Plumb Funds

4Q2018

Commentary

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Lead Fund Portfolio Manager
President, CEO, Chairman

An old cliché is that markets go down when there are more sellers than buyers and that was definitely the case as we closed out 2018.

World stock markets continued to decline throughout the fourth quarter and the decline accelerated in December. This decline wiped out the advance from the previous nine months in the domestic markets and amplified the previous nine months decline in international equity markets. The most commonly used equity benchmarks, the S&P 500 and MSCI EAFE (for international markets) declined 13.52% and 12.86% for the quarter and registered 4.38% and 16.14% declines for the year.

The U.S. bond market provided a modest offset as December reversed the previous three quarters' decline, with the Bloomberg Barclays Intermediate US Govt/Credit TR Index registering 1.65% for three months and 0.85% for year-end 2018. This index is dominated by U.S. Treasury securities, which had a nice advance, but the advance in treasuries hid the decline in corporate bonds. Corporate bond prices declined (rates rose) reflecting anxiety about future economic and credit conditions.

The decline in the world equity markets flew in the face of positive economic advances, particularly in the United States. The fourth quarter decline was the worst since 2008 and the decline in December was the worst since 1931. Economic growth in real GDP, employment, wage gains and the reduction in commodity inflation would typically be the backdrop for solid stock market gains, however this last quarter showed significant disconnect.

Most "experts" were quick to attribute the decline to rising interest rates, Federal Reserve Quantitative tightening (selling their treasury bonds and putting pressure on the bond markets as federal deficits expanded), China/US trade issues, Washington politics, an asset inflation bubble, credit deterioration of corporate America, etc. These are all serious issues and we are reminded of that great line from the classic movie Casablanca "round up the usual suspects."

Any and all of these issues could come together and create another financial crisis. However, when we look at where we are, with full employment, conservative bank balance sheets and a tax law that encourages capital investment, these are strong offsets to the above issues. In the short run, markets always reflect the sentiment at marginal liquidity. JP Morgan estimates that the U.S. stock market volume was dominated by electronic trading of logarithmic trades, passive index ETFs and other automatic trading strategies in December, representing up to 85% of the trading volume. Typically, we have seen these types of investors dominate the markets at extreme highs and extreme lows.

We feel that the further these product trading strategies diverge from economic fundamentals, the greater the opportunities for active investment analysis. Just like private business owners and purchasers are not inclined to over pay or sell at too low a price, we feel that prudent stock market investors should evaluate their return potential at today's prices. At Wisconsin Capital Management, LLC we primarily look for companies with defensible franchises, high recurring revenue models and low capital requirements. When combined with secular growth trends that they are either driving, enabling or benefitting from, we believe that one could have a compelling investment case at the right price.

Prices typically become attractive as a result of surging economic fundamentals or because stock prices have declined more than these fundamentals would warrant. We believe we are presently at that time where patient investors, avoiding the herd mentality, will be rewarded going forward.

Best wishes from Wisconsin Capital Management for 2019 and thank you for the confidence you have placed in us.

Sincerely,

Thomas G. Plumb, President

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President,
Lead Fund Portfolio Manager

Thomas G. Plumb is the founding principal of Wisconsin Capital Management, LLC (formerly Thompson Plumb & Associates), which began in 1984. In addition to his roles with the Funds, Tom maintains an ownership interest in and serves as the president of SVA Plumb Financial, LLC, an affiliated entity.

Tom formerly was the lead portfolio manager of Dreyfus Premier Balanced Opportunity Fund. He earned a bachelor of business administration from the University of Wisconsin-Madison in 1975, is a member of the Madison Investment Management Society and holds the Chartered Financial Analyst designation.

Past performance does not guarantee future results. Index performance is not illustrative of Plumb Funds' performance. Please call 866-987-7888 for performance of the funds or or visit https://www.plumbfunds.com/funds/plumb-equity-fund for the Equity Fund or https://www.plumbfunds.com/funds/plumb-balanced-fund for the Balanced Fund.

References to other funds should not be interpreted as an offer of these securities.

Mutual fund investing involves risk. Principal loss is possible. The fund may invest in small and mid sized companies which involve additional risks such as limited liquidity and greater volatility. The funds invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. Because the funds may invest in ETFs, they are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares. The fund may also use options and future contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates and currency exchange rates. The investment in options is not suitable for all investors. The Plumb Balanced Fund will invest in debt securities, which typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities.

The Standard & Poor's 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices. It differs from other U.S. stock market indices, such as the Dow Jones Industrial Average or the NASDAQ Composite index, because of its diverse constituency and weighting methodology. It is one of the most commonly followed equity indices, and many consider it one of the best representations of the U.S. stock market, and a bellwether for the U.S. economy. The National Bureau of Economic Research has classified common stocks as a leading indicator of business cycles.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The Bloomberg Barclays US Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the US Aggregate Index. It includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

You cannot invest directly in an index.

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