Fahnestock Asset Management

of Oppenheimer & Co. Inc.

Craig W. Hutchison
Managing Director
Senior Portfolio Manager
382 Springfield Avenue, Suite 400
Summit, NJ 07901
craig.hutchison@opco.com

Phone 908-273-2100
Fax 908-273-0788
Toll Free 800-522-7857

May 12, 2020

Dear Client,

We hope this letter finds you healthy and in good spirits.

COVID-19 has caused many people to lose their jobs, be furloughed or take a pay cut. Many non-essential businesses have temporarily shut their doors and employees are working remotely if possible. Socializing has moved from the living room, bars and restaurants to Zoom and FaceTime. Trips to the grocery store and mall have been replaced by Instacart and Amazon. Airline travel is down 97%. We live in a very different world from ten short weeks ago and once the virus is behind us, there will be lingering long term impacts on how we work, socialize and consume.

You may have noticed significantly more activity in your account than normal as we shift your investments to adapt to our new shared reality and take advantage of lower asset prices.

Here is what we have done so far:

- If you are taking a monthly draw from your portfolio we have taken steps to ensure there are sufficient cash and bonds with near term maturities to cover at least 6-9 months of withdrawals so as to not be forced to liquidate stocks at depressed prices.

- Depending on your cash needs, time horizon and tolerance for risk we have taken advantage of the sell off to increase allocations to stocks. Did we hit a bottom on March 23? We suspect yes, but it is impossible to say given the overwhelming uncertainty surrounding the virus. **Purchases are not an attempt to time the market but a reflection of our confidence in the risk/reward characteristics over the next 2-5 years. We will continue to opportunistically spread out new purchases over time.**

- We divested from consumer staples companies. We purchased these companies 2-3 years ago for their attractive valuation and high dividend. With grocery store shelves cleared of canned/frozen goods and snacks, **these stocks increased while the market sold off**. We don't believe this trend is durable; as lockdowns are relaxed, people will gradually eat through their hoards which could cannibalize future sales. And as much as we like Cream of Mushroom, once this is finally over we'll never want to see another can! We sold these companies and reinvested the proceeds into new investments at significantly depressed prices with superior long term growth prospects.
- We divested from a struggling, heavily indebted industrial company with an aircraft engine division which was once its' crown jewel. Air travel faces significant headwinds in the coming years and we doubt airlines will be investing heavily in new planes anytime soon.

- We initiated a position in an industrial automation company that makes robotics and software for next generation factories. After years of globalization, we believe companies will begin to manufacture domestically to reduce to supply chain disruptions, increase efficiency and reduce labor/shipping costs. This will create high end manufacturing jobs to supervise, program and maintain the machines. This company has minimal debt and very strong free cash flow.

- We initiated a position in a real estate investment trust that rents industrial warehouses with an emphasis on ecommerce and logistics tenants. Lockdowns are speeding up ecommerce adoption and the reshoring of manufacturing creates a need for factory space. This company pays a 5.75% dividend and it rents to exceedingly qualified tenants such as Amazon, FedEx and XPO Logistics with an average lease of 5.6 years.

- We initiated a position in a specialty finance company that lends to and invests in medium sized green infrastructure projects such as renewable energy, distributed generation, and water remediation. We believe subsequent rounds of stimulus will include expanded green tax incentives and this company has decades of industry experience. It pays a 4.9% dividend with exceedingly favorable tax characteristics.

- We initiated a position in a technology company that licenses their cloud based communications platform to developers to plug directly into their software. The company gets paid anytime a call/text/email/chat is sent through one of their client's applications. They should benefit from decreased face to face communication near term from remote work, medicine and education and longer term from the proliferation of the app economy with clients such as Airbnb, Grubhub and Uber.

- Most of your investments have held up remarkably well, but we have engaged in tax loss strategies where possible. We will continue to do so regardless of your immediate need for losses as they carry forward into subsequent tax years with up to $3k deductible against ordinary income taxes.

- The main fiscal stimulus package – the CARES act – includes relief for retirement accounts. Required minimum distributions have been waived for 2020 and if you have already taken it, we will be reaching out over the next couple of weeks to discuss the merits of reversing the distribution for tax purposes. The act also waives taxes and penalties for premature hardship withdrawals caused by the virus as long as funds are redeposited within three years should you need cash in a pinch.

We think the Treasury and the Federal Reserve have done a good job providing fiscal and monetary stimulus to both Main Street and Wall Street with much of it structured as loans and payroll support to bridge businesses and households through this economic shock. In contrast to 2008, this crisis is not manmade. Banks are exceedingly healthy with three times as much capital on their balance sheets and they are playing a supporting role by providing loans. Times are hard for many, but there is light at the end of the tunnel and it is getting brighter by the day as we develop therapies and vaccines and adapt to the immediate need for social distancing.

All of our lives have been upended and our hearts go out to everyone who is struggling financially, or worse, has lost someone close. It is tough to be anything but concerned and depressed in the midst of such a deeply personal and omnipresent threat but **we encourage you to not get caught up in the headlines and to remain optimistic. It will take time but we will get through this, just as we have every other crisis in our history.** The market has rallied substantially from recent lows and, as a forward looking mechanism, seems to be signaling that we are already on the road to recovery.

As an essential business we have been 100% operational since day one of the shutdown in New Jersey but with some modifications to our in office staffing. Our three person operations team, Cecilia, Jadah, and Donna, are taking turns coming into the office for week long rotations to handle tasks that require a physical presence with the other two working remotely. Craig and Drew are going into the office periodically but never at the same time to ensure business continuity. Luckily we have the technology to do our jobs anywhere in the world. We will continue with this schedule as long as necessary to protect the health of our team and the health of your finances.

It may not feel like it right now, but happier days are inevitably ahead. If you have any questions at all we are always a phone call away. Be well, stay safe, and wash those hands!

Sincerely,

Craig W. Hutchison
Managing Director
Senior Portfolio Manager

Andrew A. Westhuis, CFA, CFP
Executive Director
Portfolio Manager