July 9, 2020

KONDRACKI ADVISORY

Quarterly Commentary and Opinion

Dear Clients of Kondracki Advisory,

Our year-to-date composite total return through June 30th was **-**1.99%. The total returns on the S&P 500, DJIA and Russell 1000 Value Index were **-**3.08%, **-**8.43%, and **-**16.26%, respectively.

The stock market's dramatic rise from the first quarter's lows seems to be a reaction to unprecedented Federal Reserve asset buying, and its stated commitment to keep interest rates near zero for the foreseeable future in support of financial markets and the economy. The near-term market benefit of this activity has been clear, but the real and sustainable economic benefit of these actions is not so clear. All this, against the backdrop of the coronavirus, and the reaction to the virus, continues to cause great concern and economic hardship for very many hard-working American families and businesses - whose future prospects for good health, wealth and employment are far from certain. Recently, there have been some positive indications on the health, economic and employment fronts as the U.S. economy works to reopen, but the longer term market, societal and economic effects of the Fed's intervention and the coronavirus, presents us with a higher risk environment indicating a more cautious investment approach is warranted.

Market and Portfolio Analysis

The second quarter's market recovery greatly favored large cap growth stocks, and certain technology and ad-tech companies, in particular. Of our current 80% equity exposure, 5% (according to Morningstar) is classified as large cap growth. We have chosen not to have any investments in social media and internet search companies. In contrast, the S&P 500 is heavily weighted (**30%**) towards large cap growth stocks, with **25%** of its entire value represented by just **5** technology companies! Consider that over the past 1, 3, 5, and 10-year periods, the disparity between large cap growth and large cap value stock price performance has been extreme, exceeding even that of the performance differential experienced during the period leading up to the dot.com bust of 1999 -2001. This prolonged "risk on" market environment has presented challenges from a relative return perspective for our portfolios. And yet, through very careful company and sector selection and a willingness to maintain, at times, a considerable cash position, we have achieved much of the return of the market with nearly one half of the volatility. Our average annualized composite total return since the inception of our firm in December of 2012 is **8.65%**, and our performance, when measured against the Large Cap Value investing universe, including mutual funds, Index Funds and ETFs, would rank us in the **top 1%** for YTD, 1 yr., 3 yr., and 5 yr. average annualized returns.

There are several important factors and developments that I believe could dramatically alter the investment landscape in favor of our more conservative and diversified, value-oriented approach, going forward:

-The real possibility of anti-trust action against a handful of the largest surveillance-based social media and ad-tech companies.

-The closing of tax loopholes in the U.S. and abroad for certain dominant tech companies.

-The stock market concentration is at historic highs.

-A realignment of trade priorities in order to favor broad job creation and capital investment in the United States.

Our Portfolio Advantage

Our portfolio returns are not dependent on any particular outcome or potential action mentioned above. In fact, many of our companies have already been through, in prior years and decades, what a handful of today's market darlings are about to face in terms of increased competition and potential forced changes to their business models. The 34 companies in which we are invested have performed very well through many different market and economic environments, and I believe that they will continue to do so. They have been honorable, reliable and resilient. They are creators of true economic and societal wealth, not extractors.

Our portfolios' Societal Benefits and Financial Advantages are considerable:

Societal Benefits

-Our companies, without exception, are incredibly important businesses to their customers, employees and the U.S. economy. They feed us, clothe us, provide essential healthcare and medicines, facilitate trade and transport, design and manufacture the technology that underpins the digital economy, and help us communicate more effectively.

-With many millions of employees, from America's heartland to both coasts, they are massive contributors to U.S. GDP through wages paid, capital investment, and the purchase of goods and services.

Financial Advantages

-Time-tested, resilient businesses that have performed well through many extremely challenging economic and market environments.

-Our portfolio and company valuations are far more reasonable than that of the market, thus offering us a margin of safety and superior downside protection, with better upside potential going forward.

-Portfolio and company dividend yields that are significantly higher and growing faster than the market's dividend yield. Reliable and growing dividend income offers us certainty of income in uncertain times.

Sincerely,

Chris Kondracki, Principal and Portfolio Manager