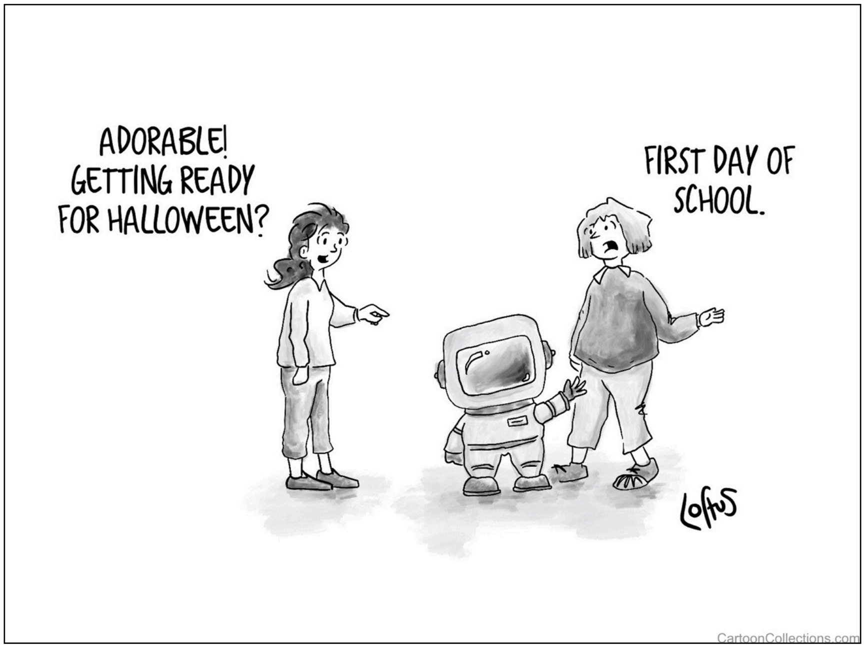
# Quarterly Comments




**Firm Highlights**
JAG continues to make long-term investments in our clients and our future growth. Over the last six months, we have welcomed three team members to our St. Louis and Chicago offices. Gregory Lowhorn joined our business development team in St. Louis, and we recently hired Jason Ng as an equity research analyst. Sheryl Dineen, based in Chicago, is our new Marketing Manager.

## Navigating the 2020 Elections

So far in 2020, investors have been forced to navigate a global pandemic, the onset of a recession (which ended a record-breaking 127-month expansion in the U.S. economy), huge adjustments to our business and personal lives, the near-cessation of global travel, remote work, broad societal unrest, spiking crime rates in many cities, multiple hurricanes, and terrible wildfires in Northern California.

For better or worse, 2020 is not finished with us yet. During the final stanza of an epically challenging year, we are heading into the final stretches of what could be the most contentious and exhausting presidential election in recent memory. At the time of this writing, many polls favor former Vice President Joe Biden to win the presidency this November. This would leave President Trump as the first single-term Oval Office occupant since George H.W. Bush's loss to Bill Clinton in 1992. Of course, around this same time in the 2016 election process, many polls favored Hillary Clinton to prevail.

We know from history and current polling data that close to 50% of Americans will be disappointed in the result of the 2020 election — no matter which candidate prevails. We also anticipate that after enduring the coming weeks of incessant political ads, media pundit bloviating, nasty fights on social media, frequent and unsolicited political emails, and phone calls, roughly 100% of us will be at least somewhat relieved when the election is over. However, in keeping with 2020's hard-earned reputation for delivering unpleasant and unprecedented complications, this particular election will be held amidst the worst pandemic since 1918.

Traditional in-person voting may be difficult or impossible in some areas, and many more voters will cast their ballot by mail this year than ever before. Potential delays in processing millions of mail-in ballots could delay the declaration of the ultimate winner for weeks. In other words, while November 3rd will come and go as the calendar turns, we should prepare to deal with election-related drama for a long period. Election Day 2020 could very well turn into Election Weeks, so we should manage our expectations for political closure accordingly.

Anecdotally, and in keeping with our experience during the last several presidential elections, we recently had several conversations with clients (of various political leanings) who are concerned about the implications of the upcoming vote. Some fear that a victory by one or the other candidate will materially impact the near- or intermediate-term investment environment. While there is no disputing the fact that the office of President is extremely important to the nation and the world, there is surprisingly little evidence that the President is a reliable leading indicator for the trajectory of the economy or the capital markets.

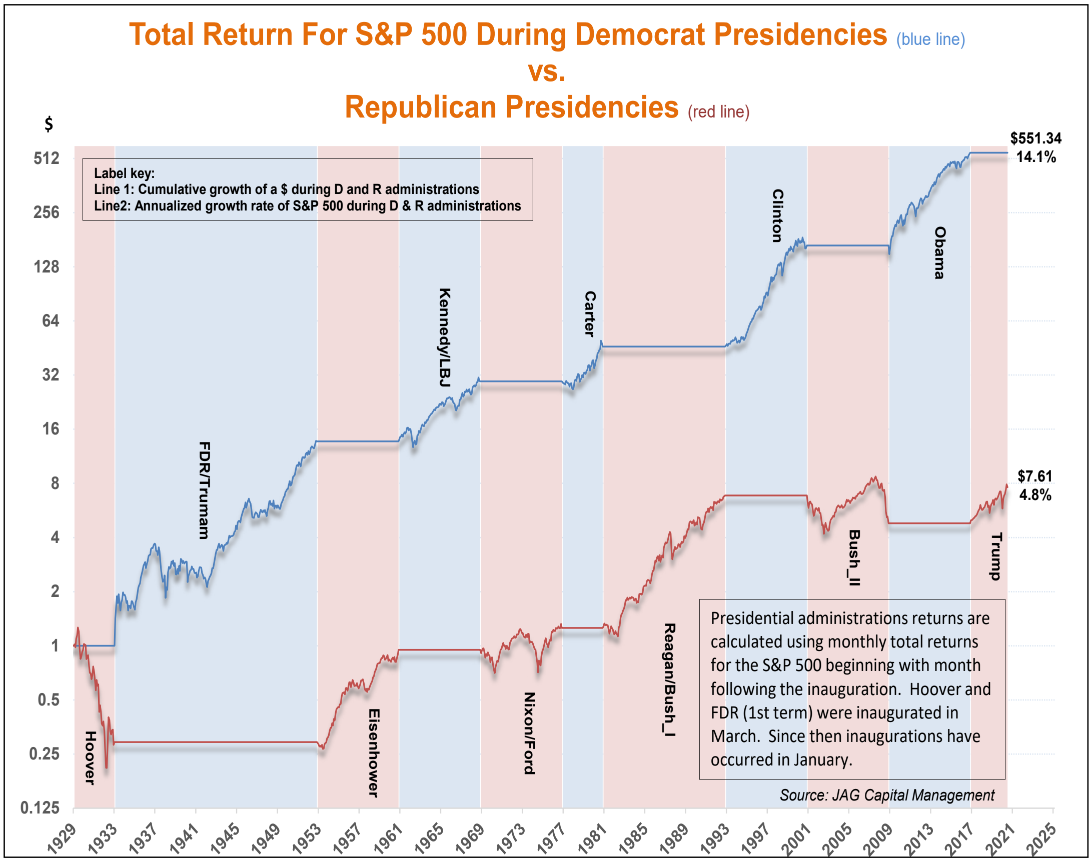
In fact, despite the GOP's stereotypical reputation as being the more "business friendly" major party, the stock market has fared better under Democratic presidencies. Since 1928, the S&P 500 has returned an annualized 14.1% during Democratic administrations, versus 4.8% with a Republican in the White House. Before our Democratic friends get too excited, however, we should point out that a large part of this performance gap can be explained by several unique periods in history.

For example, Franklin Roosevelt was elected soon after stocks had made a multi-generational low in June 1932. This proved to be fortuitous timing, as stocks proceeded to gain almost 200% during his first term. On the other hand, George W. Bush was sworn in just as the dot-com bubble was popping, and his first term was marked by 9/11 and a grueling recession. Bush's second term included the Great Financial Crisis, which marked the worst recession since the Great Depression. President Obama took office within 60 days of the ultimate March 2009 bottom for the S&P 500. He presided over a long economic recovery that saw the stock market return more than 228% (using monthly total returns for the S&P 500) between his inauguration and the end of his second term in January 2017. This works out to an annualized return of 16.0%, modestly better than the 13.4% annualized return for the S&P 500 since Donald J. Trump took office.


*"I guess that's one strategy for dealing with the recent market volatility."*

The chart on the following page shows the cumulative total return for the S&P 500 by political party beginning with the Hoover administration in 1929. Three Democrat presidents, FDR, Clinton, and Obama benefited mightily by assuming office at or near the bottom of significant drops in the S&P 500. Reagan also benefitted from similar good fortune, but Hoover and Bush II began their terms in office just as the market was making a multi-year high.

We are skeptical that presidential party affiliation can reliably be linked to the performance of the economy and the capital markets over discrete four-year time periods. Our global economy and financial markets are extremely complex and are influenced by a mind-boggling array of global and domestic trends, many of which are decades in the making. Although presidential election data can be tortured to "confess" whatever




## S&P 500 Performance by Presidential Terms Since 1928

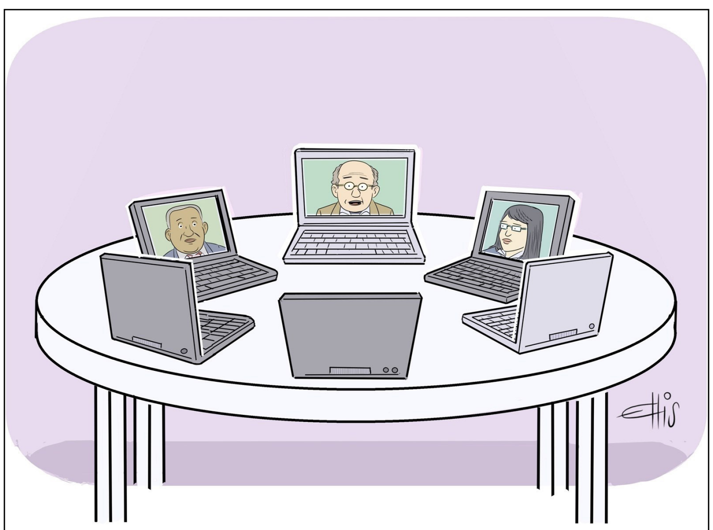
| President | Party | Returns Begin | Returns End | Months | Growth of a $ | CAGR |
|---|---|---|---|---|---|---|
| Hoover | R | 3/31/1929 | 3/31/1933 | 48 | $0.29 | -26.5% |
| FDR | D | 3/31/1933 | 4/30/1945 | 145 | $4.85 | 14.0% |
| Truman | D | 4/30/1945 | 1/31/1953 | 93 | $2.83 | 14.3% |
| Eisenhower | R | 1/31/1953 | 1/31/1961 | 96 | $3.26 | 15.9% |
| Kennedy | D | 1/31/1961 | 11/30/1963 | 34 | $1.30 | 9.8% |
| LBJ | D | 11/30/1963 | 1/31/1969 | 62 | $1.65 | 10.2% |
| Nixon | R | 1/31/1969 | 8/31/1974 | 67 | $0.85 | -2.9% |
| Ford | R | 8/31/1974 | 1/31/1977 | 29 | $1.56 | 20.2% |
| Carter | D | 1/31/1977 | 1/31/1981 | 48 | $1.56 | 11.7% |
| Reagan | R | 1/31/1981 | 1/31/1989 | 96 | $3.24 | 15.8% |
| Bush_I | R | 1/31/1989 | 1/31/1993 | 48 | $1.68 | 13.9% |
| Clinton | D | 1/31/1993 | 1/31/2001 | 96 | $3.66 | 17.6% |
| Bush_II | R | 1/31/2001 | 1/31/2009 | 96 | $0.70 | -4.4% |
| Obama | D | 1/31/2009 | 1/31/2017 | 96 | $3.28 | 16.0% |
| Trump | R | 1/31/2017 | 9/30/2020 | 44 | $1.59 | 13.4% |
| Cumulative | D | | | 574 | $551.34 | 14.1% |
| | R | | | 524 | $7.61 | 4.8% |

*S&P 500 performance for presidential administrations begin with returns for the February following a January inauguration except for Hoover and FDR when inaugurations occurred in March.*

partisan conclusions one may choose to make, we advise our clients to tread cautiously when seeking to extrapolate campaign promises into their portfolio decisions.

This is not the same as recommending that people ignore the election altogether. Some categories of investors may indeed be well-served by addressing some elements of their investment approach during the coming months. President Trump and former Vice President Biden obviously have differing views on personal and corporate income tax rates, government regulations, foreign policy, and fiscal policy.

Should Biden win, we would expect modestly higher taxes on income and capital gains, as well as changes to federal estate tax exemptions. Any changes to federal tax policy under a Biden presidency could become law in 2021 and would likely become effective retroactive to the beginning of the New Year. Given the fact that the end of 2020 is now less than 90 days away, this leaves a potentially short window of time for individuals and corporations to review facts and circumstances to ensure they have optimal tax strategies under a potentially different regime. We recommend our clients consult with us and their tax and legal advisors sooner rather later.



*"Who called this meeting again?"*



## Market Outlook - Sensible Optimism

**"Sensible optimism is a belief that the odds are in your favor, and over time things will balance out to a good outcome even if what happens in between is filled with misery… You can be optimistic that the long-term growth trajectory is up and to the right, but equally sure that the road between is filled with landmines, and always will be. Those two things are not mutually exclusive."**

**-Morgan Housel, The Psychology of Money**

To paraphrase author and investor Morgan Housel, we think "sensible optimism" is the best description of our mindset as we look forward into next year. We continue to expect higher-than-normal market volatility up to and after the election, especially if the outcome remains in doubt for several weeks. But the economy is already exhibiting signs of recovery from the COVID-19-induced recession, and corporate earnings are also showing signs of improvement.

Progress is being made daily on multiple vaccines and treatments for the novel coronavirus, and many businesses are gradually re-opening, albeit in fits and starts. Hospitalization rates are trending down in most areas, as medical professionals have developed more effective ways of treating those infected with the virus. We will never be completely free from political crosswinds and partisan backbiting. But, one way or another, we will have resolution to the current election angst by late January. This will reduce uncertainty — which is never a friend to investors — and potentially set the stage for a more durable and broader recovery over the coming year.

There is a strong force within the financial markets and among financial professionals around this time of year to feel an obligation to forecast the future with some sense of precision or at the very least with a display of confidence. The standard practice for as long as we can remember has been to accumulate lists of year-end targets, and to predict earnings, growth, trade, and a whole collection of expectations for the coming year. Investors seem to find a sense of comfort when they can categorize the "known unknowns" and speculate about the "unknown unknowns". We recognize this for what it is — comfort to many, but speculative data that must be taken with a grain of salt.

This has been far from a typical year, and there will be many changes in the behavior of consumers, businesses, politicians, regulators, and so many more. Change is a constant, and investors sometimes forget the subtlety of this. The JAG team has always been comfortable operating in periods of rapid change. In fact, our investment processes are designed to reflect the growing pace of change, much more so now than in past decades. We have invested a great deal of resources to continue to isolate and understand, to the best of our ability, what drives the capital markets, including the vast amounts of inputs and catalysts impacting them.

In selectively building our portfolios, JAG rigorously teases out the factors which differentiate average businesses from great businesses, identifying the immutable drivers of growth, profits, revenue, and a multitude of little and big ideas. To paraphrase Amazon CEO Jeff Bezos, we focus on the fundamental business drivers that we know to be true, that will not change, and we dedicate an enormous amount of our resources to designing portfolios that represent a diverse collection of these drivers. This is certainly a demanding task, but we are passionate and uncompromising towards this goal.

As our clients are aware, JAG actively invests in highly selective, customizable, and nimble equity and fixed income strategies. Our equity investment philosophy favors investing in high-quality companies with strong and sustainable growth, manageable debt levels, superior products and services, and large addressable markets. These types of companies are relatively rare, but they tend to be resilient to economic and political disruptions and have the potential to produce compelling long-term returns for their shareholders.

We will continue to work hard to find great investment opportunities, and we are confident that well-crafted portfolios will be able to thrive no matter who is inaugurated on January 20, 2021.

**Norm Conley**
CEO, CIO,
Portfolio Manager

**Mike Kimbarovsky**
Managing Director &
Portfolio Manager

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