Plumb Funds

3Q2019

Commentary

9/30/2019

Thomas G. Plumb, CFA
Lead Fund Portfolio Manager
President, CEO, Chairman

The third calendar quarter of 2019 was generally positive for investors, but less so than the previous two quarters. Equity markets were mixed as the S&P 500 advanced 1.7% and the MSCI EAFE ex US index showed a decline of 2.5% for International equity markets.

Declining interest rates helped bond investors for the quarter, as the interest rate on the US ten-year Treasury dropped to 1.665% from 2.005%. Recall that bond prices on existing bonds rise when new interest rates decline.

Despite a generally positive stock market and a very positive relative bond market, anxiety levels appear to be very high and investor sentiment does not appear to be very positive.

For the bond market, this anxiety may have solid mathematical roots. We have never lived in a time when $17 trillion of international sovereign debt has been issued at negative interest rates. In the United States, the Federal Reserve, which sets monetary policy, has a stated goal of producing 2.5% inflation. If successful, their policy implementation would assure investors that bonds purchased today would pay us a negative inflation adjusted interest rate for ten years and eventually pay us back with dollars that would have much less purchasing power than they have today. At 2.5% inflation, each dollar paid to us in ten years would have 78 cents in today's purchasing power.

Angst in the equity markets is certainly being fueled by daily headline events that more often highlight negatives than positives. If we were just to look at the positives in the United States, low interest rates, low unemployment, stimulative fiscal and monetary policy and reasonable relative valuations often would be associated with very positive sentiment in the past.

Anxiety is fueled by the unknown just as often as by negative circumstances. Many people have remarked about how our twenty-four hour "news" cycle builds stress, but we believe it is just one component of a long-term trend we have witnessed develop over the last twenty years or so.

Our equity investment theme for the last few years has been about innovation. We seek to identify the drivers, the enablers and those companies benefitting from the incredible pace of innovation affecting our daily lives. There are many positive benefits to our society to technological innovation, but there is a dark side. Our perception of personal security tends to come from our association with ingrained beliefs of “cause and effect.” When everything is changing around as at a pace few could have imagined, it creates an angst that goes beyond actual events around us.

We believe that balanced social responsibility will allow innovative investment opportunities to continue to flourish and thus, our investment research efforts will still focus on attempting to identify those growth opportunities. We are cautious about the bond market and will continue to focus on shorter term investment quality debt where appropriate.

Thank you for the confidence you have placed in us,

Thomas G. Plumb, President

Thomas G. Plumb, CFA
President,
Lead Fund Portfolio Manager

Thomas G. Plumb is the founding principal of Wisconsin Capital Management, LLC (formerly Thompson Plumb & Associates), which began in 1984.

Tom formerly was the lead portfolio manager of Dreyfus Premier Balanced Opportunity Fund. He earned a bachelor of business administration from the University of Wisconsin-Madison in 1975, is a member of the Madison Investment Management Society and holds the Chartered Financial Analyst designation.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Inc., a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

SPXT-S&P 500 Total Return Index. S&P 500 is an unmanaged index which is widely regarded as the standard for measuring large-cap U.S. stock market performance. Calculated intraday by S&P based on the price changes and reinvested dividends of SPX <INDEX> with a starting date of Jan 4, 1988.

It is not possible to invest directly in an index.

The Fund’s investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained on www.plumbfunds.com or by calling 1-866-987-7888. Read it carefully before investing.

Past performance does not guarantee future results. Index performance is not illustrative of Plumb Funds’ performance. Please visit Plumb Equity Fund Performance or Plumb Balanced Fund Performance for the standardized returns of the S&P 500, MSCI EAFE and the Funds.

Mutual fund investing involves risk. Principal loss is possible.

The fund may invest in small and mid sized companies which involve additional risks such as limited liquidity and greater volatility. The funds invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. Because the funds may invest in ETFs, they are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares. The fund may also use options and future contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates and currency exchange rates. The investment in options is not suitable for all investors. The Plumb Balanced Fund will invest in debt securities, which typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities.

Diversification does not assure a profit nor protect against loss in a declining market.

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