TOCQUEVILLE

Be a Bear-Market Buyer

BY JOSEPH PIROPATO ON *MAY 15, 2020*

The stock market's wild swings so far in 2020 have been enough to unnerve many experienced investors. And while it's extremely important to be mindful of near-term liquidity needs, we believe it's essential to be a buyer in a bear market in order to build long-term, multi-generational wealth.

In sharp drawdowns and bear markets that I've experienced —1987, 2000, and 2008—we've survived and prospered by patiently executing a game plan: methodically buying quality names when they've declined, adding more if the market declines more, and selling names that we think will have difficultly rebounding. As painful as these periods can be, we believe they can ultimately be fruitful.

During this current climate, we believe investors should be considering durable and resilient brand names and companies with fortress-like balance sheets. We believe that these are the types of companies well-positioned to thrive in the post-Coronavirus economy. Some potential examples could include:

Alphabet: While well known for its core Google search products, the company has a rich array of patents, technologies and IP that position it well to we believe potentially become the Berkshire Hathaway of the 21st Century. $115 billion of net cash on the balance sheet.

Berkshire Hathaway: A collection of some of our country's finest businesses. While many of them will be challenged in the current environment, and with $125 billion of cash it is our belief can be deployed to create future value for shareholders.

Cisco: One of a handful of companies that has the technologies, products and services (including Webex) to support the massive demand for Internet connectivity. $12 billion of net cash and a 3.5% dividend yield.

In contrast, we believe that certain sectors of the economy in all likelihood will change in the post-Coronavirus economy. For example, it has been established that many office employees can work effectively from home. As a result, the market for business real estate and office space rentals may fundamentally change. And, while a return to traveling and dining out may be high on the public's desires post the "return to normal", we anticipate these opportunities to remain significantly limited or non-existent in the near term.

The advantage of active vs. passive

Periods like this are no doubt painful for investors, but we believe they present active, experienced investors such as ourselves with opportunities to build long-term wealth. We can take advantage of market dislocations and position portfolios for the future in a way that passive vehicles cannot. We've been through this before, and as in the past, we are seeing excellent investment opportunities. Being a bear market buyer is not easy at the time but we believe can be quite profitable for the patient long-term investor.