HILLIARD LYONS TRUST

A Baird Company

Newsletter | January 2021

Hilliard Lyons Trust Market Commentary

Know Who You Are As An Investor

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Old-timers like me have experienced many turbulent years over the past four decades. I began my investment career during the recession of the early 1980s with double digit rates of inflation and a prime interest rate as high as 20%. In the late 1990s, the technology bubble inflated and then burst in 2000, followed by the 9/11 terrorist attack in 2001. A commodity price bubble occurred during 2006-2008, with oil prices peaking at over $140 per barrel. Around the same time, the subprime housing market collapsed, ushering in the Great Recession of 2007-2009. Just as I was beginning to believe I had seen it all, along came 2020. Last year will now be added to this infamous list due to the disruptions, challenges, frustrations, and heartbreak arising from the coronavirus pandemic. 2020 was indeed one of the most turbulent years in modern times.

2020 Was a Difficult Year

In 2020, the worst health crisis in a century led to government mandated economic shutdowns and the sharpest economic decline in our nation's history. This economic freefall necessitated the fastest and most massive monetary and fiscal policy responses ever, with interest rates plunging to the lowest levels in history. With rates this low and large sectors of the economy opening back up, a record setting economic rebound occurred in the third quarter. Low rates supported increases in almost all asset values, including the stock market. Medical research produced vaccines to fight the coronavirus with astounding speed and efficacy, adding to investor confidence about the future and fueling the stock market's surge even higher. Many books will no doubt be written to fill in all the details of 2020, so I will not do that here. Rather, I will discuss some of the learnings we should take away from last year, with an eye towards our approach to the future.

The Fed to the Rescue

The stock market's (S&P 500) total return last year was 18.4%. Given the amount of disruption to most people's lives and to many businesses and industries, this robust return was surprising. After reaching a low point down 30% for the year on March 23, the market advanced 70% over the remainder of 2020. The primary driver behind this amazing rise was the aggressively accommodative policy by the Federal Reserve (Fed). With Fed policy making the cost of capital very low and the supply of capital abundant, it should not be surprising that asset values surged higher. "Don't fight the Fed" is an old stock market adage that certainly held true last year.

Speculation Rising: Be Careful!

We also observed a marked increase in the amount of speculation in the stock market. This is evidenced by initial public offerings (IPOs) often doubling in price on their first day of trading. Momentum is driving prices higher, with the stock prices of many unprofitable companies doubling and tripling in value in a matter of weeks or months. In our experience, excessive speculation of this sort never ends well, so we choose not to participate, especially with your hard-earned life savings. Benjamin Graham, perhaps the greatest investment teacher in history, said this many years ago: "The greatest danger investors face is acquiring speculative habits without realizing they have done so. Then they end up with a speculator's return, not a wise move for someone's life savings." This admonition from Graham is timeless.

The Future is Difficult to Predict

This is the time of year that scores of prognosticators are making their predictions about 2021. While some of their forecasts are mildly interesting and have some entertainment value, most of their prophecies are unreliable at best. Very smart people construct elaborate and sophisticated models to predict the future, but 2020 should have emphatically reminded everyone that these "experts" do not know any more about the future than the rest of us. One year ago, not a single person predicted the events of 2020. Fifteen years ago, even the most imaginative mind could not have anticipated that interest rates would be at the low levels of the past 13 years. At year end, there were $18 trillion of negative yielding bonds worldwide, and in the U.S. the ten-year Treasury bond is near 1%. Few people saw that coming. Humility about predictions of how the future will unfold is a critical ingredient to long-term investment success.

To achieve that success, we should expect that unimaginable things will happen from time to time. History teaches us so. Unknowable occurrences may be negative like the pandemic, 9/11, or World War II, while others may be gloriously positive, such as medical advances and technological innovations. It is amazing to consider the technology industry we know today barely existed 50 years ago. And yet, it now dominates the stock market and our lives. In today's world, change is an important part of life in the business community and in the stock market.

Expect Change in 2021

As we enter 2021, we anticipate it will be a year of continued and significant change. First, as several vaccines are rolled out, it is expected that the spread of the coronavirus will subside, and the number of new cases in the U.S. will decrease substantially. By the second half of the year, our lives may be returning to a more normal, post COVID-19 reality. Second, as the health crisis subsides, the economy can open more fully, especially the industries that have been most significantly impacted by the pandemic. This could lead to a pickup in economic activity in the second half of the year. Finally, the electoral process is thankfully now complete, and we have a new presidential administration as well as a different balance of power in Congress. We should expect to see any number of policy changes. Some of these changes will likely be an abrupt pivot in a new direction from the policies of the past four years. In addition to these anticipated changes, we should expect some changes that no one foresees. While we do not know how the markets will react to all these changes, that is not unusual. The markets often run counter to early year expectations.

Your Long-Term Investment Plans

While it is easy to get caught up in the events of the here and now, the execution of your long-term investment plans and strategies are much more important. Last year's events were a reminder that your plans must be flexible and able to withstand unimaginable change and disruption. Noted investment writer Morgan Housel stated in his recently published book *The Psychology of Money* that "the most important part of every plan is planning on your plan not going according to plan." At Hilliard Lyons Trust, we try to account for this by building in a large margin of safety in your investments. Because we do not know in advance when difficult periods will occur, we attempt to help you always be prepared for them. Our strategy is to fill your portfolios with high quality, durable securities that can stand the test of time. Your plans generally involve long-term periods like 5, 10, 20 years, and longer. We are always thinking in those time frames and focusing your investments on securities that we expect can endure improbable events in future years. We believe the fascination with short-term results and predictions so prevalent on Wall Street today is a hindrance to achieving your long-term goals.

Our Circle of Competence

In today's fast moving investment world, it is vital to know who you are as an investor. Warren Buffett often speaks of the importance of staying within your circle of competence. Today, this may require an extra dose of discipline. There are many different games being played in the stock market at the same time. High frequency traders, day traders, leveraged hedge fund traders, algorithmic computer driven traders, momentum traders, and short-term performance-driven traders are all active in the markets. This rapid-fire activity creates wild swings and cross currents in stock prices. It is enough to make your head spin if you are playing their game. Fortunately, their game is not our game. We stay firmly within our circle of competence in everything we do for you, especially in the stock market. Our competence is in our long-term business owner approach to stocks. We attempt to identify and invest your assets in excellent businesses run by talented and honest managers that trade at prices that make sense. Usually, we own these businesses for 10 to 20 years and longer. We aim to let these splendid companies compound your investment dollars for many years. Today's short-term volatility has very little impact on long-term rates of return. Our focus on the long-term never strays.

With pockets of extreme speculation swirling around certain parts of the stock market today, many investors are giving in to the temptation to participate. While we have seen speculation in prior periods, we have never seen it end without some investors being badly damaged. Since no one knows when that end is near, it is best to avoid speculation altogether. Warren Buffet wrote this during another speculative period in the late 1960s: "I will not abandon a previous approach whose logic I understand even though it may mean foregoing large and apparently easy profits, to embrace an approach which I don't fully understand, have not practiced successfully, and which, possibly, could lead to substantial permanent loss of capital." These wise words from Mr. Buffett are as applicable today as they were when written.

A year like 2020 should make all investment managers examine their investment strategies to see if they held up well or need to be altered. We feel strongly that our consistent approach was put to the test, held up well, and will continue to help you achieve your investment objectives far into the future. The beginning of a new year is a good time to discuss your individual long-term plans and how best to achieve your particular investment goals with your portfolio manager. We appreciate the relationships we have with you and will continue to work diligently to earn your continued trust. Happy New Year!

Charitable Giving Solutions Service Spotlight

Jonathan Raymon
Vice President
Trust Officer

Hilliard Lyons Trust (HLT) provides charitable giving solutions to high net-worth individuals as well as non-profit organizations. Individual clients may establish a charitable trust where HLT is appointed to provide investment management and serve as trustee. HLT works with endowments and foundations to provide investment management, administrative services, and charitable giving strategies for donors. In this latest installment of the HLT newsletter's Service Spotlight, we're talking with Trust Officer Jonathan Raymon about HLT's charitable giving solutions.

How long have you worked at Hilliard Lyons Trust?

I joined Hilliard Lyons Trust back in 2012 after graduating from law school. I saw firsthand the value and benefit a trust can provide when my father passed away, so once I earned my law degree from University of Louisville, I joined Hilliard Lyons and started my work with charitable accounts.

What solutions does Hilliard Lyons Trust offer those who are charitably inclined?

Our services are based on the philanthropic needs of our clients. For example, with family foundations we'll often serve as trustee, helping the family make gifting decisions while managing grant requests and coordinating record keeping and tax reporting. For nonprofits we typically perform investment management, including investment screening and tax reporting. We also work with high-net-worth individuals on charitable giving strategies, helping them explore how different vehicles like charitable lead trusts or remainder trusts can get them closer to their philanthropic financial goals.

Can you give an example of your work with foundations?

There's one family I work with who is really spread out all over the country, and that geographical distance can make it challenging to manage the foundation and keep everyone involved. When I started working with them, I asked what aspects of running the foundation they wanted to focus on and what functions they'd sooner not have to do. I took over the mail, packaged charity grant requests, sent out cover letters and checks and signed tax returns. Then, twice a year I would send each family member across the country a bound booklet detailing past gifts, the needs of the community and potential charitable organizations. So all the family needed to do was to figure out how much to contribute and to whom.

This was the best solution for everyone. It removed the burden of trust administration and let them focus on the needs of the community and the intent of the foundation. It also made it easier for far-flung members of the foundation to revisit all the good they've done for the community and stay connected to the family and the foundation.

Can you talk about your work with charitable organizations?

Most philanthropic organizations have the basics covered – they've clearly identified a mission and their responsibility to the community, they've established a board and built up an endowment. The next step is managing the investments and determining what investment company services you need.

That's one of the reasons the marriage of Hilliard Lyons and Baird was such a great fit – you have two employee-owned firms that have emphasized that "clients first" mindset for more than a century. If you're on the board of a charitable organization and already work with a Baird Financial Advisor, it's easy to say, "I have a great relationship with Baird personally, and I know they have a fiduciary arm too. Why don't we ask what they can do for us?"

Let's talk about that relationship with Baird Financial Advisors. At what point are you brought into the process?

We work best as an outside resource for specific Private Wealth Management clients. The Financial Advisor has the initial relationship and the full understanding of the client's financial goals, needs and resources. If the advisor identifies a client who is charitably inclined and could benefit from a conversation about establishing a foundation or a trust or how endowments work, then the three of us could sit down and talk about those things.

In your experience, what are people most surprised by when it comes to trusts?

For starters, just how flexible trusts are – one trust works one way, another works another way. That's what makes trust administration so challenging. Every foundation is different, every charitable board is different, and the intent of each donor is different. That makes it crucial that you really understand what your clients' needs are, which helps us select the right planning tool for the job at hand.

Along those lines, I think people are also surprised by the timing of the need. For an individual person, if you had a good year financially, you might decide to share your good fortune through your own personal giving. For a charitable organization or foundation, though, the need is often greatest when times are rough, as many charitable organizations experienced in 2020. Part of my responsibility is ensuring the organization's resources are aligned with the timing of that need.

What's the one thing you want clients – and Financial Advisors – to know about what you do?

My message is the same one Advisors tell their clients – the sooner I can get involved, the more options and flexibility you have. Some solutions only apply early in the process, and we can only discover those solutions through conversations with the donor about their wishes.

For example, it's common for someone to decide they want to leave their estate to their church. That's fine, but often that means a lump-sum contribution to a general fund or for a specific purpose. If I'm involved early enough and can talk with the client about what's meaningful to them, maybe the gift instead is an annual college scholarship to five parishioner families in need, in perpetuity. You're still changing lives for the better, and you're establishing a degree of oversight. It's the difference between leaving a monetary gift and creating a legacy.

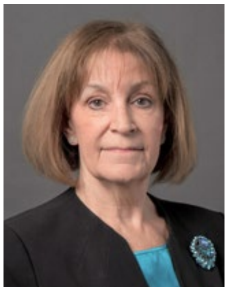
Retirements

Diane Shelton, CWA®, CTFA
Senior Vice President
Trust Administration Manager

Hilliard Lyon Trust and the Wealth & Family Office would like to congratulate three associates on their recent retirement.

Diane Shelton spent 30 years with Hilliard Lyons Trust before retiring on December 31, 2020. With over 40 years of experience in the investment industry, she served as a Trust Officer and Manager of our Trust Administration Team. Diane has become a friend to many of our long-time clients and we all wish her years of joy and happiness in her retirement.

Leigh Ralston, Senior Vice President and Trust Administration Manager expressed her admiration for Diane saying "I had the good fortune of working side by side with my best friend for over 30 years. As we moved through the many changes within HLT, Diane could always offer a unique perspective that made me think of things differently. You could not find a more dedicated colleague, mentor, or friend than Diane. We wish her all the best in her retirement."



Deb Moore, CWA®, CTFA
Vice President
Trust & Estate Settlement Officer

Deb Moore spent 23 years with Hilliard Lyons Trust before retiring on December 31, 2020. With over 25 years in the investment industry, she served as a Trust Officer on the Estate Settlement Team. Deb brought expertise and comfort to many of our clients as she worked with their families to settle the estate. We wish Deb years of joy and happiness in her retirement.

Kathy Whitfill, Estate Settlement Manager, said "Deb was a valuable member of the Estate Settlement Team. She worked tirelessly and passionately for our clients. Her work ethic and bubbly personality will be missed by her Team members." Fellow Trust Officer, Susan Satram also expressed her admiration for Deb saying "I had the pleasure of working with Deb Moore since I started at Hilliard Lyons Trust 21 years ago. We quickly became friends and a work team. We all will miss Deb's get it done personality, willingness to help anyone anytime along with her quick wit and outspokenness. She always made us laugh and she provided great customer service to her clients. We wish her all the best in her next chapter of life. Maybe she will write a book about all the very interesting discoveries during her years with estate administration. Oh the stories!"

Kathleen Harrison
Senior Vice President
Relationship Manager
Wealth & Family Office

Kathy Harrison spent 12 years with the Wealth & Family Office before retiring on December 31, 2020. Serving as a relationship manager with over 40 years of experience in the wealth management industry, Kathy brought a great depth of expertise combined with exceptional service to her clients. We wish Kathy years of joy and happiness in her retirement.

Longtime colleagues and friends had this to say about Kathy. "Having worked with Kathy for over 20 years, we could always count on her willingness to help in any situation. Kathy was more like family than colleague and will be greatly missed in the office."

We would like to extend a heartfelt thank you to Diane, Deb and Kathy for their many contributions to Hilliard Lyons Trust and the Wealth & Family Office over the years. While we were unable to meet for a traditional retirement party, we couldn't let them all leave without a celebration. We recently enjoyed Drive-By Retirement Parties where many of their colleagues and friends sent loads of well wishes.

In Memory

Donald "Don" Froehlich Kohler, Sr.

We announce with sadness that we lost Donald "Don" Froehlich Kohler, Sr., a recently retired Hilliard Lyons Trust Company executive, who passed away peacefully on October 10, 2020 in Louisville, Kentucky.

Don will be remembered for his many professional contributions. He retired in June 2020 after a distinguished 46-year career with the firm.

"I worked with Don for nearly 40 years," said Jim Allen, Vice Chairman of Baird. "He will always be remembered for so many accomplishments, including the formation of the Hilliard Lyons Trust Company and the creation of the Hilliard Lyons Government Fund. In his final chapter, Don was in a highly productive partnership with Jeff Roberts, Financial Advisor, and their very dedicated team."

"I was lucky to work as Mr. Kohler's right hand for 38 years," said Rhonda Brown, Assistant Vice President and Private Wealth Management Client Specialist. "Joining Hilliard Lyons as a 20-year old, I had a lot to learn, and what a teacher I had! He blessed many in his life with his financial aptitude, his visionary thinking and his friendship. I was able to share a song with him before his passing, some of you may know it, it's called 'To Sir With Love.' Mr. Kohler changed many lives in his 89-year journey, and I am so thankful that one of those was mine."

Don joined Hilliard Lyons in 1974 and served as the Director of the Hilliard Lyons Investment Management Group until 1993. He also served as the Executive Vice President and a Director of Hilliard Lyons, Inc., and J.J.B Hilliard, W.L. Lyons, Inc., and as Chairman and CEO of Hilliard Lyons Trust Company.

"I always admired Don for having the foresight to obtain the trust charter for Hilliard Lyons so we could start offering trust services to our clients," said Don Asfahl, Chairman of Hilliard Lyons Trust Company. "He had a wonderful ability to communicate with his clients and make them feel comfortable. I saw that firsthand by attending many meetings with him and his clients."

In reflecting upon their work together, Jeff Roberts said, "Don was an intense competitor. He always played to win. He was also an excellent investor and a fine business executive."

Grant Roberts, Financial Advisor and Jeff's son, echoed this sentiment, "It was a wonderful opportunity for me, especially as a young advisor, to observe how Don handled a meeting or situation. I was always amazed that even in his mid-80's, he tirelessly searched for timely investment ideas, often late into the night. I'll share a great phrase that he commonly used when asked if he thought we should reduce a client's equity concentration. He would say 'don't trim the flowers to water the weeds.' I think it was this bold investment philosophy which led to many successful outcomes for his clients over the years."

Prior to joining Hilliard Lyons, Don spent 19 years with the First Kentucky Trust Company as Executive Vice President and Chairman of the Investment Policy Committee. He graduated from Princeton University with an B.A. in Economics.

Don served many community organizations, including the Episcopal Diocese of Kentucky, the Frazier Rehab Institute, Rotary Club of Louisville and Nine Tigers Roar at Princeton University, among others.

Don is survived by his wife, Peachy, and three children, Elizabeth Fontaine Kohler, Mary Peabody Kohler Fox (Rollo), and Donald Froehlich Kohler, Jr. (Ann). He is further survived by his four grandchildren, Elizabeth McKinley Bandy (Judson), Meredith Laughlin Allen (Crighton), Robert Kohler Kane and Donald Froehlich Kohler, III, and two great-grandchildren, Elizabeth Adele Bandy and Virginia Greer Bandy.