



The U.S.-China trade dispute has kept everyone on their toes over the last year, but the overall discussion of tariffs and trade resurfaced in a more profound way in the third quarter. On August 1, 2019, President Trump tweeted that he would impose a 10% tariff on \$300 billion of Chinese goods starting September 1, 2019. Approximately two-thirds of the goods tariffed in the September 1, 2019 round are consumer goods.

In general, small cap stocks are less affected by trade disputes as they tend to be more domestically oriented. The consumer discretionary segment, however, could be more affected in small cap companies than their larger counterparts. Larger consumer discretionary companies, think footwear and apparel companies, are more likely to have plants in multiple geographic locations. The smaller U.S. companies doing business in China generally have a more difficult time renegotiating manufacturing costs due to their scale. They also find it more challenging to relocate manufacturing facilities to new locations outside of China due to cost and time constraints.

How the trade dispute with China will play out is anyone's guess, and we don't proclaim to have a crystal ball. However, one aspect of Argent's investment process is to consider the operating conditions a company faces as we assess its ability to execute on its business plan. A good example of this is Johnson Outdoors Inc., a company that specializes in camping, diving and fishing equipment and a long-time holding in the Argent Small Cap strategy. Johnson Outdoors sells over 90% of its merchandise in North America. The company does, however, source the electronic components and parts for its fish finders and electric trolling motors from China. At the onset of the trade dispute, in the fourth quarter of 2018, Johnson Outdoors outlined a strong plan for the expected impacts of the tariffs as well as investments that would need to be made to change its sourcing to non-Chinese suppliers. The company's decisive management team has quickly analyzed the risks involved with the trade dispute and developed alternative scenarios for running the business.

Although the outcome with China is uncertain, Argent believes this stock is still an attractive investment. The company continues to show a catalyst for change through its shift to millennial-driven outdoor activities. Also, the company has sound fundamentals with cash flow derived from new products at higher margins and a solid balance sheet with which to make future investments. At the end of September, the company increased its dividend, a move that reflects the company's confidence in its performance and strategic plans. While there are near-term challenges and any outcome on trade is unclear, we think Johnson Outdoors is developing strategies to mitigate these issues. In the long-term, we continue to believe that Johnson Outdoors is well-positioned for growth and has a compelling valuation.

We have four successful equity strategies – Large Cap U.S., Small Cap U.S., Dividend Select and Mid Cap U.S. If you have questions about any of these options or know others who might have an interest in our strategies, please call us.

Sincerely,

A handwritten signature in blue ink that reads "Eddie Vigil". The signature is written in a cursive, flowing style.

Eddie Vigil
Portfolio Manager