



January 2021

Panic and Patience

The year 2020 was unprecedented. We have heard this so many times that this narrative has become a cliché. However, looking into what makes 2020 a unique year is instructive. These are the times that truly test a disciplined investor, and this is where patience is of paramount importance. In this Investment Perspective, we take a step back to see what made 2020 a unique year and discuss why a patient approach to investing is required more than ever before.

The global pandemic and the oil-related crisis that emerged roughly a year ago led to the fastest market decline in the history of the stock market. Following the historic decline, we saw an equally quick recovery, but the more interesting development was the immense bifurcation in stocks between the perceived COVID-19 winners and COVID-19 losers. So called ‘stay at home stocks’ soared while travel, financial and energy related stocks were crushed as people spent more money online while stuck in their homes.

During the past year, the fiscal and federal stimulus accounted for roughly [half of the GDP!](#) We live in the world of unprecedented stimulus and that is the result of the quick action our government took last year. What about unemployment? According to The [Wall Street Journal](#), 2020 had the worst year for job losses since 1939. Yet, 2020 saw a roughly 33-year low in bankruptcy filings.

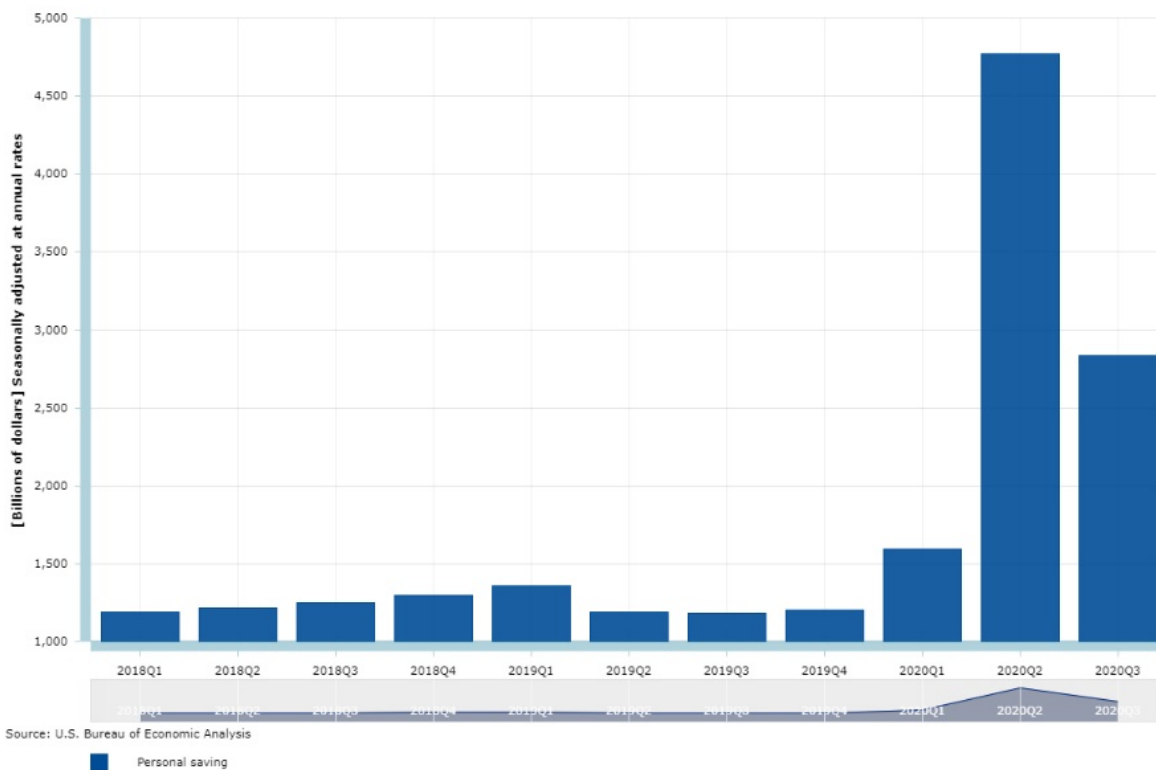


source: <https://www.abi.org/newsroom/chart-of-the-day/annual-us-total-bankruptcy-filings-1980-2020>

In addition, let’s not forget, we have spent almost a year working from home now; not meeting our friends, putting our vacation plans on hold and not seeing our children socialize freely. Indeed, 2020 has been a difficult year for most people.

However, there is again a bifurcation here. People working in small businesses felt the greatest pain. Larger businesses with a strong online presence were less affected. Those who were less financially impacted led to a dramatic increase in savings and contributed to the growth in asset prices. Through the third quarter of last year, per the Bureau of Economic Analysis, net personal savings increased \$1.6 trillion year-over year. Per S&P CoreLogic National Home Price Index, home prices rose by 8.4% in October 2020, helped in part by historically low mortgage rates.

Table 5.1. Saving and Investment by Sector

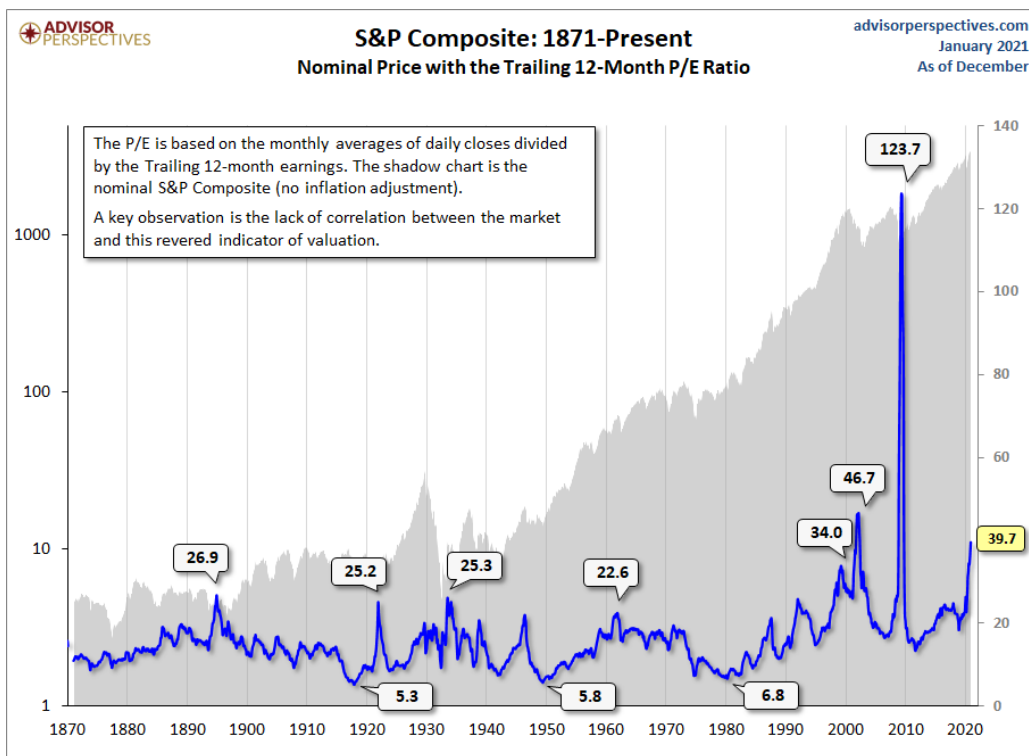


source: <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey>

Lastly, the broad stock market, symbolized by the S&P 500 index grew in 2020 after being down 30+% at one point, a remarkable recovery. If you go back in 2019, and we were to ask you, “What are the odds of the stock market rising during one of the worst global health pandemics on record?” The chances are you would indicate the probability of a 15%+ broad market advance would be incredibly low. Yet here we are.

These developments cited above are what made 2020 an unusual year, filled with contradictions. Nonetheless, these unknowable and unforecastable events, unfortunately, can happen again. What matters is being prepared and being patient. Certain stocks have developed a “cult-like” following. A lot of people with who bought stock to the likes of Tesla, Nikola, and other growth companies have seen their accounts swell and think they can do it again. But was that skill or luck? Many of these investors use the past stock appreciation to predict the future appreciation... this is a recipe for disaster.

We tend to focus on business fundamentals and long-term business outcomes. We attempt to identify good, and solid companies. Once identified, we have the patience to wait if we don’t like the current price. We will make a purchase only when the company is priced substantially below our estimate of intrinsic value. Unfortunately, that is not the case with the majority of stocks in the broader market. The S&P 500 trades at roughly forty times earnings versus a historical average of around seventeen. Companies with negligible revenue and profitability are seeing huge and growing market valuations. To highlight a few: Tesla rose almost 700% despite producing any meaningful cash flow (after stock-based compensation), and Nikola rose 70% with almost no revenue! These developments make us cautious.



source: <https://www.advisorperspectives.com/dshort/updates/2021/01/04/is-the-stock-market-cheap>

We always remind ourselves that price is what you pay, and value is what you get. We don't know how to generate a return investing in companies that don't generate revenue or meager to zero profits. We stay away from them, and continually stick to our investment process.

Other signs of potential euphoria that give us pause include:

- The number of people who have left or lost their jobs and have transitioned to full time day trading
- Recent investor sentiment polls are at the highest level of optimism since the start of the pandemic
- The all-time record number of IPOs in 2020

In summary, we think it is instructive to remind ourselves that the frenzy of 2020 can happen again. We believe a patient approach to investing is sustainable and maximizes the benefits of our research-intensive investment process. These benefits may be difficult to see in the short term but have proven critical to good performance in the long term. Thus, we continue to stick to our process.

PLEASE SEE IMPORTANT DISCLOSURES BELOW:

As of December 31st,2020, Hutchinson Capital Management (HCM) held:
0 shares of Tesla, Inc (TSLA)
0 shares of Nikola Corporation (NKLA)

As of December 31st, 2020 (Prices in USD unless noted otherwise)
Tesla, Inc (TSLA) closed at \$705.67
Nikola Corporation (NKLA) closed at \$15.26

As of December 31st, 2020, the following were the ten largest holdings of HCM:

Name of Issuer	% of Equity Portfolio	12/31/2020 Closing Price
Apple Inc	5.70%	132.69
Berkshire Hathaway Inc Class B	5.56%	231.87
Bank of America Corp	5.51%	30.31
Progressive Corp	4.67%	98.88
Microsoft Corp	4.41%	222.42
Markel Corp	4.35%	1033.3
CVS Health Corp	4.09%	68.3
Cable ONE	4.06%	2227.72
CDK Global Inc	3.93%	51.83
Jacobs Engineering Group Inc	3.90%	108.96

For a complete list of holdings, please see our most recent 13F filing on the following SEC website:
<http://www.sec.gov/edgar/searchedgar/companysearch.html>

HCM's investment decision making process involves a number of different factors, not just those discussed in this document. The views expressed in this material are subject to ongoing evaluation and could change at any time.

Past performance is not indicative of future results, which may vary. The value of investments and the income derived from investments can go down as well as up. It shall not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities mentioned here. While HCM seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

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