Plumb Funds

Q2 2020

# Commentary

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The stock market rebounded from its extremely depressed level in the quarter ending June 30th. The Dow Jones Industrial Average increase of 17.8%, S&P 500 provided a total return of 20.5% and NASDAQ, was up 30.6%. All recorded multi-decade quarterly records. The Wall Street Journal reports that this performance was not enough to offset the first quarter decline as the average U.S. stock fund was still down 7.0% for the year-to-date. Bond Funds attracted significant inflows even as lower interest rates seemed to defy the record corporate and government debt issuance. Though the ten-year Treasury rate declined to below 0.75%, appreciation in existing bond prices (which goes inversely to interest rates) allowed the average bond fund to record a total return over 5% for the year-to-date.

This recovery stood in marked contrast to the general economy shutdown, rising virus counts, negative GDP growth, and the highest unemployment rate on record.

We believe this disconnect is the direct result of the unprecedented Fiscal and Monetary response to the pandemic. These swift actions were an effort to prevent the economy from spiraling out of control by reducing the cascading impact of the pandemic. The hope is that softening the negative ramifications of shutting down the economy would allow for a swift and robust recovery from these depths.

Though the stock market is typically thought to be forward looking, we believe that any portent of economic recovery reflected in the stock prices was significantly enhanced by:

1. The oversold position of stocks.
2. The unprecedented liquidity supplied by the Federal Reserve.
3. The Fiscal stimulus in the Care Act, and
4. The acceleration of the transition to the digital economy.

Though it would be very reasonable to continue to see a bounce in the stocks of companies in the "old economy", we suspect that the current economic uncertainty is going to accelerate the wholesale restructuring of much of the "brick and mortar" economy. Our economy has very expensive capital tied up in airplanes, retail malls, office buildings, parking ramps, oil refineries, cruise ships, amusement parks and restaurants, for example. Many of these industries will have to "right-size" and that process could very well limit investment opportunities.

We believe that stock investments should be selective and focus on those companies coming out of these challenging times with intact balance sheets, recurring revenue streams and improving competitive positions.

Video meetings and electronic collaborations are here to stay, electronic payments will continue to grow at the expense of checks and cash. Artificial intelligence and virtualization will replace many manual design meetings. We continue to seek equity investments in those companies driving these changes, enabling them, or benefitting from them.

The pandemic and resulting social upheaval will probably continue to encourage government actions to stimulate the economies, maintain liquidity and keep interest rates low for the foreseeable future. However, we believe it is appropriate to be somewhat cautious with fixed income investments. Recall that rising interest rates and credit spreads can be terrible for the bond markets. Bonds, and bond funds, will only appreciate when rates decline from here.

All of us at Wisconsin Capital Management want to express our wishes for a safe and secure summer.

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 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.

Opinions expressed are those of the author as of July 31, 2018 and are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Earnings growth is the annual rate of growth of earnings from investments.

**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.

Fund holdings are subject to change at any time and should not be considered a recommendation to buy or sell any security.

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

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The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly owned blue-chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ

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