Argent Capital Management LLC

RE:	**INVESTMENT COMMENTARY FOR PERIOD ENDING MARCH 31, 2020**
FROM:	**ARGENT CAPITAL MANAGEMENT**
DATE:	**APRIL 7, 2020**

Thirty days hath September
April, June and November
All the rest have thirty one
Except for March, which had 8000

A frequently asked question on Wall Street is why all past corrections are viewed as great opportunities, but current and future corrections are regarded as risks? It must be something innate in us, and we are not helped by access to instant information (and misinformation) on markets, the virus, and our portfolio values. Indeed, sometimes ignorance is bliss, and beneficial to our financial well-being. It was Fayez Sarofim who noted, "Nervous energy is the great destroyer of wealth. The temptation to sell has cost investors significantly more money than they would have made by doing nothing."

The first quarter was bad for any stock investor. The S&P 500 stock index of large U.S. companies lost close to 20 percent and most lost closer to 30 percent. Even more unusual, during the last week of March we had that rarest of events - while experiencing a full bear market (down over 20 percent) we simultaneously experienced a full bull market (up over 20 percent from lows) in a matter of just days. Fortunately, actions by the Fed and Congress were taken relatively quickly, at least by Washington D.C. standards, and should provide powerful tools to help get us through the Spring. We feel fortunate that our economy and banking system were healthy going into this crisis, allowing us to better weather the storm.

"I'd just like to know what in hell is happening, that's all! I'd like to know what in hell is happening! Do you know what in hell is happening?"

As to its timing, we believe markets will start to significantly improve as the number of virus infections flattens and we gain a better understanding of the true pace of recovery. Unfortunately, the real pop may not occur until we are closer to a successful vaccine; and while that cure seems elusive today, it will happen. When it does, we believe investors who have stayed the course will be rewarded. For proof, we merely need to examine the past. Since 1928 we have had 14 recessions and 21 bear markets. Markets have *never* failed to reach prior peaks after each of those periods. More to the point, if we assume it takes even four years to reach prices last seen in mid-February, the market will still have averaged an 8 percent return from here. (After the ’08-’09 financial collapse, and with a bigger decline than this to date, that is about how long it took.)

“Would the gentleman prefer an antidepressant?”

As stock market investors, it is Argent’s responsibility to successfully evaluate current and future economic conditions and use that information to structure an investment portfolio with favorable odds for success. Even in the best of times navigating can be difficult, as there is rarely consensus among experts on how to interpret current economic trends. It is an even more difficult task today given the lack of knowledge of the duration and scale of the self-imposed business shut-down. To-date, energy, financial and industrial stocks have been hit the hardest, with consumer staples, healthcare and technology stocks experiencing more modest losses. Some of this makes sense, but this is different than the past, when so-called “defensive” stocks generally outperformed in recessionary environments. One theory is that this is occurring because this is the first healthcare - induced recession, whereas past ones have been caused by financial strains in the system.

What does seem clear is that this should be a great environment for stock-picking, as opposed to passive index investing. It also seems to be a market again favoring investment in high-quality growth-oriented companies. Argent is taking advantage of the downturn by selectively upgrading into stocks we wished to own for some time, but where pricing made that difficult.

Here are a few quick additional thoughts:

- The U.S. economy will likely improve more quickly than in Europe. Severe coronavirus fatalities in Italy and Spain, two historically troubled economies already, will put huge pressure on the banking system in Europe. Some believe this will lead to more events like BREXIT, as the banking system in southern Europe may once again need a bail-out from northern Europe. Will Germans step up again?

- The US has evolved into a service-led economy, as large portions of our industrial base have moved overseas. This recession is hitting that service sector particularly hard – notably hotel, restaurant and airline employees, along with teachers. Determining how to replace lost wages and pay rents at a time when government tax receipts are down is fraught with issues.

- Unemployment will continue to skyrocket for weeks. It is therefore important that civic and business leadership restore confidence as quickly as possible, and successfully walk the very delicate line of maintaining our health while restarting businesses and getting people back to work.

- Lost among coronavirus headlines is a total collapse in energy prices. Crude oil started the year at $60 per barrel and now trades for $20 per barrel, and it seems likely some smaller U.S. oil producers will be forced into bankruptcy. Bad news for them and for their banks and lenders; good news, however, for consumers.

We are optimistic about the development of antiviral medications to relieve some of the current stresses in our healthcare system, and in a vaccine by next winter, which is likely the all-important requirement in restoring confidence in social and business interactions. In the meantime, investors would do well to remember what John Bogle, the founder of the Vanguard mutual fund family, said during the tech bubble market collapse, "Your success in investing will depend in part on your character and guts, and in part on your ability to realize, at the height of ebullience and the depth of despair alike, that this, too, shall pass."