

The Quarterly Report

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Relationship

| INSIDE STORY |



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Relationship

I have struggled with what to say in this Quarterly Report. I have been writing almost every week since the crisis began so there is not much new to report, yet it seems somehow inappropriate to discuss any topic other than the virus. Then, as I was leaving my office one of the talking heads on CNBC said, “I’m scared to death of this virus, as I know we all are.” It happened so fast I failed to even register who said it, but it just hit me. Scared to death of the virus, as we all are.

It hit me because I am not afraid of the virus, and I do not believe I am alone. I am not saying that the virus shouldn’t be taken seriously, nor am I judging anyone who is afraid. I am just telling the truth. The virus does not frighten me. In the same way, sharks do not scare me. I grew up near the ocean, got certified to scuba dive while still in school. There is nothing in the ocean that “scares” me. There are many things, including the water itself which I treat with respect because I am aware of the potential danger, but I am not afraid of it. I am not going to stop swimming in the ocean.

During our first weekend of social distancing my kids and I built some shelves for our garage. My 12-year-old son made most of the cuts with a circular saw. This is a serious power tool. Was I afraid to let him use it? No. Did I go over safety rules? Yes, including the need to be supervised. My 9-year-old daughter did not use the saw, but she did drive in some screws with the drill. I was not afraid to have my kids around power tools. Am I aware of the potential danger? Of course, but that is not the same thing as fear.

Part of not being afraid comes from knowing how to stay safe in potentially dangerous situations. The most frequent question we have received from our clients’ during this crisis is, “How are you all doing?” That speaks volumes to the quality of our client base, so thank you. We are all well. I am still coming into the office, which is surreal because it is like a ghost town. Thomas Healy, one of our analysts and

our primary trader, is also coming in as trading is much easier to accomplish in the office. Everyone else is working from home.

Would I be afraid of the virus if people were not taking the social distancing seriously? Perhaps, but for the most part people are taking it seriously. Just like we know how to maximize our safety when enjoying nature or using power tools, we know how to maximize our safety from viruses. Wash your hands and keep them away from your face. We’ve all heard that. I’ll add some. Eat healthy and keep up with your vitamins C and D. Drink a lot of water, I mean a lot. Keep up your exercise, and hugely important for all health but majorly ignored, get enough sleep. Will that stop you from catching a virus? No, but the stronger and healthier you are the more likely you’ll be able to fight it off if you do get it. How do I know this? Over 50 years of experience catching viruses. We all know this.

*Life is not the avoidance of death,
it is relationship.*

I know, I know, this virus is new, and it is serious. Yes, I’m still not frightened. What if I do get it? According to the data, there is a 50 percent chance I won’t even know it. I have no proof, but based on life experience following a healthy lifestyle probably increases my odds of being in the 50 percent. There is an 84 percent chance my symptoms will be mild. I like those odds. “Experts” claim that between 1 to 3 percent will die. First, they are wrong. How do I know? They are always wrong. They said the same thing about the 2009 H1N1, and after it was all over the real mortality rate was 0.2 percent. Not that different from the common flu, which kills 0.1 percent of the people who get it. I am not a doctor, but I do crunch numbers for a living and I would wager we end up in the exact same territory with this virus.

What if against all odds the worst does happen? Sorry, I'm not afraid. That may seem like a false boast, but it is not. There are two reasons for this. First, I know we are never supposed to bring up religion or politics, but I am a man of faith. That gives me great comfort. Secondly, I have been there. Some of our longer-term clients know this, but for those who have not been reading these pages for a decade, I should already be dead. On May 15, 2010 my wife drove me to the emergency room. I had a pulmonary embolism, which is a fancy way of saying I had multiple blood clots in both lungs. The pulmonologist told me that 90 percent of the blood flow between my heart and lungs was blocked.

I spent ten days in the hospital, five days in the ICU. During that time, I kept getting the same stupid question. Yes, there is such a thing as a stupid question and in my experience the more years one spent in school the more likely she is to ask a stupid question. In this case it was the doctors who kept asking, "You walked in here?" Yes, I did.

I had been suffering from shortness of breath for a month and had been to the doctor's office three times about it. My wife finally took me to the emergency room because I was getting strange feeling down both arms. The cardiologist said that I did not have a heart attack, but my heart was, "a little ticked off."

Every time they asked that stupid question I also got the look. The look that said, "You should be dead." Throughout that ordeal, for whatever reason I was never afraid. There was one moment when I saw the urgency in which the ER personnel responded to the description of my symptoms that the seriousness of the situation hit me. My wife was parking. She was pregnant with our daughter and our son was two and a half years old. I wanted the staff to wait for her, but they refused and assured me they would send her back. That was the darkest moment and I had one thought. I prayed, "God, my kids need their father."

I was not scared of dying, I was scared of not being there for my kids. Sorry honey, I know it would have been more romantic if it had been my wife who came to mind, but I must tell the truth. The point being that it was not death that I was afraid of, it was being out of relationship with those I love. Life is not the avoidance of death, it is relationship.

This virus does not frighten me, but there are some things that do. It scares me when people talk about this being the "new normal". I believe they are just remembering that phrase from the financial crisis. Economist described the slower growth rates following the crisis as the new normal. It was a debatable phrase then, but now it is downright horrifying. We may need to social distance for a short while in order to flatten the curve but cowering in isolation is not a permanent strategy. This cannot be normal. We cannot allow this to become normal.

Relationship is too important. That is what we do here at Iron Capital. Yes, we provide investment counsel, but that is just our chosen field. We really deal with relationship. The last in-person client meeting I had before the lock down was in Chicago. We greeted each other with a hug. I don't hug every client and I assume the two ladies in question don't hug every vendor. We hugged because after 15 years of working together, having lunches together hearing

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The 4rd quarter 2019 GDP growth came in at 2.1 percent, and now that means next to nothing. The COVID-19 crisis has the entire world shutdown. What GDP might be for 1st quarter is anyone's guess, and no matter how bad, the real question is how long will this last?

The official unemployment rate is 4.4 percent in March.

The rate will rise considerably when they count the approximately 10 million people who lost jobs in the first two weeks of social distancing. What else can we say?

Inflation is 2.3 percent based on the latest consumer price index report. That will plummet as demand for goods is temporarily non-existent and oil prices drop due to the Russia and Saudi price war. +

REVIEW of ECONOMY

Markets plunged in a rapid selloff.

For the quarter, the S&P 500 finished down 19.6 percent and small company stocks represented by the Russell 2000 index were down 30.6 percent. Growth outpaced value, but all major asset classes fell.

Bonds were up for the quarter. The Barclays US Aggregate Bond index ended up 3.15 percent.

High yield bonds dropped 12.68 percent.

International stocks dropped as well. The EAFE index finished down 22.7 percent while the MSCI Emerging Markets index ended the quarter down 23.6 percent. +

REVIEW of MARKET

MARKET *forecast*

We appear to be in a bottoming process from the crisis selloff. This is an encouraging sign. The rally will likely be strong once people start back to work. Its strength and longevity will depend on how quickly we get back to normal. This will be a stock pickers market, as some companies will emerge stronger and some will not emerge at all.

Small company stocks will likely lead the initial rebound, but then it will depend on the economy. If the economy remains weak large companies will be the safer place to be.

Bonds make no sense at these prices. High yield bonds may be the only place to get positive long-term returns. +

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about each other's children etc., we sincerely care for one another. That client is in the hotel business, and they are in my prayers every night.

We invest in companies; we do not trade in stocks.

Every client has heard me say that. Companies, or should I use the dirty word - corporations - are built on relationship. In fact, it is when large powerful companies forget the importance of relationship that they begin to fail. It is an easy thing to do. Show me a company that is good with relationship and I'll show you a good business, led by a good businessperson.

So, I do get scared when people talk about economic activity as if it is some lesser thing. When "experts" casually dismiss almost 10 million newly unemployed as an inconvenience. Economic activity is food on the table, it is a roof overhead and it is relationship. There is a checkout clerk at our Publix grocery store who always gives our kids something when he sees them. If my wife or I come in alone, he asks us how they are doing by name. That is the kind of interaction that makes up a nation's GDP. This Friday will mark the second time in the last month that my wife and I will pay for our housekeepers, a husband and a wife, to not clean our house. Why? Because we care about them and we value the relationship.

My wife has diligently packed more food into our house than it has ever held before, and after she did, I told her we are ordering from a local restaurant. Why? Because we care about the people who run the places we love. Economic activity is not some dirty word, it is proof of life. It is relationship.

Which brings me to the silver lining in this dark cloud. A few evenings ago, the four of us walked our two dogs together. Father, mother, son and daughter out with the

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family dogs. Norman Rockwell would have loved it, and as many of you probably suspect, we were not alone. Our neighbors were doing the same. We all made a joke of staying the appropriate distance apart as we passed on the street. One of our older neighbors said, "I love this, it is like the '50s... all the families together." Relationship.

This too shall pass and hopefully it does not become the new normal. We may however learn that the late night in the office should be the rare exception, and perhaps our kids can survive with fewer activities. No one likes a crisis and we cannot wait for this one to be over, but they do remind us of what is truly important. It has been a decade since God spared my life, and seldom does a day go by when I don't think of the dying words of Captain Miller, Tom Hank's character in Saving Private Ryan, "James, earn this. Earn it." Captain Miller had lost most of his men working to find and save James Ryan. What scares me? Not earning it scares me. Not caring for the relationships whose importance is highlighted in times of crisis.

For Iron Capital that relationship is with you our clients. That is what guides us through this crisis and will continue to guide us. Relationship is what it is all about. I hope and pray we continue to earn it.

Warm Regards,



CHUCK OSBORNE, CFA *Managing Director*