Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

P&A's Quarterly Letter

Q1 – March 31, 2020

Dear Friends and Clients,

It's quarterly letter time again, so let's see how witty and distracting I can be. To date, I have written over 200 of these tomes, not including the un-numbered stuff that went out during our brokerage days. It's evening, and my wife just asked me if I was going to watch TV with her….

"Nope, gonna work on the quarterly letter."
"Oh, this is an important one, isn't it?"
"Pretty much."

The truth of the matter is, these letters are like market corrections. They're all the same, but sometimes they're different. Every bear market, recession and liquidity collapse we have lived through is different. Some are sponsored by poor earnings, some by "too big to fail" banks, and some are born of bad habits like junk bond LBOs, bullet proof portfolio insurance, and extended valuations. Regardless of how different the cover might be, there is always a storyline that is born of some excess that a bear market can be blamed on…each is just a little bit different.

The sameness becomes glaring during the resolution. Best of breed stocks and the way they are managed always seem to survive. They tend to be diversified, well-capitalized companies with top notch management. This is not flashy stuff. An investment cycle historically has averaged 5-7 years, although the 11-year bull market we just went through shows the problem with averages. Cycles start with a bear market recovery, then comes growth, a bull market recognition, expansion, then bear market deterioration. The first two phases favor mundane securities…the chicken soup of a recovery, if you will. Offending portfolio managers act like punished schoolboys at the outset, trying to make the case that "they didn't do it." By the time a new bull is recognized, all have found their swagger…they're back! They usually need new clients by that time as well as newer and trendier ways to attract money. Market pundits and portfolio managers always know when the bull will begin and when the bear will end…after the fact.

The first quarter of 2020 was the worst ever for both the Dow Industrials and the S&P. Events like this tend to make one a bit retrospective. Using the garden analogy for a portfolio, our tendency is to pull the weeds, trim the flowers, and use the proceeds to invest in new flowers…rebalancing and diversifying. We were able to do this between 2009 – 2015 in a tax efficient manner. We had tax loss carryforwards generated during the financial disaster of '08 to work with, and the process was uneventful for most clients. By the time 2015 rolled around, our tax loss carryforwards were exhausted and the gains we were now generating were paying tax at long-term capital gains rates…advantageous, but poorly received. We continued to trim flowers, pull weeds, and invest in new opportunities.

This is our profile, the way we like to behave and the discipline we want to follow. Now came one of the most extended bull markets in history. The run between 2009 and 2015 was fairly typical; the extended bull between 2016 and 2020 was unique. Periods like this tempt portfolio managers to take the bait and believe that things really are different this time. We did our best to resist and stuck to our knitting. The stocks we had to trim were family favorites and their replacements looked dull by comparison. Sticking to our disciplines has paid dividends for us. As always, your quarterly report is attached to this letter. We set an internal goal of beating the P&A Blend benchmark tied into your asset allocation. For example, if your account is 100%

stocks, our goal would be first to beat the P&A Blend, then the S&P 500 or Dow Industrials. The point here is both retrospective and prospective. It's our experience that portfolios that perform well during market declines tend to be well positioned during the ensuing recovery. Because we are not market timers, it is impossible to reconfigure a portfolio after the fact. We must own great companies and ride out the bumps in the road.

This January and the first two weeks of February were fairly mundane for us, but things changed abruptly after the market peaked on February 19th. I am thankful that our portfolios held high quality equities at that point. Instead of re-inventing the wheel, our task became the harvesting of tax losses in a manner beneficial to our clients. Although most of the work available to us has been done, the nature of this beast will allow it to rear its ugly head again…stay tuned.

So how does a portfolio work and how do you measure it?

Portfolios are long-term investment vehicles; they last as long as you do and often longer. In addition to being savings tools, they provide current income, satisfy liquidity needs, fund philanthropies, provide for education, distribute estates, satisfy goals, and on and on. These are living and breathing things. Like a human, they are child-like, pubescent, young adult, middle aged, senior citizens and eventually part of an estate. As a portfolio moves through a lifetime of investment cycles, it rises and falls in present value. If you constantly make withdrawals and the corpus stays the same or appreciates, be happy because your portfolio is doing its job.

During the bull market phases of an investment cycle we encourage clients to spend money. Over the last 10 years this has been a constant. During the bear market phases of an investment cycle we encourage clients to add to their investment accounts… Haven't had that opportunity for a while, but it is now at hand. As all of us age, we need to adopt new investment protocols. During our working years we are savers, which for most clients comes naturally. During this period portfolio dollars are occasionally reallocated from investment assets to use assets. We generally find this form of rebalancing to be constructive because it occurs when clients satisfy their want lists, buying second homes, RVs, autos, major trips, etc.

As retirement approaches, any remaining schedule of use assets needs to be funded and the remaining balance of investment assets becomes dedicated to producing income. This last chore commonly occurs as the client approaches retirement date. It is not necessary for stocks to be sold in favor of bonds, nor growth stocks replaced by dividend payers. Income can be created through the systematic sale of common stocks. Remember, it is all just money. This concept can become a difficult transition for clients, who fail to recognize that dividends should not be considered just "ok to spend"; they are that portion of the corporate income stream not required for growth, they can be saved or spent. If a company does not declare a dividend, the investor can declare their own by selling a few shares. Taxation on a long-term capital gain is the same as the taxation on a qualified dividend. We know these changes are in front of our clients the day we meet them. If you have more money than most, the spending process can accelerate. If you have less money than projections, our job will be to help slow things down a bit and let existing assets grow. Time can be a luxury as well as a necessary variable.

Some of you tell us you want to retire at 55, some 60 and some 65. If you are like Dan and me, you really don't have any interest in retiring. Regardless of how those dates fall, you will not need the entire lump sum of your savings on your planned retirement date. You will, however, need to put those assets into the correct investment vehicles so they can best serve your purpose. Those investors who retire at 65 and then live until 80, will on average have two full investment cycles to manage. (See note about averages above.) In a scenario like this, your beneficiary can change from spouse to next-gen family to skip generation family to a philanthropy.   As you can probably tell, we've seen this movie before and know how it plays out.

Your portfolio and COVID-19…

March 2020 introduced us to the most extreme price volatility in market history. Still, the market is working. April 2020 promises the worst of the COVID-19 metrics… Here's hoping most of the month will be in the rearview mirror by the time you read this letter. Our research and portfolio review committees have not missed a beat; we don't like the price action, but are pleased with the positions our clients own and feel confident they will be strong enough to weather the storm. Once again, the market is working; there are bids and offers, and securities can be bought and sold.

We have been working with a slimmer office staff (3-4 people) the past few weeks, practicing social distancing, and working remotely from our homes when not in world headquarters rotation. Do not suffer through this crisis alone. If you want some conversation with us, please call. We are talking with clients on a daily basis. We're in this together; these conversations relieve our own frustrations, anxiety, and fear. Markets do not like uncertainty, and neither do human beings.

So what changes spill out of this?

Pretty good question, eh?   Here are some thoughts, feel free to fill in any blanks we have missed. COVID-19 is a Black Swan, watershed event. The other side of this mountain will look considerably different than the landscape we are used to seeing. Feel free to add to our list.

Business implications –

1) The use of Join.me, Zoom, Facetime, and any other virtual meeting technology is being pushed to the forefront of how business gets done, like it or not. The trend seems to favor "like." Just try and buy a computer camera, they're right next to the toilet paper and hand sanitizer. Our view is that any way to get together without being together at this juncture seems prudent, for our health and yours.
2) Greater acceptance of technology going forward seems likely. The longer this drags on, the more new habits will be formed. Even consumers who formerly rejected online solutions will likely begin to embrace them, or at least grudgingly accept them.
3) If your business is not operating in the cloud today, you can expect it will be when you do your next IT upgrade. The speed, storage, and convenience are undeniable. We've been working in the cloud since 2015, and it has been a godsend for us. Doing so has made this COVID-19 transition to skeleton/remote much easier for P&A.
4) Expect even more financial, real estate, and legal business to be done online going forward. The demand to be face-to-face has already dropped considerably, and in some cases, it may not return to prior levels. Our governor is expected to sign "in-person" notary reform shortly. From an efficiency standpoint, this has to be a plus. From a relationship standpoint, maybe less so.
5) Expect the "fraud cycle" to emerge again. Market dislocations pull down the pants of all the bad actors…think Madoff, Enron, Bernie Evers and Tyco. Ponzi schemes blow up quickly when the "next" leg is removed.

Social implications –

1) Movies have been "opening" online in living rooms everywhere. Will this be the start of a trend? What does that imply for the future of theaters? Many in our office love the theater experience. It would have to take a lot to keep them away. In the meantime, home theaters will suffice.
2) Restaurants have moved to a takeout-only approach. We encourage all of you who can to support your local restaurants and other small businesses in your community in whatever way you can. We've done takeout from a handful of Lincoln restaurants. Home cooked meals are great, but so is letting someone else do the work.
3) Airlines are amongst the hardest hit by this pandemic. There are a lot of factors at play here that will dictate their future and the timing of when operations move closer to normalcy. There doesn't appear to be a light at the end of the tunnel just yet…TBD. The future of cruise lines is murkier.
4) Sports – Who would have thought the entire sports world would ever be shut down? To help fill the void, ESPN is moving up their release of "The Last Dance" about Michael Jordan and the Chicago Bulls' 1998 season. You're seeing a lot of "greatest ever" lists and classic games being replayed. You have to feel bad for high school seniors, Olympic trainees, and others who have put so much blood, sweat, and tears into their training and who are now facing the unknown.
5) Baby boom – We're hardly the first or only to predict a second Baby Boom generation as a result of this pandemic keeping people inside.
6) Education – This is turning into the longest Spring Break ever! Home schooling is as popular as it has ever been. Parents who are able to work from home now have to contend with their kids interrupting conference calls and Zoom meetings.
7) Faith – While the churches may be empty, worshippers are watching online in record numbers. You can take the people out of church, but you can't take church out of the people.

The world according to Pitt and Dan…

The economic woes we're experiencing are due to a government orchestrated shutdown precipitated by a pandemic. (Never had that combination before.) Oil is now $24 a barrel, due to a drop in global demand and a food fight over barrels per day between Russia and Saudi Arabia. This creates a compound fracture between two sets of freak economic events. The recently passed $2 trillion CARES Act is an unprecedented rescue effort on the part of Congress and the White House…more liquidity and regulatory accommodation than we could have ever imagined. While these efforts certainly help, they only represent part of the remedy.

What we really need to see are the following: an increase in testing. At the current time it is very difficult for health authorities to quantify the number of infected victims. Remember, we need to remove uncertainty. In addition to testing, we need to see a reduction in the growth rate of COVID-19 infections. Flattening this curve will, again, reduce uncertainty. The same is true for the number of deaths internationally, nationally and locally…flatten that curve. Last but not least, a cure. In addition to a remedy for those infected, the world needs a vaccine.

Markets are forward-looking and will seek to price in the potential for good news before it becomes apparent. As the pandemic subsides, the financial issues will wane. Expect continued volatility in the coming weeks and months as we work through this.

I was hoping we could have a party. P&A has leased more space in our building, and we are in the midst of a significant expansion. More conference rooms, more desks…we aren't going anywhere. We have developed a habit of celebrating events like this with more than 10 people standing closer than 6 feet apart. Sure would be nice to perpetuate that tradition… We look forward to seeing you again soon. In the meantime, please practice social distancing and be safe.

On behalf of the entire P&A team,

James S. Pittenger, Jr,
Chairman/CEO
CFP®

Dan Anderson
President
CFP®

TEAM MEMBER

Audrey Mines, CFP(R)

audrey@pittand.com

Office (402) 328-8800

Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Blake Anderson, CFP(R)

blake@pittand.com

Office (402) 328-8800

Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Dan Anderson, CFP(R)

dan@pittand.com

Office (402) 328-8800

Mobile (402) 432-1600

Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Diane Klein, CFP(R)

diane@pittand.com

Office (402) 328-8800

Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Elizabeth Sydzyik, CRPC(R)

elizabeth@pittand.com

Office (402) 328-8800

Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Hannah Lockard, AAMS(R)

hannah@pittand.com

Office (402) 328-8800

Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Jim Pittenger, CFP(R)

pitt@pittand.com
Office (402) 328-8800
Mobile (402) 430-6615
Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

John Dannenbring

johnd@pittand.com
Office (402) 328-8800
Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Jon Sevenker, CFP(R)

jon@pittand.com
Office (402) 328-8800
Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Kristin Kliewer, IACCP(R)

kristin@pittand.com
Office (402) 328-8800
Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Shane Riley, CFA

shane@pittand.com
Office (402) 328-8800
Mobile (402) 779-1863
Fax (402) 328-8500

VIEW DETAILS

TEAM MEMBER

Trey Pittenger, CFP(R)

trey@pittand.com
Office (402) 328-8800
Fax (402) 328-8500

VIEW DETAILS