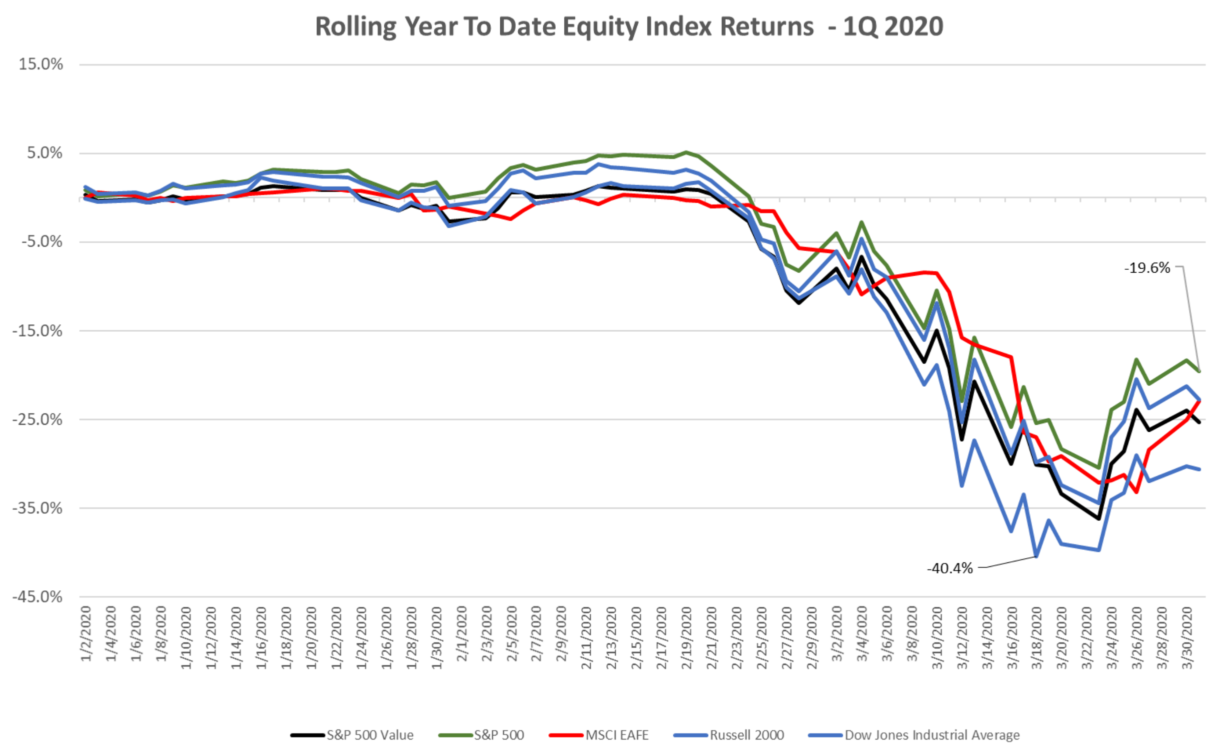
TURTLE CREEK

April 17th, 2020

Dear Turtle Creek Client,

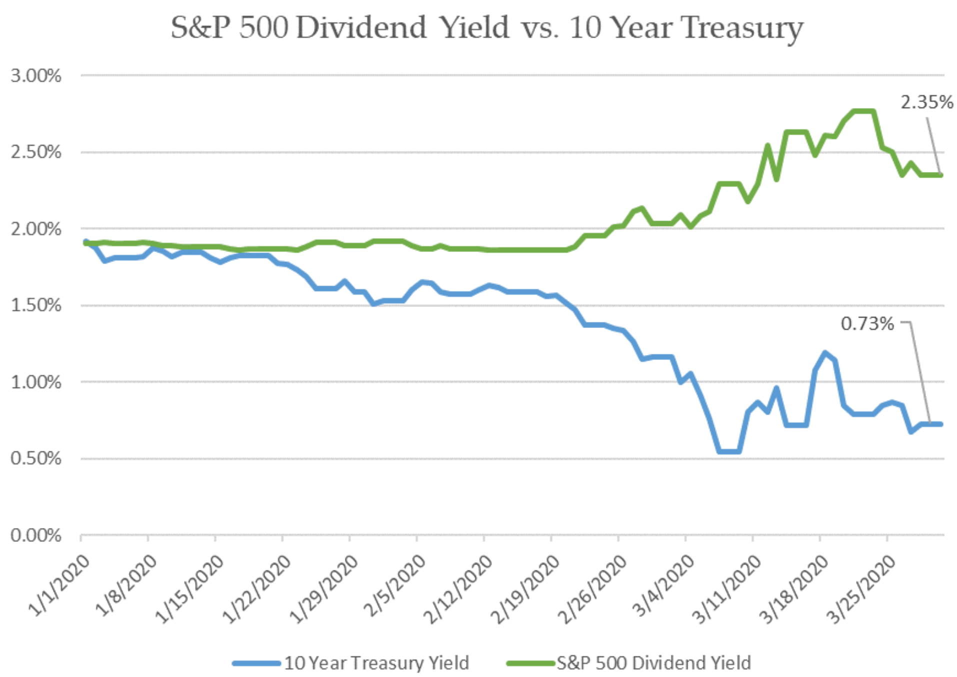
The first quarter of 2020 was one for the history books. The strict public health measures enacted to slow the spread of the Covid-19 virus resulted in a steep decline in global economic activity and fueled record volatility in most investment classes. Investors encountered market gyrations not seen for over 100 years and witnessed the fastest bear market plunge ever recorded. Fiscal and monetary authorities around the world also reacted with historic speed, however, deploying stimulus measures well in excess of any historical precedent. These massive stimulus measures effectively calmed investors nerves and stock indexes recouped a meaningful portion of their losses in the final days of the first quarter.



Source: Bloomberg

With this sudden economic reversal, the risks and rewards in your investments have changed noticeably. At the beginning of the year, equities traded at premium multiples that reflected benign conditions and implied historically-below average future returns in most cases. These same stock investments now offer hard-to-quantify near-term risks but also offer more attractive longer-term return prospects at current valuations.

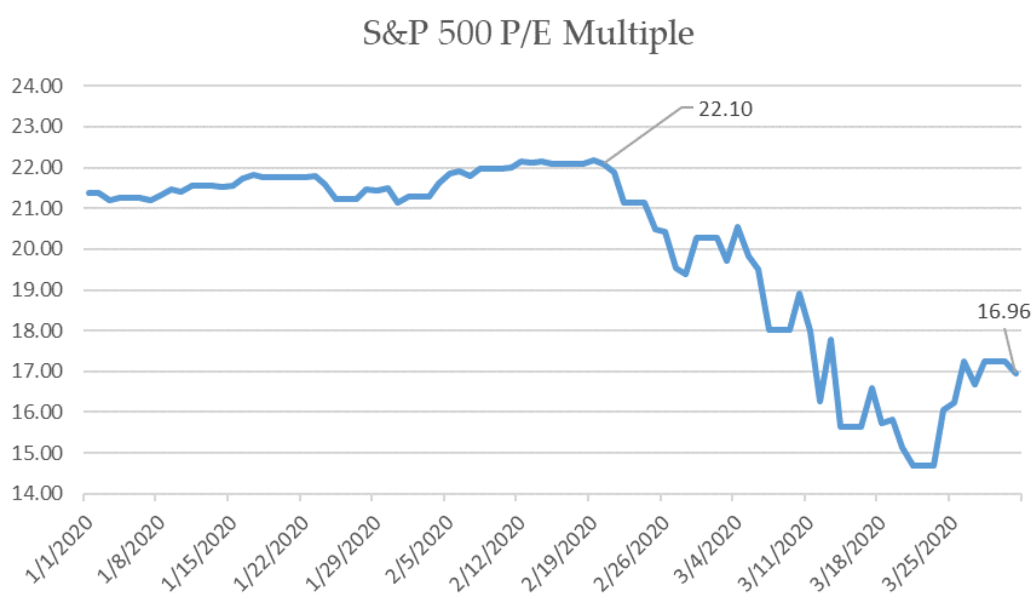
Bond investments have provided needed portfolio stability during the recent market decline, but yields have sunk to even greater historic lows in the process. The 10-Year Treasury yield offered a meager 0.73% yield-to-maturity at quarter-end. The current returns of relatively "safe" assets such as cash or longer-term bonds are now a major obstacle to longer-term appreciation of your investment assets.



Source: Bloomberg

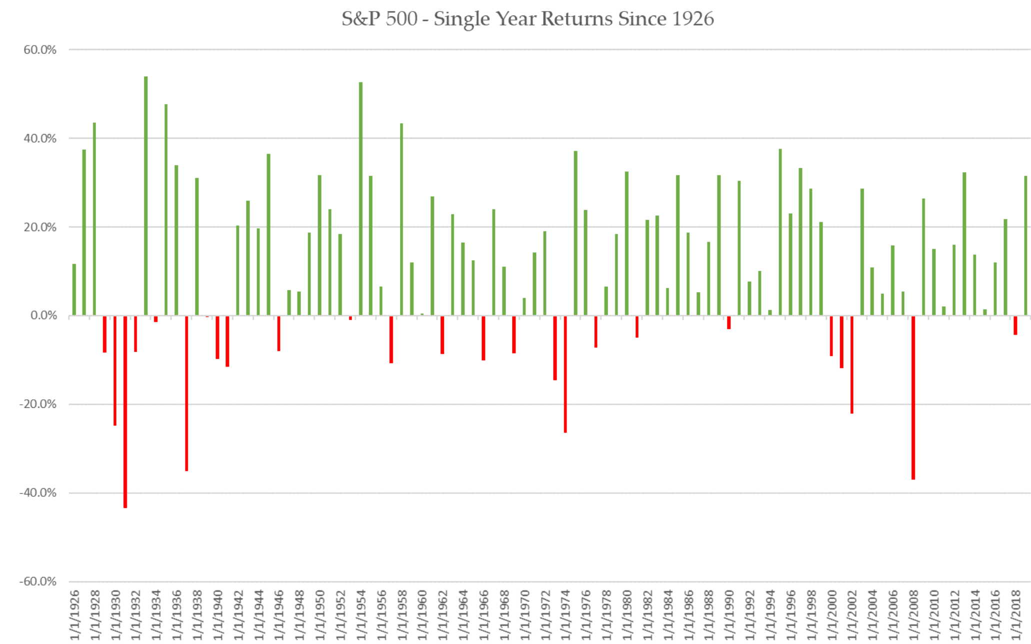
For investors with a time horizon of more than a few years, stocks currently appear to be offering a better deal as compared to "safe" investments. Longer-term stock returns are a product of three variables – earnings growth, dividend yields, and the valuation multiple applied to the market.

- The dividend yield on the S&P at quarter-end was 2.35%, three times the yield of the 10-Year Treasury bond.
- Corporate profits are sure to be pressured over the coming quarters, but the ability of corporations to rebound and provide positive earnings growth over the medium and long-term is still the general assumption.
- Valuation multiples have compressed and now offer more attractive prices for stocks.



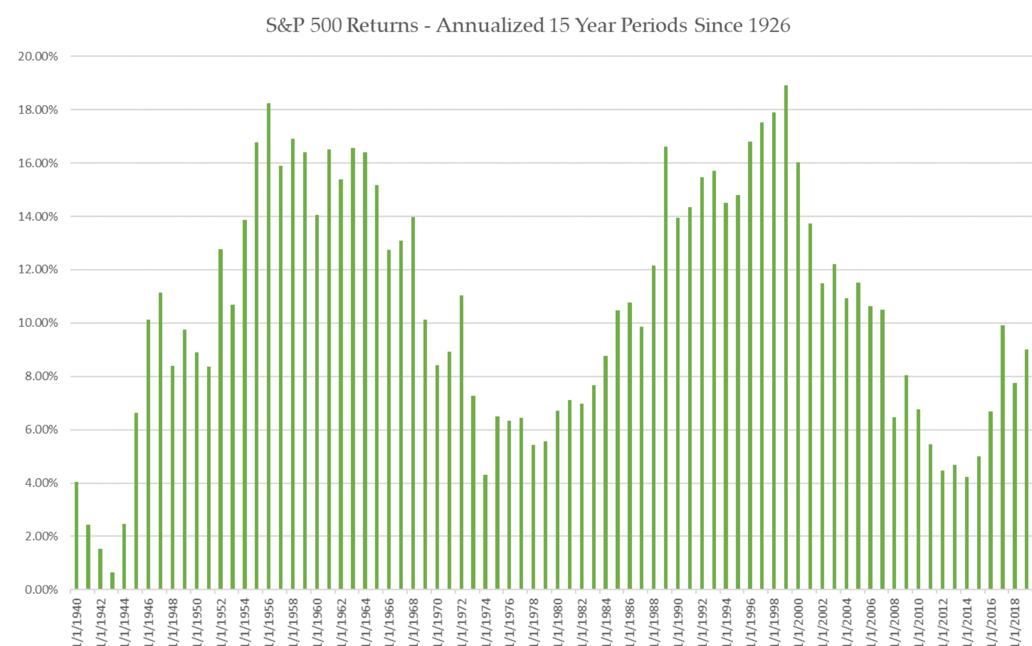
Source: Bloomberg

All this being said, we understand that embracing stock investments in the wake of steep market losses is an emotionally challenging task. It helps for investors to gauge the potential for stock losses not over a single period but over longer investment cycles. An analysis of single year stock losses on the S&P 500 going back to 1926 shows the recent sell-off is not all that rare. During this 94-year stretch, the S&P 500 Index posted negative returns twenty-five times, or approximately a quarter of the trading years.



Source: Bloomberg

Stretching these observations out to longer periods, however, shows the potential for loss with a properly diversified buy-and hold strategy is much lower. Investors that have stayed the course through 15-year periods have never experienced a negative return even during periods of depression, world war, and other calamities.



Source: Bloomberg

There is still great uncertainty regarding the duration of the current economic headwinds. Government authorities have recently signaled more positive trends in the spread of the virus and started initial discussions on when and how to re-open the economy. A resurgence in the virus could lead to more quarantines, however, and an extension of economic hardship. Medical solutions ranging from better treatments to an eventual vaccine continue to show real promise, but these medical breakthroughs are still months or even years away per government experts. As long as this uncertainty persists, we expect stock trading to remain volatile. Investors will have to focus on longer-term value rather than near-term fundamental corporate results.

Throughout the quarter, we have been taking advantage of suddenly depressed valuations in high quality corporations to both maintain your overall exposure to stocks and improve the quality of your investment holdings. This emphasis on quality is key to avoiding permanent impairment of your capital as we navigate this complex economic period. While we cannot pinpoint when or how this unusual recession will run its course, we are confident that staying invested and avoiding undue risk will yield positive results for your portfolio over the medium and long-term.

Please call or write with any questions.

TURTLE CREEK MANAGEMENT, LLC
TURTLE CREEK TRUST COMPANY, LTA

Turtle Creek Management, LLC | 3838 Oak Lawn Ave | Suite 1650 | Dallas, Texas 75219 | 214-468-0100 | 214-468-0106 fax |
turtlecreekdallas.com