commentary

The global response to slow Covid-19 has temporarily impacted the underlying economies which support us all. To counter that impact, our government has taken substantial actions to support our economy including both the \$2 trillion fiscal stimulus package as well as extensive monetary support from the Federal Reserve to both lower interest rates and provide liquidity to markets.

The economic slowdown is almost entirely government-directed, and because these policies will be reversed at the appropriate time when social health risks are considered contained, we do not expect the economic damage to be permanent.

We view the current investment risk as more a short-term liquidity threat that will be substantially reduced once economies are broadly re-opened. The \$2T stimulus package is meant to provide interim cashflow to those individuals and businesses who face liquidity needs, and the Fed's policies are providing back-up liquidity in the banking system and financial markets.

As for investment assets, there has been so much fear and uncertainty that across-the-board, indiscriminate selling has generated even more across-the-board algorithmic program selling. The volatility index (VIX), which very rarely trades above 40 on any given day, spent the entire month of March above 40, and traded between 60-80 for half the month. This type of volatility is very unusual and driven by fear which leads to oversold conditions. It is reassuring to us to see the overwhelmingly bullish sentiment coming from corporate insider buying reports.

Our client portfolios are focused on well-managed, financially strong businesses that provide ongoing dividend income and can sustain themselves during this economic dislocation. We have been evaluating the changing circumstances and have taken the opportunity to strategically improve the long-term attractiveness of our client portfolios through tax planning and adding additional dividend growth. We remain optimistic that equity values will be significantly higher in the future and that our client portfolios will rebound and continue to generate strong income. We suggest you avoid a "mark-to-market" view of your portfolio businesses today; rather, bear in mind the positives once investor confidence returns.

We are also of the mindset that plenty of unknown positive events may develop that substantially change the negative investor sentiment reflected in the markets. Call it a belief in the American Spirit. In the midst of the negative news that gets reported each day, there are stories of heroes, volunteers and creative problem solvers that remind us how great our nation really is. We wish all of you and your families good health and encourage you to remain positive. We will get through this together and return to a more normal environment, which may even include greater empathy for us all.

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