EUBEL BRADY & SUTTMAN
ASSET MANAGEMENT

"Unequaled Personalized Service"

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The past couple of weeks have been filled with much uncertainty, change and opportunity. Not only has the COVID-19 virus temporarily changed the way we live our lives and had a material temporary impact on the U.S. economy, but pressures in the energy space have added additional strain to segments of the capital markets. In this update, we touch on our investment process, the current state of equity and fixed-income markets, as well as a few reasons for optimism. We hope these nuggets bring an element of rationality to what is otherwise a topsy-turvy world.

Investment Process – We have employed our value-oriented investment process for more than 34 years as of this writing. It mandates that we invest from the bottom-up, constructing portfolios company by company rather than making wild guesses about macro themes like interest rate levels, oil prices, monetary and fiscal policy, etc. Are we aware of these elements? Of course, but we don't forecast. It also requires that we only invest when securities are available at a discount to estimated value. This discount is often referred to as a margin of safety – the bigger the discount, the better.

With more than three decades of experience, we have lived through a few market cycles. While this cycle may be understandably unsettling for you, it is just part of a process for us. The greed that existed in the market just over a month ago has turned to fear. Fear creates opportunity and we pledge to work diligently to make what we consider to be good, long-term investment decisions during this uncertain time. Knowing what you own and why you own it is always important, but paramount today. Our process helps us separate the wheat from the chaff and keeps us well-grounded throughout the various phases of the market cycle. We believe our process will serve us well in managing through the current COVID-19 induced selloff, just as it did during Black Monday in 1987 (before the formation of EBS), the Ruble crisis in 1998, the Tech Crash of 2000 and the Great Recession of 2008.

Equities – With stock averages declining roughly 30% since their recent high, the number of high-quality companies available for review at attractive prices has increased markedly. However, stocks, on average, are still not dirt cheap – we must be selective. Our investment process had us underweight equities leading up to the downturn, simply because we struggled to find suitable investments with an adequate margin of safety. That left us positioned well to capitalize on opportunities now which we intend to do in a very methodical manner. More opportunities for better compounding over the next five to seven years are on the horizon, in our view.

Fixed Income – Recently, one to three-year investment grade corporate bonds have sold-off as large mutual funds open to the general public were hit with redemption requests and have been forced to sell what they can (higher quality issues) versus what they want to (lower quality issues). We have been able to selectively capitalize on these emerging opportunities in certain instances and will gladly continue being a source of liquidity for sellers needing out of positions that line up with our criteria. The opportunity to recycle lower yielding debt into better yielding instruments has been welcome.

A Few Reasons for Optimism – For the avoidance of doubt, we are not making light of the severity of the situation at hand and our thoughts go out to small business owners, employees who have lost their jobs, single parents who will likely have children out of school and in need of care for an extended period of time, healthcare workers with the herculean task of caring for the ill and investors who have seen their portfolios negatively impacted by the abrupt and temporary halt of economic activity.

However, in the spirit of bringing balance and objectivity to a world filled with negative bias, we offer the following for consideration:

- Due to dislocations in the financial markets, more attractively priced investment opportunities are surfacing which can set the stage for better compounding over the next 5-7 years.

- Trials of an experimental Coronavirus vaccine made by Moderna began in Seattle on Monday (source: New York Times).

- China's new cases of Coronavirus have declined dramatically, and the last temporary hospital closed last week (source: New York Post).

- A 103-year-old female in China with minimal underlying health conditions became the oldest person to recover from the Coronavirus (source: Independent).

- Factories in China have been re-opening, all 42 of Apple's stores are open and most Starbucks locations are back in operation (source: various).

- MetroHealth Medical Center in Cleveland became the first hospital in Ohio to test COVID-19 samples in its lab and render results in just two hours (source: News5Cleveland).

The current situation is very real and very serious, but not permanent. The unprecedented stimulus being injected into domestic and global markets should soften the blow and can enhance the speed of economic recovery. We remain focused on making good investment decisions for the betterment of our clients; helping fellow citizens by ordering takeout from local eateries, consulting with business owners as how to address the current situation and serving as an objective voice of reason. Please do not hesitate to call or email a member of the EBS team with questions. We are here to help.

Very truly yours,

Robert J. Suttman II, CFA
President