

CROWELL WEEDON ASSET MANAGEMENT
MONTECITO INVESTMENT PORTFOLIOS

2Q 2020

Dear Fellow Investors,

2020 has proven to be one of the most eventful years we can remember and we're only half way through! Just three months ago we were thrust into an unfamiliar world of shelter-in-place, work from home, teach from home, all while scavenging for toilet paper. Uncertainty, panic, and fear ruled the day. Three months ago sometimes feels like three generations ago. Today, we're getting back to a sense of normalcy, but parts of what we consider normal have indeed changed.

As we wrote last quarter, we do believe there will be some permanent changes caused by COVID-19. A few of the major changes we see:

- ***Is the office essential?*** - Employers are re-examining the belief that a centralized office is necessary – this could mean less demand for office real estate with a great deal of overhead expense saved by employers.
- ***Better work / life balance*** - Employees are realizing that work from home can provide a better work/life balance – while it is nice to see co-workers at the office many find it better to spend more time with their spouse / children/ and family members.
- ***Exodus to the suburbs*** - With employees given the choice to work from home permanently, many will reconsider if expensive, densely-populated, urban areas are for them. We were already seeing an exodus from expensive cities like San Francisco and New York. We believe the desire to own a house and have more space to raise a family will only accelerate the movement to the suburbs.
- ***Business travel may never be the same*** – With today's connectivity tools, doing business virtually just makes sense. There is no way around it - flights and hotel rooms are expensive.

While some things change, other things stay the same. We believe the shutdown also highlighted a few truths about us:

- ***We are social creatures*** – There is only so much shelter-in-place people are willing to tolerate. Visiting friends and family in person is still preferred to remote hangouts.
- ***We like to be entertained*** – Going out will probably never go out of favor. People like restaurants, movies, sporting events, and all kinds of experiences. Although demand was

crushed with mandatory shut-downs we expect this to bounce back strongly once people are given the green light.

- **We prefer convenience** – Time-consuming, unenjoyable experiences will continue to migrate to companies that can offer simplicity and convenience. Whether it's buying clothes, cars, or groceries, winning businesses will make the unenjoyable, enjoyable.

As the world reopens there is still a lot of uncertainty related to COVID-19. We could certainly see a second wave, third wave, or the eventual possibility that COVID-19 will be a seasonal virus that we have to deal with. While there is no way to accurately predict this, we do believe the world has realized that permanent shutdowns are not realistic. The financial and emotional toll of these shutdowns is not sustainable. It seems that temporary restrictions, targeted shutdowns of hot spots, and shelter-in-place policies for those highest at risk will be a more likely reality going forward.

While the world may be filled with uncertainty, our long-term investment outlook and philosophy remains unchanged. Owning quality businesses allows investors the ability to create wealth. Owning quality businesses allows investors the ability to produce a growing income stream, as they share in corporate profits. The key takeaway here is that in order to reap these benefits you actually have to **own** these businesses. While selling investments during a panic might sound like a good idea, history has proven this can only provide a temporary benefit. The comfort gained from not having to watch stock prices and account balances go down is more than offset by the lost potential of creating wealth and participating in your share of corporate profits. Investors cannot fund permanent, long-term goals with temporary, short-term benefits. There will always be events that cause fear and worry. To reiterate a point from our Q1 commentary: ***There has never been a time in U.S. history where our markets went down and stayed down. They eventually pushed forward making new all-time highs, 100% of the time.*** We're confident patience and maintaining control of emotion will once again be rewarded. The world has advanced significantly and will continue to do so.

As always, we welcome your feedback and would love to talk about these and other topics that may be important to you. We thank you for your continued confidence and the opportunity to manage your investments. We take very seriously our responsibility. ***Montecito Investment Portfolio's Mission: To provide diversified, disciplined long term investment solutions, service and guidance to help our clients achieve, and maintain, their "Financial Independence".***

Sincerely,

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