Comus Investment, LLC

	Comus Gross	Comus Net	S&P 500	Russell 2000	MSCI EAFE Small-Cap
2016*	32.60%	30.87%	12.26%	22.77%	1.55%
2017	36.03%	33.50%	20.17%	14.65%	33.50%
2018	-4.47%	-6.99%	-4.39%	-11.01%	-17.58%
2019	11.17%	8.65%	31.48%	25.52%	25.47%
2020	-3.92%	-5.18%	-3.08%	-12.99%	-13.03%
Cumulative	84.05%	67.41%	64.36%	36.80%	21.93%
Annualized	15.44%	12.89%	12.40%	7.65%	4.78%

*April 1st – Dec 31st, 2016

The compounded performance figures represent all realized and unrealized losses and gains in the firm's brokerage account after commissions and on a currency-adjusted basis over the specified time period, as recorded by InteractiveBrokers. Index returns represent total return including dividends.

Dear Partners,

July 1st, 2020

In the second quarter of 2020 our investments experienced a total return of 13.25% before fees and 12.62% after fees, versus 20.54% for the S&P 500 index. Year to date, we have generated a total return of -3.92% before fees and -5.18% after fees, versus -3.08% for the S&P 500 index. At this point you will have received reports with the details on your balance, fees, holdings, and performance from InteractiveBrokers for the past quarter.

Over the past three months, markets have staged a comeback led by U.S. tech stocks, producing a bubble in which pricing matters little to its beneficiaries. Whatever the sentiment of investors, the flood of money into tech stocks, owing to their supposed immunity to the pandemic and any resulting economic downturn, will likely deliver disastrous results to those involved. In the meantime, they will continue to experience extraordinary returns: as long as other investors make the same decisions at the same time, they're all rewarded, at least for a while. Notable examples include Zoom with $800m of TTM (past twelve months) revenue priced at $72b; Shopify with $1.7b of TTM revenue priced at $107b; Virgin Galactic with no revenue priced at $3b (formerly above $7b); and Nikola Corp with no revenue priced at $23b, equivalent to the price of Ford. In many cases, I find it unlikely that investors will collect their principal in the future, let alone receive an adequate return on their money.

Concurrently, many speculators have been animated with the buy-the-dip mentality, whereby any price decline is construed as an attractive purchase opportunity, regardless of its magnitude or the stock's current valuation. As a result, whimsical buying has occurred in the riskiest of stocks, such as the cruise and airlines (as well as bankrupt companies such as Hertz), which I believed to be in dire condition prior to the results of Q1. Investors in these sectors have either substantially more experience in pricing distressed debt than myself, or have taken on greater risk than they understand. Optionality in solvency isn't my game, and I believe most investors will endanger themselves in their pursuit of profits in this arena.

Prior to the recent, incipient resurgence of the virus in the U.S., many sectors were showing signs of recovery, while industrial production remained laggard. This point is relevant to us, given our heavy reliance on the sector: approximately 80% of the companies we own are industrial and B2B manufacturers, often selling intermediate goods such as parts, equipment, electronics, basic materials, chemicals and machinery to other manufacturers. The remaining portion is comprised of a few construction firms and consumer goods companies. Some of our companies will experience substantial cyclicality, as they have in the past, though it doesn't necessarily imply that we will experience larger swings in performance than the average portfolio. Looking at our historical results to this point, we've experienced the opposite, in large part due to the depressed prices we pay to own these firms. That being said, most of our companies have stated they expect lower profits this year than in 2019, as is the case with most other non-tech firms. This is unsurprising, and after over-earning in 2018-19, I believed most of our holdings would experience lower future profitability, on par with their historical average.

Though most of its actions have been necessary, the Fed has helped foster a well of moral hazard from which investors have obligingly drunk. There will be ramifications in both debt and equity markets, yet to be understood, which will eventually rouse investors from their lethargy. For now, risk remains high, and stock investors remain satisfied with current prices, since low interest rates have rendered investment-grade fixed-income nearly profitless.

Earnings multiples of most major indices are likely to rise in the near future, given the expected decline in corporate profitability in 2020. Unless earnings quickly recover, this will be a particularly insidious side-effect for investors, as slight stock price declines won't mitigate their deflating affordability. Many older investors have experienced this pernicious cycle, with earnings multiples reaching their peak years after the dot-com bubble crashed.

The primary focus of most equity investors remains high-quality, domestic, easily understandable growth stocks (often called compounder stocks). This has helped funnel money into a small group of readily determinable compounders, primarily consumer-focused, for which there remains a long line of buyers. I would personally find it limiting, both in terms of our performance and my curiosity, as well as dogmatic, to restrict us to such a small list. There are more than 100,000 publicly traded companies globally, of which the compounders comprise fewer than 1%. I assure you that we'll spend nearly all of our time on the underfollowed 99% rather than waiting our turn at the local watering hole with the crowd.

As always, feel free to contact me at any time with questions, comments or concerns.

Best,

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