Rational Dynamic Brands Fund – Institutional Share Class (I), HSUTX
Total Returns:

Q 1 2020: -13.76%
S&P 500 Q 1 2020: -19.60%

1 – year: -0.23%
S&P 500 1 – year: -6.98%

Since becoming Dynamic Brands 10/17/17 to 03/31/2020: +16.34% cumulative
S&P 500 since 10/17/17 to 03/31/2020: +6.03% cumulative

Past performance is no guarantee of future results. The performance data above represents past performance. Current performance may be lower or higher than the performance quoted above.

Q1 Commentary:
2020 started off strong and then all at once, it fell apart. We have all just witnessed the fastest one month down-draft in history. From the peak in late February to the current short-term bottom on March 23, the S&P 500 fell a whopping 35%. The Volatility index (VIX) traded under 14 in late February and rose to 85 in late March for a 500%+ increase. Assets across the board had historic up and down moves as fear, uncertainty and doubt became the norm. When stock markets all around the world go straight down for 30 days and volatility across every asset class goes parabolic, things tend to break. If there was ever a time to know exactly what you own and why, it would be today.

We started the year with markets showing a high degree of complacency in risk taking and by March 23rd, we had fear & panic like we haven't seen since the fall of 2008. How's that for perfect symmetry? For the most part, volatility over the last 11 years has been low and spasmic. That's the way volatility tends to operate. When it creeps higher, it usually gets crammed down, but when it begins to gain a little momentum and break a downtrend, it tends to take on a life of its own.

Calm markets and steady economic progress are the calling card of secular bull markets. The reverse is the hallmark of bear markets. That's where we are today. What drove this epic pivot from bull to bear? Mean reversion from significant excess built up in the system, disguised as a reaction to Covid-19. Only after a bubble bursts is it obvious to the masses. The bubble of today was more appropriately termed "the everything bubble". Why the everything bubble? Because super low interest rates, low unemployment, wage gains, wealth-effect gains, and free access to credit pushed people & corporations out the risk spectrum without ever feeling like it was risky. When you take risk and get paid, you begin to get more comfortable taking risk. When the rewards keep coming, you eventually get numb to how much risk you are actually taking. After a while, a $15 cocktail at your favorite restaurant feels normal, the $4 specialty cupcake is a staple of life and the $1 million starter home feels like a bargain. When you consider a $60,000 F-150 to be fair and reasonable and the bank is willing to let you finance the truck with poor credit and little down payment, it feels like you are inside a very big bubble. When companies can raise unlimited amounts of debt regardless of business strength, that's a bubble. The momentum of the bubble can continue until an outside force disrupts it. Enter Covid-19 and the economic calamity that ensued.

During economic expansions, companies and consumers often stray away from fiscal prudence and things like creating a rainy-day fund or planning for the future. If you want an example, look no further than Boeing. This great American aerospace brand chose to spend $43 billion on share buybacks since 2013 and when the 737 Max fiasco & economic slowdown arrived, their cash crunch became a real threat to its survival. Selling bonds for the sole purpose of paying dividends and buying back stock was not an isolated incident, it was rampant across board rooms. That strategy works for a time until growth is interrupted by an outside force. Covid-19 was the catalyst, but the economy was already starting to slow before the virus hit. Sadly, the greater the excess, the greater the unwind when it occurs. The big unwind is what we are seeing currently. This unwind will continue to happen regardless of how much money the Federal Reserve, Congress and the U.S. Treasury throw at it. When you have access to a computer that allows you to print money out of thin air, you can halt gravity for a period of time, but nothing can remove gravity. Money printing can't make consumers go back to a big concert, or eat out more, or feel confident enough to buy a new F-150 when they do not feel like they have job security.

Getting back to what we call normal as a consumer-focused economy will take some time and we all have to be ready for some behaviors to change forever. But in chaos comes opportunity and this bear market and government mandated recession will end one day. Recessions are like hurricanes, we buckle up, batten down the hatches and wait it out. When the coast is clear, the sun comes out and we get outside, fix what's broken and get on with our lives. Please do not allow the media to scare you into believing "normalcy" is never coming back. Just remember their job is to tell the current story and to keep you glued to their station so they can sell more advertising.

The markets always have a wall of worry to climb and admittedly, today's wall is higher than normal. It's during these times we must remember that investing in most assets involves risk and the potential to lose money in a short period of time. If attractive returns are desired, one must be willing to accept periodic bouts of uncertainty and volatility. There are no free lunches, not even for the smartest investors on the planet. Ray Dalio, one of the smartest investors of our time and the founder of the largest Hedge Fund in the world, Bridgewater Associates ($160 billion in assets), reported their flagship fund lost 20% of its value in Q1 2020. And this is a "hedge fund" that theoretically has downside protection embedded in its process.

Today's wall of worry is a large list that includes: the Covid-19 virus spreading around the world, the economic carnage that's been created by a forced shutting of the U.S. economy, the effects of the shut-down on corporations and small businesses, a rapidly rising unemployment picture, a potential corporate default cycle just beginning, a commercial real estate meltdown as prices ease and tenants opt to defer lease payments, dividend cuts, corporate buybacks getting halted (taking away an enormous silent bid under stocks), and an earnings, cash flow and revenue decline not seen in roughly a century. That's a big wall of worry my friends.

It's important though, to remember we had a large basket of worries at every major trough in the stock market over the last 100 years. Things always feel the best at the top and the worst closer to the bottom. I'm not smart enough to know where and when THE absolute bottom will be, but I am confident there will be wildly attractive opportunities to buy the highest quality brands serving global consumers. Some of the best gains often come from being willing and able to buy into the fear, uncertainty and doubt that this market is offering us currently. For now, we are hunkering down, managing for tactical trades and focused on downside protection. This is a time to be more active and more flexible and to utilize a larger than normal cash allocation for downside buffers and tactical trading. Once we see a more obvious bottom in the stock market, we will trade less and sit more.

The Fund

The Dynamic Brands Fund declined -13.76% for the first quarter of 2020 versus the S&P 500 decline of -19.30%. The word Dynamic is a part of the title which implies we have significant flexibility to adapt to different market environments. We have become more defensive in the portfolio, both in terms of cash holdings as well as in the types of Brands we are buying. With investor fear and algorithms/dark pools driving daily liquidity, moves up and down can happen fast. The market has become very one-sided and illiquid. It's quite easy to push a market in one direction when everybody pushes in that direction and few people are on the other side of the trade. When investors have more clarity and confidence, the two-sided market will return, and volatility will collapse.

The Portfolio

Our relative outperformance versus the market largely came from five active decisions:

1. No energy stocks – energy and commodities were the hardest hit in Q1, and we held no exposure to the worst performing sector.
2. Significant underweight the financials – bank stocks in particular had a rough Q1 and our exposure to the major banks and regionals was zero. Our financial exposure came from initiating positions in alternative asset manager Blackstone and a diversified conglomerate called Berkshire Hathaway. I think you know Uncle Warren & Charlie. The stock went on mega sale given their vast holdings in money center banks and airline stocks but with $130 billion in cash, we liked the risk reward of adding the position on the big dip.
3. Holding cash allocation – our cash allocation was small on average for the quarter but with an average balance of 5%, less equity exposure helped reduce the draw-down. There were times this quarter when we were fully invested as well as holding 15% cash. We suspect this will continue for a while longer.
4. An active decision to overweight growth vs value, the momentum style factor, and quality factors over high overall financial leverage and high dividend payers.
5. A decision to be more active and trade around core positions. With volatility so high, the daily moves in stocks offer those willing to trade versus invest an opportunity. For now, we will continue to use roughly 15% of the fund for active trading opportunities vs long term investing. Eventually, the market will reach a more stable, lasting bottom and we can trade in our tactical hat for our investor hat. When that happens, the core brands portfolio should have significant upside energy that needs to be unleashed.

Detractors to performance in Q1:

We maintained an underweight position in the healthcare sector given our tilt to brands with high growth characteristics. We anticipate adding to the healthcare basket on further weakness. These brands offer strong quality features, attractive and sustainable dividends and are tied to an important long-term theme: the aging society and medical innovation.

As a reminder, we are style agnostic and have ample opportunity and flexibility to vacillate from growth to value, large to small, quality to high leverage and domestic to international. We track these factors and others on a daily basis and continue to believe our willingness to adapt offers a significant edge to a portfolio. We also took the opportunity to upgrade our portfolio by selling relative underperformers and those not well positioned for the new economy and into those brands that appeared more well positioned. Every investor should consider using periods like this to analyze what they own and why they own it and make the portfolio adjustments required to come out the other end of bear markets with the most attractive risk/return holdings.

Portfolio actions in Q1:

During the quarter we added to our position in Amazon as an e-commerce, cloud and goods-delivery leader. Amazon is now the top holding in the fund and has performed very well in a difficult market. As we get closer to a more lasting bottom, we anticipate lowering our weighting in Amazon to gain more exposure to the global consumer brands that have larger potential upside. We continued to increase the size of our position in American Tower as the 5G and connectivity theme continues to play out. We added slightly to Microsoft, already a top 5 position. During the quarter we continued to perform our tax loss harvesting strategy while upgrading the portfolio by adding exposure to great brands including Johnson & Johnson and Merck. We tend to start new positions with small allocations and build them into bigger positions on further weakness. The market offered multiple opportunities to build bigger positions in these great healthcare brands. We had successful short-term trades in great brands like: Visa, Starbucks, Roku, Mastercard, Nike, Lululemon, Slack, and Costco, Shopify. To reiterate, we are not active traders by mandate but when volatility is high, those with cash, skill and interest have a unique opportunity to trade the range and add value around the core.

We are not growth investors or value investors, we are opportunists. Our only dedication is to the global consumer spending theme via the 200 brands included in our Alpha Brands Consumer Spending Index. These are many of the most admired companies around the world and make a very solid investment universe.

Our top 5 performers in the quarter were: Tesla(sold), Amazon, Netflix, Nvidia, Shopify.
Our worst 5 performers in the quarter were: Restoration Hardware (RH), Roku, Starbucks, Square, Estee Lauder.

The future:

The headline news and daily risks are high, this is our new reality. There are so many spokes in this wheel that it's very difficult to identify when things are as bad as they will get. The good news, we are closer than we were yesterday and the day before that. One day the economy will open, employees will go back to work, and consumers will begin to act more normally and spend on discretionary items. There will be changes, there will be damage, and there will be hardships. But in chaos, there is opportunity. Out of the ashes will rise a group of companies that built stronger ties with their customers. Business models that were battle tested and proven to be winners. Innovation can be halted for a time, but it will never stop. There are some amazing companies serving consumers each and every day. As consumers, we have long memories and our loyalty to many of our favorite brands will continue to make investments in these businesses a very wise decision. It is our job at Accuvest to continue to try and identify the most relevant brands serving consumers here and abroad. For consumers, spending is in our DNA and though we change the way we spend on occasion; the spending will go on. From needs like food, beverages, shelter, TV, clothes, saving for retirement, and entertainment to wants like autos, vacations, and an RV for family trips, we will continue to plan for the future

and enjoy the present. The brands most admired by Americans and global consumers will rise to the top and offer a wonderful long-term opportunity to build real wealth.

We thank you for your loyalty to the Dynamic Brands Fund and for appreciating the value of investing in global consumption. The government can halt our ability to socialize and spend for a short period of time, but it cannot take away our spirit. We are a consumer-led economy and with each passing day more and more pent-up energy for getting back to our lives is building. When this energy is unleashed it will be just as sensational to the upside as it was terrifying to the downside.

Stay safe and enjoy your time with the family.

The Accuvest Dynamic Brands Team: Eric Clark, Dave Garff, James Calhoun

Disclosures: Important Risk Information

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