CANNELL &CO.

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A LIGHT AT THE END OF THE TUNNEL

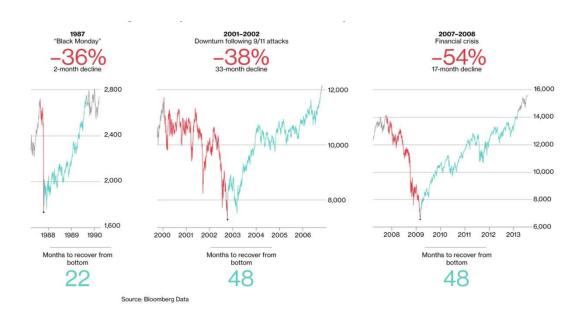
Dear clients,

We start this letter hoping that you and your families are safe and healthy in this harrowing and disruptive time. For all of us, the changes in our lives over the last month-and-a-half would have been unimaginable just a short time ago.

How do we assess the current environment? When markets turn from bull to bear, many in our profession are quick to provide soundbites that are meant to calm investors over the short-term and re-orient focus to the longer-term. While much of this advice is based on thoughtful wisdom, this crisis is one which we believe deserves a great degree of humbleness when trying to evaluate the near-term. With most of the country's population staying at home and practicing some form of social distancing, our "screen time" has exploded. Whether TV, computer, tablet or smart phone, information on the COVID-19 virus and its tragic impact is unavoidable. There are both optimistic and pessimistic forecasts continuously available. Depending on your personal bias, your view of the future could be vastly different from that of your neighbor. This leads us to take a restrained view of the short-term. Nevertheless, we are optimistic long-term.

Why are we bullish over the longer-term? Comparing today to the Great Financial Crisis (GFC) of 2008-09 might help. For some of us, the beginning of the GFC created so much uncertainty about the fabric of our global financial system that there was a real fear that the global economy could fail. For long-term investors, it was as if there was a light at the end of the tunnel but there was no way to tell if it was an oncoming train or the tunnel's end. The current environment's uncertainty revolves around the reality of our physical wellbeing. The priority of focusing on our health and welfare is driving everything in the short-term – both social behavior and economic outcomes. To try and forecast these accurately would be a fool's game. We do know that this pandemic will end. Therefore, unlike the GFC, there is a light at the end of the tunnel for longer-term investors; while we know it is not a train, unfortunately, we don't know when we will reach the light.

Though a forecast is difficult, some perspective on the quarter may be instructive. After reaching all-time highs, the S&P 500 lost 20% in the first quarter of 2020, masking some of the in-quarter volatility (the index was down over 35% during the quarter). The rapidity of this drawdown was shocking, though the absolute size of the drop was not. We have included the chart below that captures the last three major market meltdowns: 1987, 2000-2, and 2007-9. The important takeaways are that markets do experience large drawdowns and they do recover.



Ever mindful of what we are unable to know about the short-term, we are investors who have faced bear markets of this magnitude and successfully managed through them. Keeping our eye on specific companies – not the market – and their longerterm prospects has allowed us to help clients recover from these inevitable market selloffs, often more rapidly than the markets as a whole. It may take some time to earn back these losses, but the damage is not permanent.

Advising you to "stay the course" seems like a lot to ask in the face of our current challenges. We don't recommend this to cause you pain. On the contrary, we do it because we know it will help maximize your wealth. The vast majority of your time as an investor is just waiting for those days when you are truly rewarded. If you miss them, your investing experience was for naught. The chart below illustrates this point clearly.



Source: FMRCo, S&P 500 1/1/1980-12/31/2017

Over the roughly 10,000 trading days that this chart covers, missing the 5 best days reduces your return by 35% and missing the best 10 cuts your return by over half. Our advice may seem to run contrary to your best interest at times like these; however, we are experienced enough to know we will never be able to identify the "best days" for the market. Therefore, we ask you endure these periods of pain to be able to enjoy the benefits.

The next few months will be challenging for all of us. The news is likely to get worse before it gets better. For a period, the markets will react in real time, resulting in continued volatility; however, they historically trough well in advance of actual news flows. Rest assured that we will be here as your partners throughout. Though our contact with you will adhere to whatever social distancing practices are appropriate at the time, please know that all of us at Peter B. Cannell & Co., Inc. are committed to you, our clients.

Sincerely,

The Partners of CANNELL & CO.