

MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

1st Quarter, March 31, 2020			
	3/31/20	% Change 1 st Quarter	% Change Year to date
Dow Jones Industrials	21,917.16	(22.73) % *	(22.73) % *
S & P 500	2,584.59	(19.60) % *	(19.60) % *
Russell 2000	1,153.10	(30.61) % *	(30.61) % *
BC Aggregate BD Index		3.15 %	3.15 %
10 YR Treasury Yield	0.67 %		
30 YR Treasury Yield	1.32 %		

* Includes reinvested dividends

The River

“No man ever steps in the same river twice, for it is not the same river and he is not the same man.”
Heraclitus 535 BC

Heraclitus’s observation made 2,500 years ago reflected on the constantly changing nature of life. For many of us, the world has never changed as quickly as it has over the last sixty days. Beyond the human tragedy, the unprecedented disruptions caused by the Coronavirus will change the way our world moves forward.

As noted in our March 12th letter, we watched concerns transition into anxiety and anxiety metastasize into panic. March 23rd saw a crescendo of selling, with liquidity needs causing leveraged hedge funds and margined accounts to sell everything at the market, thus “throwing the baby out with the bathwater.” Study of behavioral sciences suggests that in the short term, especially in a crisis, investment decisions are significantly influenced by emotional factors. It is human nature to extrapolate from the present, and the present is truly horrific. However, we see the stock market as a barometer of how the world will look in the future, a discounting machine if you will. The future, whether it is three months or six months or years from now, will be much brighter. The American economic system, when combined with our native ingenuity, hard work and cutting-edge research and development is remarkably resilient and adaptive.

We have been working without interruption to manage your portfolio through the crisis. In a testament to the long-term value orientation of our clients and our relationships, not one client sold into the panic lows. Naturally, just as the river constantly changes, we will adapt and adjust your portfolio to prepare for the changes that are coming.

We have a few takeaways from the disruption in the economy and the market.

Cash is King

Cash and cash equivalents (T Bills) are the safest port in any storm. From a total return perspective, cash is a low yielding (or zero yielding) asset. However, it is invaluable in providing comfort and security in crisis and dry powder for bargain hunting in a recovering economy. A sufficient amount of cash gives one the ability to look out over the dark valley of paper losses (the panic) without having to sell. The amount of cash one holds is of course dependent on individual needs and circumstances. We note that much of the panic selling that occurred as the market cascaded lower appears to have been forced selling from hedge funds and over leveraged margin accounts that needed to raise cash.

Stay with Quality

Owning companies with healthy balance sheets and sustainable streams of income is always important, but particularly critical in times of disarray. Abbott Labs, General Mills, Proctor and Gamble and Verizon are examples of companies that provide the foundation for strong portfolios. In addition to a healthy balance sheet and a sustainable revenue stream, these companies provide above average dividend yield. The defensive nature of these and similar equities, along with their enduring dividends provide another level of comfort and safety in a storm.

Adapt

We structure portfolios with individual stocks and bonds to match your individual profile. Portfolios need constant pruning and planting in normal times: the extraordinary disruption caused by the Covid-19 pandemic has necessitated reviewing and re-analyzing each security in light of the changes that are coming. We will diligently stress test individual securities as the economy rebuilds, making sure that they still add value to your portfolios. The process of rebalancing your portfolio is constant and this unprecedented interruption presents both risk and opportunities. We recognize that it is not the same river and we have all been affected by the pandemic; we will adapt.