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As the S & P 500 continues to waltz along, we are reminded once again of Chuck Prince, that metaphor that keeps on giving. In 2007, shortly before the financial crisis, the erstwhile CEO of Citigroup famously said that “as long as the music is playing, you’ve got to get up and dance”. Today’s stock market appears to be listening (and boogying along). The third quarter of 2020 featured a market that grooved to the siren song of low interest rates, only occasionally putting a foot wrong before nimbly righting itself. Had you asked people to guess where the stock market would be six months after the onset of a deadly pandemic and in the midst of a still reeling economy, they would surely not have anticipated it would be where it is.

Which leads us to the value (actually, the lack of value) of predictions in our business. There’s a wonderfully fatalistic Russian saying that, “on average, we live pretty well: worse than last year, but definitely better than next year.” While we here at Marshfield are not quite as cynical about the future as our Slavic friends, we certainly have a healthy respect for (cautious) pessimism. But we also understand the dangers of embracing specific scenarios, whether rosy or bleak. Those who insist we prepare for impending doom presuppose not only the ability to anticipate the apocalypse but also how the millions of individual trades that comprise the stock market will respond to what’s happening, given that investors will have developed their own expectations about the future. At this point in the melodrama that is 2020, a five year old could probably cite the challenges we in this country face for the remainder of the year. But even a 500 year investment veteran would be hard pressed to tell you how those challenges will resolve themselves and what mark they will leave on the market as a whole, much less on individual names.

So how do we invest when our dance card is stacked with potential partners we’d prefer to give the cold shoulder, from the scary (an economic recession) to the frightening (a resurgence of the pandemic) to the downright terrifying (a poisonous presidential race that could ripen into violence and/or a constitutional crisis)? Since no fancy footwork can provide us an advance peek into the future, all we can rely on is the past. History is obviously limited in its ability to foretell what’s in store for us, but it can still be eloquent in its assessment of that which persists: it can tell us which companies likely have the character, grit, and equanimity to navigate obstacles with grace and distinction. And so, ultimately, our answer is to move forward by looking backwards, with an optimistic pessimism that acknowledges that while bad things may well (and perhaps will likely) occur, there are ways to limit the toll and perhaps even to thrive. By 1) investing in companies that have demonstrated resilience, that is, their ability to do well during good times and to stanch the bleeding during bad times, 2) buying only when others are unduly pessimistic so that our entry price is low, and 3) otherwise being content to hold cash, we believe we can arm ourselves pretty well against what may (or may not!) eventuate. And let’s not forget the sell side of the equation: protecting our portfolios and generating returns also require us to sell when a stock is priced for perfection, lest the band slow its tempo and the stock lose its footing. The default option of going entirely to cash, despite upside potential continuing to inhere in our

holdings, has proved time and again to be a false idol; not only does the market surprise with great frequency, but once you've left the dance floor entirely, when do you get back on? Finally, to those who muse about the waning of American primacy, we beg you to wait. Counting the U.S. out, however troubled it has been at various times in its long history, has never been the right move.

This is why we'll never totally abandon the dance floor, even if they're playing the chicken dance raucously on repeat. We're happy to stand on the periphery, being the wallflower: tapping our toes, snapping our fingers, and watching the Chuck Princes of the world gyrate. As has always been our way, we'll await the right partners and the best tunes before we bust a move.

In keeping with that thought, we didn't change that much in our portfolios last quarter. We added to our **Strategic Education** position (which we had cut back last year at much higher prices), and, where we needed to, we also added to our positions in **Goldman** and **Arch Capital**. At the same time, and based solely on price appreciation, we sold some of our **Fastenal** and **Chipotle** positions (meaning that we'd happily buy them again, albeit at much lower prices). Thus we ended the quarter with more or less the same (substantial) cash position with which we had begun the quarter. So, yes, we are still willing to dance to the occasional tune that we like, but it'll take some funkier rock 'n roll to get us to stay out on the floor.

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