
Chairman's Letter 2Q20

July 28, 2020



Dear Fellow Investors,

Unprecedented is a word that gets tossed around so frequently these days that it is, well, unprecedented. More often than not, the word is misused to mean something other than, or in addition to, “without precedent.” Rather, it gets used to mean “a really big deal” or “exceedingly rare” or, more likely, “not foreseen or predicted.” Clearly, the current economic and social situation can be described as such.

But, unprecedented? Hardly. We have had pandemics before in the course of human history, worse ones, and deadlier. We have also had financial panics before and economic depressions before, as well. Ones, which history is likely to show, were much larger, longer lasting and more damaging than the current one.

What is unprecedented is our collective reaction to the scourge of the infection. Government ordered lockdowns and voluntary social distancing/quarantining have been taken to a breathtaking global scale.

Why and why now? There are two main answers, in this observer's opinion. The first is culture. To paraphrase Richard Nixon's comment on Keynes, in another crisis, we are all "snowflakes" now. Compared with previous generations, indeed, with the broad sweep of human history, we have become an extraordinarily risk averse, overly sensitive, and timid populace. The trends evident in helicopter parenting, trigger warnings, safe spaces, virtue signaling, et al, have come together, with the virus, to create a perfect storm of suddenly required politically (if not medically) correct behavior.

Only time will tell if it was all worth it, or if the cure was much worse than the disease, unleashing powerful economic and social forces which will far outlast the health panic. What is always the case, and here so more than ever, where you stand on this question depends upon where you sit.

Recently, Chairman Powell of the Federal Reserve asserted that 40% of the workers in this country earning \$40,000 per year or less were unemployed. Forty Per Cent! You can guess how those people feel about the "cure" that put them out of work. For those of us fortunate enough to remain gainfully employed, sitting in front our computers, effortlessly Zooming anywhere and everywhere, while ardently shaming those "deplorables" who leave their house without a mask, a different view of the danger and the response naturally emerged.

In an election year, these stark differences are reminiscent of the forces in play in the last election. While the "Hillbilly Elegy" of the current period has yet to be written, no doubt it is out there somewhere, in waiting. I will leave predictions to the political experts (who so often get it wrong), but one thing is obvious; the current environment, while completely eclipsing the election in the news cycle, has made it substantially more consequential. If one party wins, there will be very major changes with profound effects on the markets, the economy and the relationship between the government and its citizens. If the other party wins, the pendulum swings just as profoundly in the other direction. Handicapping the ultimate result will play a key role in the investment decision making process over the course of the next few months.

The second reason is media and technology. That the marriage of media and technology is so powerful surely comes as no surprise to any sentient being on planet Earth, but never has that been more sharply demonstrated than the current period, in which Coronavirus news comes at us from every form of device and media, both informing and frightening us, twenty four seven. Fortunately, the same media and technology has allowed many of us, if not most, to stay home and still stay in touch with our friends, our family, our education and, not the least of all, our jobs. Notwithstanding the massive increases in unemployment since the crisis began, the more astonishing phenomenon is just how many workers (and students) were able to carry on with some semblance of normality during these unprec., er..., distinctly abnormal times.

The disruptive nature of technology is not new, but the pace at which it established itself as the dominant form of human interaction is. The long-term, even the near-term, impact of this revolution will be profound. I am fond of saying the future arrives ahead of schedule, and that has never been more true than now. Trends that all of us thought we could see coming in the far off or middle distance are suddenly established, having profound social, economic, and financial implications. "Prophecy is a good line of work," says Mark Twain, "but it is full of risk." Indeed, it is.

The comparison with the invention of electricity seems apt, here. It is said that businesses and consumers took nearly forty years after the discovery of electricity before they fully learned how to employ it, productively. The digital revolution has been with us for about the same amount of time and

suddenly it has become the overwhelmingly predominant mode of human interaction, replacing travel, restaurants and bars, classrooms, offices, gymnasiums, concert halls, stadiums, theaters, indeed, anywhere that humanity formerly gathered. The ease with which so many industries and workers adapted to these changes cannot help but mean that, in so many cases, there is no going back.

Tocqueville is looking forward to the increased flexibility, as the world starts returning to some version of its pre-lockdown state. Greater productivity, more robust distribution, big data, high speed communications, the internet of anything and everything define a new financial world in which our managers and analysts have already become comfortable with the new way of doing things.

Sincerely,

Robert Kleinschmidt

Chairman

July 28, 2020

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