LESA
SROUFE&CO INC.
VALUE ADVISORS

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Third Quarter Update and Outlook

The U.S. stock market has done better than non-U.S. markets, though the decline in U.S. real GDP for 2020 is forecast to be worse than for the rest of the world. We believe current high valuations of the U.S. broad market indexes partly reflect the perceived invincibility of those large growth company stocks that carry the lion's share of the index weightings, especially technology and internet related stocks. The largest five public companies in the U.S. account for 24% of the S&P 500 Index by market capitalization, on average. Put another way, the remaining 495 companies in the index equal just 0.2% each on average.

Federal Reserve induced record low interest rates have had the intended effect of pushing everyone out on the risk curve. Those investors that traditionally invested in bank insured CD's are now investing in longer maturity bonds. Government bond investors are now investing in corporate bonds. Corporate bond investors are investing in common stocks and high yield bonds, and so on. The Fed fueled liquidity made available to borrowers and investors alike has resulted in valuations for many asset classes out of whack in view of the current economic reality. Large companies have benefitted far more from this largesse, yet small businesses have taken a disproportionate hit from the Covid-related economic fallout. Small businesses employ about half of the American private workforce.

We believe the long-term direction of the U.S. dollar is down as the U.S. record shattering budget deficit continues to grow with further spending packages that need to be financed. Most investors focus on the risk of inflation, as have we. Afterall, higher inflation is the goal of the U.S. Federal Reserve. Nevertheless, the opposite could hold true if the recent economic recovery reverses itself and collapses under the weight of too much debt owed by too many companies and individuals. We believe current political, social and economic uncertainty supports exposure to gold and silver and to maintaining some cash reserves. In addition, we have recently added some defensive dividend paying companies to the model portfolios.

During the third quarter we purchased Avista Corporation, Universal Corp. and Range Resources. We also added to our position in Diana Shipping. Avista Corp is a regulated electric and gas utility based in Spokane, WA. Over 50% of Avista's electric generation is from hydroelectric power. Avista's earnings should benefit from rate cases to be decided over the next 18 months. The dividend currently yields an attractive 4.7%. Universal Corp. is a tobacco leaf supplier and food ingredients company. The company's earnings tend to be less sensitive to economic cycles. The stock currently yields 7.3%. Range Resources is a U.S. based natural gas producer. We believe that natural gas will be part of the solution to electric utilities' goal of reducing emissions worldwide. Range Resources is one of the more efficient natural gas producers, operating in the Marcellus field in the eastern U.S. Natural gas prices have been severely depressed due to industry overproduction in past years and more recently the economic downturn precipitated by Covid-19. Future expected lower production should result in higher natural gas prices over time. Diana Shipping will benefit from a recovery in worldwide dry bulk shipping and a reduction in available vessels, as uneconomic ships are scrapped. We sold BP PLC during the quarter. We believe it will be difficult for BP to reinvent itself as mostly a renewable energy supplier.

The remainder of the year will be marked by volatility as the final stretch of the U.S. presidential election continues to take unexpected turns. Good news on the Covid front and a related reopening of the economy would offer a significant lifeline to U.S. employers, especially those industries that have suffered the most.

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