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Hilliard Lyons Trust Market Commentary

Politics and Investing Don't Mix Well



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There's no doubt that politics is an extremely sensitive subject that is both personal and highly emotional. Without offering any political opinions, this piece aims to take an unemotional look at how politics can impact your investment portfolio. In short, we believe the best course of action is to keep politics out of investing.

With the upcoming presidential election in November, it is hard to turn on the news for more than a

few minutes without hearing pundits discussing how a Biden or Trump victory will impact the stock market and the economy. People from both sides make sweeping statements about how electing their candidate will lead to great outcomes while picking the opposing candidate will lead to horrible outcomes. One thing is clear – many investors, both Republicans and Democrats, are nervous about the potential result and the potential volatility that looms.

Fear Urges Action

Human nature being what it is, investors hear these dire predictions and feel the need to make changes in their portfolio to prepare. These changes range from selling specific securities, to altering asset allocation plans, to pulling out of the stock market entirely and going to cash. These short-term urges are natural and are easy to succumb to because they are driven by fear of the unknown. However, we strongly believe that political beliefs should not drive investment decisions. If the goal is to

protect and grow your wealth for many years into the future, politics and investing should be detached from one another.

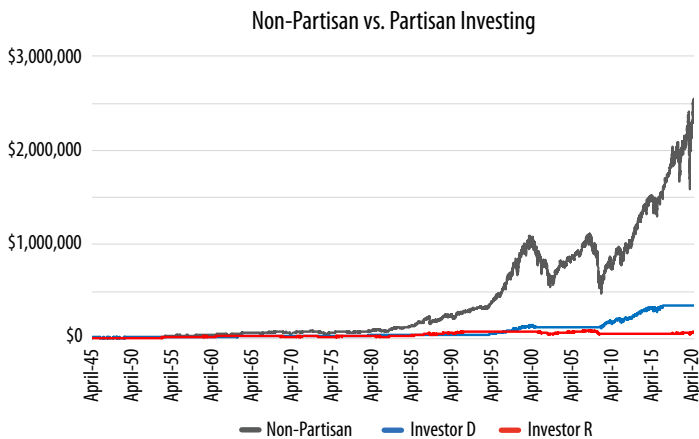
Time in The Market vs. Timing the Market

Attempting to time the market by making meaningful asset allocation changes based on short-term predictions, including election outcomes, strikes us as misguided and short-sighted. Over its history, the stock market has experienced periods of poor performance as well as strong performance under both Democrat and Republican presidents, as well as same party and divided Congresses. Even though there have been many hiccups along the way, the long-term growth trajectory of the U.S. economy has continued through various political regimes. Ultimately, the President just doesn't have all that much control over something as immensely complicated as the U.S. economy.

As the saying goes, time in the market is much more important than timing the market, which is overwhelmingly supported by historical stock market data. In the 75 years since the end of WWII, the United States presidency has been held by Democrats for 36 years and Republicans for 39 years. Starting with the inauguration of Harry Truman on April 12, 1945, a \$10,000 investment in the S&P 500 would be worth \$2,300,000 today (excluding dividends). All that was required for this non-partisan investor was patience and the ability to tune out the short-term news, including elections.

Alternatively, a hyper-partisan investor would be much worse off. Consider two hyper-partisan investors – investor R and investor D. Both start with the same \$10,000 on April 12, 1945. Investor R stays invested in the market during Republican presidential administrations but moves to cash during Democrat presidential administrations. Investor D pursues the opposite strategy by investing only while a Democrat holds the presidency and moves to cash during Republican administrations.

Today, investor R would have \$65,336 and investor D would have \$352,616. Some may point out the fact that investor D outperformed investor R, but that is missing the point. By mixing politics with investing, both hyper-partisan investors ended up with substantially less money than the \$2,300,000 the non-partisan investor now has. Additionally, these numbers don't account for dividends, which would even further exacerbate the gap between the end results.



Predicting the Future is Difficult

Beyond this data, it is instructive to take a step back and consider all the predictions an investor must get right in order to successfully speculate on an election. First, the outcome of the election must be predicted accurately. As we saw in 2016, this is no small task. Next, one must then accurately predict what policies will be implemented from the new president's agenda. In most cases, much of a candidate's campaign rhetoric never gets passed into law.

On top of this, an investor must then accurately predict the direction, magnitude, and timing of the stock market's reaction to the election outcome and policy implementations. Getting any one of these individual predictions correct is extraordinarily difficult, but accurately predicting all of them is virtually impossible.

One recent example of this difficulty was the outlook for energy stocks upon the inauguration of President Trump. His policies favored reducing the country's reliance on foreign oil, promoting energy independence, and slashing regulations that were hampering oil, gas, and coal companies in the U.S. Clearly these policies should be good for the energy sector and boost energy stocks. However, the opposite happened. From January 20, 2017 through today, the iShares U.S. Energy ETF is down 61% compared to a 44% increase in the S&P 500, an underperformance gap of over 100%!

Maintaining a Long-Term Perspective

Instead of playing this short-term guessing game, we stick to our time-tested investment process that is based on a long-term business ownership mentality. We focus all our time and effort on identifying and purchasing high-quality businesses run by talented leaders at compelling prices. The uncertain outcome of the upcoming presidential election simply does not factor into our analysis. This doesn't mean that future policy changes won't have an impact on our investment decisions – they almost certainly will. But we base these investment decisions on facts rather than conjecture.

Political Change is Inevitable

Our long-term time horizon means it is highly likely that we will own shares in a company through several different political environments. In our equity portfolio, our average holding period is 15 years. Over this period of time, it is almost certain that there will be various combinations of political power in Washington. In just the last 15 years there have been six different combinations of President, House, and Senate majorities.

	President	House	Senate
2005-2006	Bush	R	R
2007-2008	Bush	D	D
2009-2010	Obama	D	D
2011-2012	Obama	R	D
2013-2014	Obama	R	D
2015-2016	Obama	R	R
2017-2018	Trump	R	R
2019-2020	Trump	D	R
2021-2022	???	???	???

Before we purchase any stock or bond, we assume political change is inevitable even though we cannot predict it. Similarly, we know there will be economic slowdowns and recessions in addition to other surprises that we cannot anticipate (i.e. COVID-19). Intelligent managers of competitively advantaged businesses adapt and often thrive as the world changes around them. Furthermore, as conditions change, whether they be political, economic, or industry-specific, we incorporate this new information into our investment analysis in real time.

At the end of the day, things like the business cycle and competitive landscape are much more vital to an individual business than what party is in control in Washington. As long-term investors, we try to ignore the noise and focus on what really matters – the growth of earnings and cash flows over the long term.

Sticking to the Plan

So far, 2020 has been characterized by a litany of surprises and uncertainties. From the COVID-19 pandemic to the rapid economic deterioration, followed by the swift market rebound and improving economic outlook, almost nothing has turned out as expected. This year is yet another reminder that the future is inherently unknowable and extremely difficult to predict consistently.

Even though this can be a hard reality to accept, the upcoming election is simply another uncertainty with unknown ramifications. The best way to confront this uncertainty is to think long term and stick to your investment plan that was built around your specific risk preferences. Sometimes the hardest thing to do is to do nothing at all.

We are extremely grateful for the trust you place in the team at Hilliard Lyons Trust Company. 2020 has been a trying year but you can rest assured that we spend each and every day with one singular goal in mind – protecting and growing your wealth for years to come.

Service Spotlight



Kathy Whitfill

Vice President
Trust and Estate
Settlement Manager

The Hilliard Lyons Trust newsletter's Service Spotlight looks at the firm's various capabilities in service of our clients. In this first installment, we're talking with Trust and Estate Settlement Manager Kathy Whitfill about HLT's estate settlement services.

How long have you served in estate settlement?

I've worked in estate settlement for over 30 years, the last three with Hilliard Lyons Trust. We handle every

case as a five-person team from the trust company, often with support from the client's Financial Advisor. Among the associates of the Hilliard Lyons estate settlement team, we have nearly 100 years of experience.

What are the primary responsibilities of the estate settlement team?

The estate settlement team's primary duty is to settle the decedent's personal and financial affairs – securing any assets, settling up and closing any financial accounts and distributing assets according to the terms of the estate plan. Sometimes we're named as the appointed executor, but just as often the executor will reach out to their Financial Advisor looking for guidance, and the advisor will introduce them to us. This is often the case with the death of a family member where a close relative might be named as an executor, but they don't know the first thing about identifying insurance policies or making sure the right assets go to the right people. That's where we can help.

What is the process like when you're asked to settle an estate?

One of the first things we'll do is take inventory of and safeguard the assets – including changing the locks of the decedent's home. Then we get the assets appraised and stored and will donate or dispose of any items that are not of value. In the meantime, our team is also closing out the decedent's financial affairs – filing taxes, paying bills, collecting final wages and insurance proceeds and closing accounts. Finally, we'll distribute the estate's assets according to the terms of the estate plan.

"People are surprised at the lengths we go to for our clients. I had one client tell me, 'I can't believe you came all the way from Kentucky to Illinois to handle an estate!'"

Throughout it all, our main responsibility is to communicate fully and transparently with clients and beneficiaries. If one beneficiary asks a question, we communicate our response to all so that everyone has the same information.

What are some of the more surprising aspects of your role?

First is the amount of time it takes. Not many people realize that from when we're first involved to closing can take up to two years – sometimes even longer. Also, making the process run as smoothly and efficiently as it does really requires a team. There is always an associate, officer and manager from the Estate Settlement team working on each estate, as well as a portfolio manager, trust company counsel and the Financial Advisor. Every estate is unique and offers its own challenges and complexities. We work closely with outside professionals – legal counsel, accountants, appraisers and realtors – as needed to be sure that every detail is taken care of.

What's one of the more memorable experiences you've had?

We recently settled an estate in St. Louis where among the decedent's assets was a home the decedent inherited from a sister more than a decade ago. The house had been untouched in all that time, which meant when we arrived there were 10 years of mold and cobwebs, plus food in the refrigerator and pantry from 2008. Fortunately this is not something that we encounter in every estate. We were, however, able to do what was necessary to get the house ready for sale.

What is the most rewarding aspect of your work?

We love helping people and taking the burden off families at a very emotional time. Being able to provide that support is something I find very fulfilling.

The Estate Settlement team is a valuable service available to our clients. To learn more about naming Hilliard Lyons Trust as executor, reach out to Willis W. Hobson, J.D. at 502-588-8655 or whobson@hilliard.com. Hilliard Lyons Trust does not prepare legal documents or give tax or legal advice. Clients must work with their own attorneys and accountants in setting up an estate plan.

Cybersecurity and the Role You Play

Baird takes great care in protecting your information, but you play a critical role as well. We strongly encourage following these five tips to help improve your online security.



Keep all of your software up to date

Install patches for your operating system, applications, and web browser as soon as they're released to reduce your risk of being infected with malware.



Use a reputable antivirus software

This will further reduce your risk of a malware infection.



Think before you click

Avoid clicking on links or attachments in unexpected emails or texts. Links may direct you to malicious websites that attempt to infect you with malware or harvest your information. Attachments may also contain malware.



Secure your accounts

Use a long, strong, and unique easy-to-remember passphrase for each of your accounts. Enable two-factor authentication where available to add another layer of security. Also, consider using a password manager app to help you create and store strong passwords securely.



Take control of your digital footprint

Be mindful of the information you share online whether it's for a financial transaction or social media. Do not post about vacations or business trips in real-time. Always log out completely after completing a transaction or sending a message. Log in and review the privacy settings of your online accounts.

For more about how Baird protects your information, contact your financial advisor or visit our Information & Site Security website at www.rwbaird.com/help/safety-security/site-security.aspx.

To learn more about how you and your family can stay safe and secure online, visit the Department of Homeland Security website at www.dhs.gov/keywords/stop-think-connect.



Louisville Business First: Hilliard Lyons Trust’s president plays the long game when it comes to opportunity

Sarah Shadburne
Reporter
Louisville Business First

Mark Nickel approaches work with the attitude that he is a steward of the opportunities he’s been given.

During college and following graduation, Nickel said he had opportunities arise which he “left on the table,” and in hindsight, he said he never wants to look in the mirror and feel like he’s squandered a chance again.

Now, as President and Chief Investment Officer of Hilliard Lyons Trust, a Baird Co., he said he’s found the business he hopes to spend the rest of his career working for.

Nickel became President and Chief Investment Officer of the company in May 2019, just after Hilliard Lyons Trust was acquired by Milwaukee-based Robert W. Baird & Co.

Now that the two firms are aligned as one in the office tower at 500 W. Jefferson St. with Baird’s name emblazoned on the top, Nickel said the company’s opportunities for growth have improved by a factor of five following the acquisition.

“When I first came to Hilliard, it was just a place that always felt like home and I really never wanted to leave. So, when the Baird acquisition happened, you just [say], ‘OK, my world is changing, what does that mean?’ As I learned about Baird and as I’ve experienced Baird, I could not think of a better organization for us to have joined,” he said. “It’s able to take a very long-term view of things; they’re playing the long game and they’ve been able to build and develop a culture that actually has a lot of similarities with the Hilliard culture.

“It’s about putting people first and treating people the right way. It’s some simple things that matter.”

But any change is unsettling at first, said Nickel, who began with Hilliard Lyons in 2002 as a financial planning analyst. And his first year as President and Chief Investment Officer has been interesting to say the least.

It’s been a year of figuring out how to do things out of necessity, but ultimately taking the lessons learned and applying them for the future.

Broken status quo

He said the company figured out pretty quickly how to keep the lights on through the disruption caused by COVID-19, with about 90% of the workforce working from home since March 16. But, there are less tangible forces to contend with that aren’t so easy to address or solve, like morale.

“We’ve communicated more than we ever have in the COVID-19 world, yet because I can’t see people face-to-face — I can’t read their body language or be in a room with 70 of my associates and just get a general sense of the tenor of the room — as much as we’re communicating, I wonder what it is I don’t know,” Nickel said. “Most people who are working from home are fairly happy, fairly content, but yet I read articles and I know depression is up. Isolation and various mental health issues are on the rise. Is that working from home, or is that COVID-19 and the social unrest that’s going on? I’m not wise enough to decipher the difference.”

Nickel acknowledges that the financial industry’s status quo has been broken. He says he’s not sure yet what opportunities the disruption caused by COVID-19 will materialize, but he said for now he’s trying to keep his finger on the pulse of what’s going on as he knows the world will be different on the other side of the pandemic.

What initially sparked his interest in the financial industry was his youth group leader with his church who worked in financial services. Nickel said as a child he admired him as a role model and thought, “I want to have what he has.”

It was as simple as that. And when he returned to Hilliard Lyons Trust in 2006 after departing for a few years to work for Davy, another wealth-management firm, Nickel had his inciting career moment in front of investment committees during the Great Recession.

Social intelligence

At the time, he was managing portfolios for high-level clients. As he was able to articulate the complicated financial and economic realities as they related to client portfolios and in turn receive positive feedback on his investment advice, he said he realized this industry is where his skills are suited best.

“It was in those type of settings I realized, ‘This is where I need to be.’ The two things that get me most excited are when I’m in front of an investment committee and having that conversation, and when we can identify talent and get them in the right role for them,” Nickel said. “Along the way, I’ve been given opportunities and the people who gave me opportunities probably would have had a similar view, ‘Mark has some talent, let’s get him in a situation where he can maximize that talent.’ I think that’s the way it’s supposed to work.”

Going forward, he said the future looks strong for the company. But what most people don’t understand about his line of work is that you don’t have to come in with a brilliant new investment strategy or have elaborate estate-planning techniques. What you really need to have is social intelligence.

“At the end of the day, our business is really about understanding our clients’ needs. It’s about communicating clearly, authentically and establishing trust,” Nickel said. The technical aspect of it, yeah, it’s got to be there, but if you don’t know who you’re addressing, who your audience is, you’re not going to be successful. There’s a lot of what we do that’s the old-fashioned working with people. The most successful people and organizations I see have these tremendously strong relationships with clients.”

Hilliard Lyons Trust ranks No. 3 on our list of the area’s largest asset-management firms, with more than \$65 billion in assets managed locally.

Here’s more from Nickel in this Q&A:

Who do you go to for business advice?

My wife. She spent 13 years in international business, working for a global financial services firm and is now a life coach. She understands the corporate world and her social intelligence is off the charts.

Since so many business issues involve dealing with people, the combination of her experience, social intelligence [and] her knowledge of how I work makes her my first call for business advice.

What’s the best advice you’ve ever received?

In a professional development course a few years back, the instructor encouraged me to be true to who I am. [The instructor said] don’t pretend to be someone/something that you are not. This advice freed me up to be confident in just being the authentic me.

How do you like to decompress after a long day of work?

Preparing a nice meal for my wife and kids. Cooking brings out my creative side, which engages a different part of my brain and this helps me relax.

What’s been your smartest business move?

Took a 3.5 year detour (2003 to 2006) to move to Ireland. The Irish experience, where I earned my MBA and worked for an Irish investment firm, broadened my horizons, gave me confidence in my abilities and opened doors to new opportunities when I rejoined Hilliard Lyons in 2006.

What skill would you most like to improve?

Networking. I am an introvert, so I have to overcome my natural preference to keep to myself. Over time, I’ve become more comfortable with networking, but I’ve still got a long way to go.

What’s your hidden talent?

Preparing a tasty meal with odds and ends in the pantry and refrigerator. My family and friends have learned that this talent is very handy on the last day of a beach vacation.



Mark Nickel

Title: President and chief investment officer, Hilliard Lyons Trust, a Baird Co.

Age: 46

Hometown: Louisville

Lives: Hurstbourne

Recent career history: President and Chief Investment Officer,

2019-present, Hilliard Lyons Trust, a Baird Co.; chief investment officer and senior vice president, 2017-19, Hilliard Lyons Trust Co.; senior vice president, director of portfolio management, 2006-17, Hilliard Lyons Trust Co.

Education: MBA, 2004, University College Dublin Michael Smurfit Graduate Business School, Ireland; bachelor’s degree in finance, 1996, University of Louisville

Family: Wife, 11-year-old daughter, 7-year-old son

Hobbies: Cooking, wish it was more golf