Comus Investment, LLC

	Comus Gross	Comus Net	S&P 500	Russell 2000	MSCI EAFE Small-Cap
2016*	32.60%	30.87%	12.26%	22.77%	1.55%
2017	36.03%	33.50%	20.17%	14.65%	33.50%
2018	-4.47%	-6.99%	-4.39%	-11.01%	-17.58%
2019	11.17%	8.65%	31.48%	25.52%	25.47%
2020	-15.16%	-15.79%	-20.00%	-30.62%	-28.02%
Cumulative	62.52%	48.68%	35.67%	9.08%	0.91%
Annualized	12.91%	10.42%	7.92%	2.20%	0.02%

*April 1st – Dec 31st, 2016

The compounded performance figures represent all realized and unrealized losses and gains in the firm's brokerage account after commissions and on a currency-adjusted basis over the specified time period, as recorded by InteractiveBrokers. Index returns represent total return including dividends.

Dear Partners, April 1st, 2020

In the first quarter of 2020 our investments experienced a total return of -15.16% before fees and -15.79% after fees, versus -20% for the S&P 500 index. At this point you will have received reports with the details on your balance, fees, holdings, and performance from InteractiveBrokers for the past quarter.

In early February, which at this point is a distant memory, a global petrochemicals conglomerate acquired a chemicals company we owned. We tendered our shares at the currency-adjusted equivalent of $28 per share, for a 133% gain over the $12 per share we paid in early 2019. This, for a company whose revenue had slightly declined over the past five years. It was approximately a 4% position for us, so it delivered a 5.3% return on our total capital. Despite the premium to market the acquirer paid, it was an opportunistic deal for them at around 8x earnings excluding cash, especially if we consider the likely improvements they can provide to our former company via distribution efficiencies and greater sales opportunities. The price they paid represented approximately 1/8th of their annual profits, and 1/20th of their cash balance; our company was a minnow in comparison. This stock was priced as low as $9 per share in 2016, as high as $26 in 2018, and as low as $11 in 2019, with little change in its revenue, profits, or likely value.

I've included two additional indices in our performance charts for your reference. The Russell 2000 is a U.S. small cap index with a median market cap of around $800m. The MSCI EAFE Small-Cap index includes 2,330 stocks in developed European and Asian/Pacific countries with a median market cap of around $500m. With the S&P 500 you can gauge our performance relative to the largest U.S. companies, with the Russell 2000 to smaller U.S. companies, and with the MSCI EAFE Small-Cap to smaller Non-U.S. companies in the developed regions we often invest. Our compounded returns to this point are significantly below my expectation, but you shouldn't count your pennies in the midst of a crisis.

Washington State, where I live, was the first in the U.S. to report a covid-19 case in January, and the first death came in February. As investors realized the U.S. would soon require nationwide quarantine, stocks responded appropriately. The severity of the impending recession will depend on the efficacy and duration of our mitigation efforts, as well as the secondary impact on bank lending and credit markets. Optimistically, the shutdown will last a few months, loss of life will be minimized and business will quickly revive. Virologists and economists both suggest the effects will last longer. With near total revenue losses in many industries, the furlough of millions of workers at record rates, and deferred rent/mortgage payments, a liquidity crisis in many industries is currently underway. Continued and historic levels of fiscal stimulus after the first round are necessary to ensure many companies in the airline, entertainment, retail, energy, restaurant, and manufacturing sectors remain solvent. Data suggest small businesses, which often have low cash reserves and limited financing options, are at greatest risk, though many public companies are also likely to fail due to this acute shock.

While all business is affected, our companies are particularly liquid and prepared for such an event. Before China's outbreak, this particular crisis was unpredictable, but such events tend to occur with regularity and cause havoc in equities markets. The companies we own are debt-averse and temporary business loss often results in cash inflows as inventory and receivables are drawn down; this compares favorably to debt-laden companies, which in the next few months will breach contract terms and require additional financing. After unrestrained price declines, some high-risk sectors in the U.S. now allow for opportunities, better called gambles, of significant gains if certain companies manage to refinance debt or receive government assistance and survive; this isn't an area we will ever explore.

Despite the sharp decline in U.S. stock markets, they don't yet present an enticing purchase opportunity. The S&P 500 for example, is trading at its price as of early 2019, and has likely become more expensive in comparison, given the potential for business operating losses this year and additional debt many of its constituent companies will require. On the other hand, a few companies we own are approaching 2009 trough valuations, and even absolute price lows, while on average valuations resemble the 2010-2013 period.

You may notice in most investors, or even find in yourself an unwillingness to invest in such tumultuous times. This cloud of uncertainty presents an emotional obstacle to business ownership many refuse to endure. Why invest now, when we can wait for the economy to rebound? Investors are paid a hefty premium to accept uncertainty in times like this- if you can invest in bargain-priced companies without bearing undue risk, it's always a good time to do so. In the worst of times, those few investors willing to buy stocks are disproportionately rewarded.

While unpredictable, I anticipate that stock prices will continue falling in the near future; no country maintains full employment for long, and particularly not after such a distressing shock. The historic precedent is for employment to briefly reach its apex then quickly retreat, while recoveries take longer. Hopefully we will find our exception to this general pattern, though a quick turnaround to former levels of business activity will be a challenge if, as is expected by many economists, the U.S. reaches double-digit unemployment rates in the near future. Regardless of future movements, I remain fully invested and continue depositing monthly; now is a better time to invest than last year, and if prices drop further it will be to our benefit.

As always, feel free to contact me at any time with questions, comments or concerns.

Best,
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