



March 25, 2020

Amid the tumult that is about us now in the financial markets, we offer a few comments. We will be providing more information on our website today and in the coming days, both audio and written, where we can communicate more substantively.

Paradigm shifts are typically unnerving as the market – which is ultimately driven by people, with human emotion – digests the new reality. To be sure, the extraordinary market gyrations are being exaggerated, in some cases intentionally, by computer algorithms and passive investment vehicles which dominate trading volumes. This is unnerving, but should almost be reassuring that market prices today are in many cases fully detached from reasonable long-term assessment of value.

We wish that we could provide assurances that the current pandemic will pass quickly, with minimal loss of life and economic damage; the experts on these matters, though, have little visibility on timing or impact. What we can say with confidence is that it will pass in due time. That understanding is what permits one to wrest the attention away from the day-to-day price volatility, and from moment-to-moment commentary about the price volatility, in order to assess what the *future* environment will look like. And to consider the ways to prepare for that environment. There are pathways; we have identified some, and others can only develop as more information develops. The current price changes, though, do *not* convey information about individual companies or sectors; that is important to understand. Rather, they reflect consequences of undifferentiated liquidations.

We have lived through other periods of market turmoil since opening our doors almost 25 years ago. Each time, we have emerged on the other side, and do not believe this period will be different. We credit that to the investment philosophy that has driven us since our first account and our first fund launch. We have always been invested for the long term, and that is a principal advantage for any investor, since it allows a broader scope of view and action.

We are prepared for sustained uncertainty. In fact, we have been prepared for years, with conservative positioning, cash allocations, and differentiated assets populating many of our accounts and funds. Had we been asked any time before January what the source of the market turmoil would be, we would not have guessed COVID-19. But whatever the catalyst, we are glad to have positioned our portfolios outside of the looming systemic risk in advance, and it appears as if they may be peculiarly appropriate for the economic and government policy changes now taking hold. As well, we are ready to act when opportunities arise.

We are objective, diligent and patient. Stock prices have fallen dramatically. But the *value* of the companies we own has not. As value investors, we will continue to assess the long-term return potential for our investments. In some cases, we may find that the loss in value is not temporary, and that even if panic selling was the reason for a stock price decline, that the business has been damaged in such a way that the lower price is now warranted. In that case, we would take the necessary portfolio actions. But in most cases, the prices of our holdings are now wholly disconnected from their intrinsic value. Those investments were made based on a thorough understanding of the business, and an analysis of how that businesses might do against a variety of economic backdrops. The liquidity driven risk-on/risk-off



transactions will exhaust themselves and underlying business value will dominate clearing prices over time.

While the current (temporary) economic backdrop is indeed dire – and portends the necessity of major alterations in long-term asset allocation wisdom and standards – our investments tend to be in companies that are well-capitalized, with the potential to emerge from such an environment in a position of strength. Importantly, our portfolios are particularly pre-positioned for one of the more damaging outcomes of this period, which is an extended phase of rising inflation and monetary debasement. This equates to a fundamental shift in the underpinnings of the global economy, and will not be without friction, hence our disinclination to make immediate substantive portfolio changes.

We are in this together. We have always invested alongside our clients, and continue to do so now. Much as we have frequently sought out owner-operator type investments due to our belief that this results in alignment of interests between management and shareholder, our clients can be confident that our partners' capital is invested alongside theirs.

We are here. We are grateful that all members of Horizon Kinetics are not immediately impacted by the pandemic. Our company is fully operational from our respective home offices. We have a substantial and talented team of analysts who are focused on providing insight in a variety of formats, including frequent audio and written commentary during this turbulent time. We recorded a Q&A session with our Chairman, Murray Stahl, on March 24, 2020 and the replay is accessible [here](#). We are available to answer your questions, and encourage you to check our website regularly or reach out to your relationship manager.

In good health,

Horizon Kinetics LLC

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