



July 2, 2020

Second Quarter Update and Outlook

The U.S. economy has not taken a hit the likes of which we are experiencing since the Great Depression. Current U.S. GDP (Gross Domestic Product) estimates are for the economy to decline by 30% in the second quarter ended June 30th. The U.S. unemployment rate rose to 14.7% at the end of April, up from 3.5% in February. This has been a swift economic decline that came on rapidly as businesses closed and customers stayed home. To offset the economic shock, the U.S. government quickly put money in the hands of businesses and individuals through its CaresAct refundable loans to businesses, Covid-19 stimulus checks to individuals and extra unemployment benefits through July 31. This unprecedented quick action had the effect of increasing M-1 money supply, also known as checking accounts. As Covid-19 winds down (assuming it does), it is expected that these funds available to individuals and businesses will be spent to the good of the economy.

During this reset, companies that could, increased their liquidity, mostly through borrowings. The Federal Reserve has backstopped the economy through bond and even equity purchases to shore up confidence in the U.S. outlook. Bankruptcy filings are up sharply, but so is the stock market from its recent March lows. Already, the shocking economic plunge is starting to dissipate, with recent economic metrics a little better than their worst. Nevertheless, the LSC Opportunistic portfolio has significant cash reserves that will cushion what will likely be one or more reality checks for investors as the year progresses.

During the second quarter, we initiated new positions in Hecla Mining Company and iShares Silver Trust exchange traded fund with the proceeds of our partial sale of AngloGold Ashanti ADR. While we believe that precious metals in general will benefit from a weakening U.S. dollar and a pickup in inflation over time, we believe that silver is especially undervalued, if the industrial economy begins to recover over the next year. We purchased the Proshares Short S&P 500 and Proshares Short QQQ exchange traded funds, reflecting the all-time wide divergence in valuations between growth and value stocks, currently in favor of growth stocks. We believe valuations will revert to the mean over time due to a number of factors including a change in future earnings growth, a change in the business climate or just an unplanned event. We added to our position in Embraer, the Brazilian-based aerospace manufacturer. Embraer's commercial jet businesses should pick up as regional air travel recovers. We sold our positions in Franklin Resources and St. Joe Company and sold a partial position in Weis Markets. Franklin Resources is acquiring another investment manager which changes our primary reason for owning the company and St. Joe stock had held up well during the economic reset, probably not fully reflecting pressure in the real estate industry. Our partial sale of Weis Markets reflected the strong appreciation in the stock due to investor enthusiasm in owning a grocery store chain during the Covid-19 epidemic.

We are pleased that our out-of-favor and contrarian style of investing experienced strong results in a quarter that again favored more expensive growth stocks. If the economy continues to heal, investors will likely broaden their interest in investments to favor inexpensive companies with promising outlooks, such as ours.

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Upon request, LSC will furnish a list of all recommendations made since inception, this list shall include the name of each security, date and nature of each such recommendation, market price at the time of each recommendation, price at which the recommendation was made and price it was to be acted upon, and market price of each security as of the most recent practicable date.