

# Going Forward: Charts of Interest



1st Quarter 2020

Small cap value is at February or March 2009 levels of panic, illiquidity, and valuation

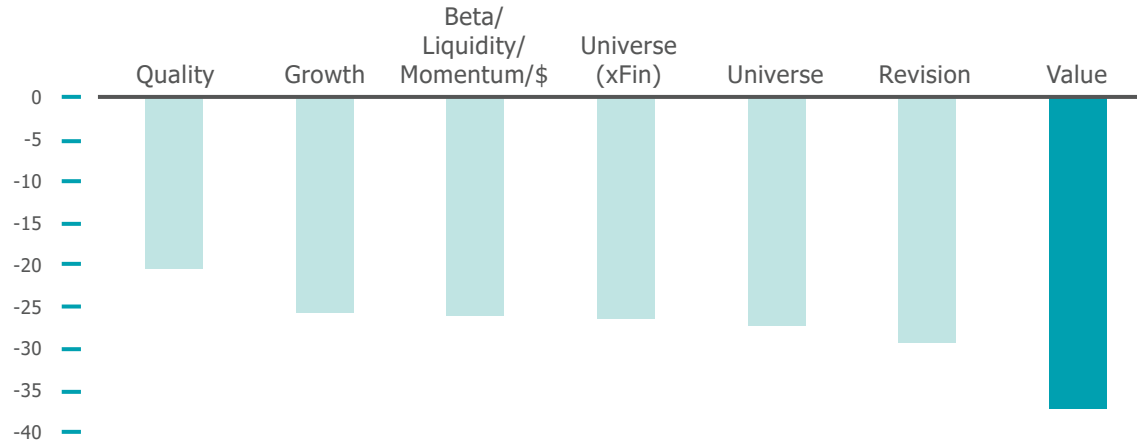
Barbell Approach:

- Directly involved: deep, scary value
- Great chance to buy “the moats”

You must be “early” in allocating size in small cap

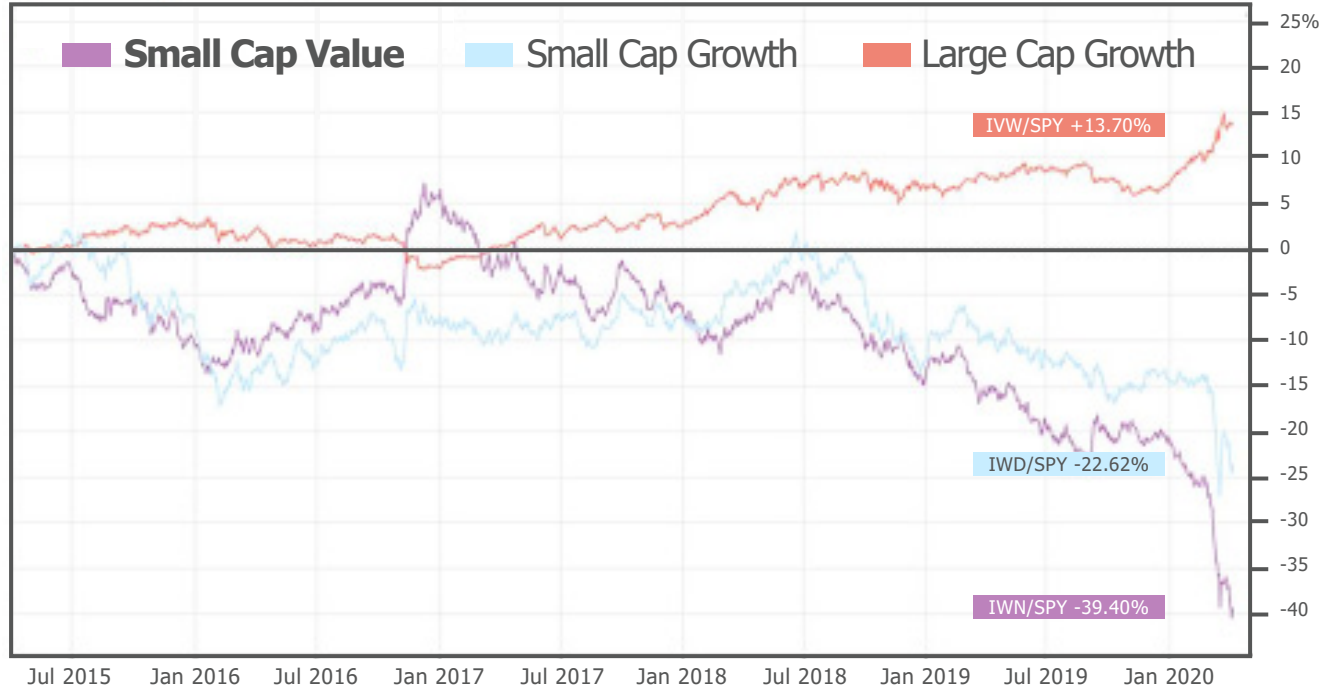
## Value Was At It Again in Q1

### Q1 2020 Factor Returns (% top decile)



SOURCE: Bloomberg, Jefferies

## Again



SOURCE: Koyfin

## This Year's Lag in Small Cap is Nothing New

### 5-Year Returns

Annualized, as of March 31, 2020



Russell 2000®	-0.2%	▼
S&P 500	6.7%	▲
Nasdaq 100	13.7%	▲

SOURCE: Grant's Interest Rate Observer

## How the Turntables Have Turned—For Some People

3 Weeks into April 2020:

The S&P 500 rallied 27%, the tech-heavy Nasdaq 100 came out almost completely unscathed, and small cap stocks have been...different:

- The Russell 2000 Index had the worst quarterly showing in a 40-year history — a 30.6% decline in the 1st quarter 2020
- Even a record rally of 18.5% over April's holiday-shortened trading cycle could not save the damage — R2000 down 25% year-to-date

SOURCE: Grant's Interest Rate Observer

## Better Days Ahead?

The Russell 2000 Index has had 21 monthly periods of negative 5-year annualized returns in its history, but average return following those periods was promising:

**1-Year** - 40.8%, far above its long-term 1-year average return of 11.1%

**3-Year** - 22.1% relative to a 9.9% long-term 3-year annual average

**5-Year** - 18.3% annually, almost double the 9.6% 5-year average

SOURCE: Royce Investment Partners

## Big (Relative) Things Come in Small Packages?

Recent underperformance from the small cap value contingent is both (1) consistent with historical bear markets and (2) sets the stage for a relative reversal:

**1973** - Small Cap Value stocks—particularly hard-hit at the early stages of the 1973 bear market—likewise outpaced the broad market as returns stabilized.

**2000** - That same style doubled the dose of outperformance in 2000, when both small cap and value had record-beating discounts to the U.S. market as a whole

– Grantham, Mayo, Van Otterloo & Co. LLC asset allocation team in an April 2020 white paper

SOURCE: Grant's Interest Rate Observer

## Time For Small Caps to Shine

They outperform after a bear market...

Start	End	Length (months)	Bear Market			Subsequent 3 Months			Subsequent 6 Months			Subsequent 12 Months		
			Small	Mid	Large	Small	Mid	Large	Small	Mid	Large	Small	Mid	Large
Jun-48	Jun-49	12	-19.5	-15.0	-9.2	8.4	8.2	8.8	18.8	18.2	17.9	45.8	40.7	41.0
Jan-53	Sep-53	8	-5.4	-6.8	-7.2	4.4	6.6	8.7	10.9	15.6	16.4	30.1	36.1	34.4
May-56	Nov-57	18	-13.8	-10.8	-8.4	7.0	8.3	2.7	12.5	14.6	7.9	44.0	43.1	29.3
Jan-60	Oct-60	9	-10.9	-8.0	-7.7	18.3	19.9	16.4	36.7	32.6	23.8	33.3	39.2	32.4
Jan-62	Jun-62	5	-24.2	-24.3	-22.8	2.9	2.6	3.9	9.8	14.8	17.9	25.8	28.5	31.2
Feb-66	Oct-66	8	-17.5	-15.9	-15.2	7.4	8.7	6.5	35.7	29.4	19.5	65.9	50.8	28.8
Dec-68	Jul-70	19	-49.3	-39.7	-28.9	28.4	23.4	15.8	36.0	34.8	27.7	59.9	56.3	40.3
May-71	Nov-71	6	-12.0	-7.1	-7.2	17.1	12.9	10.9	22.3	17.8	16.2	10.3	12.6	23.4
Jan-73	Jan-75	24	-51.3	-44.5	-38.0	43.4	36.9	21.0	72.7	63.5	39.8	60.9	57.1	34.0
Sep-76	Feb-78	17	28.8	7.3	-12.6	20.7	17.3	12.5	39.6	31.7	20.1	25.5	21.0	15.3
Sep-78	Nov-78	2	-21.5	-15.0	-9.1	17.7	11.6	8.8	30.3	18.7	11.7	35.8	24.9	15.0
Jun-81	Aug-82	14	-19.3	-17.6	-13.8	30.9	31.0	26.2	53.1	45.6	37.9	93.8	75.7	54.9
Nov-83	Jul-84	8	-13.5	-15.2	-5.0	10.9	12.5	11.4	24.3	26.1	21.6	34.0	36.6	33.0
Aug-87	Oct-87	2	-33.8	-29.8	-29.0	22.3	21.8	16.2	26.6	23.1	14.1	29.8	28.4	22.0
May-90	Oct-90	5	-28.4	-22.3	-13.7	22.5	23.0	13.6	45.4	40.6	24.3	62.2	53.2	32.7
Jun-98	Aug-98	2	-26.2	-23.6	-15.2	20.0	20.4	22.3	17.6	20.7	32.1	35.9	36.2	40.3
Jan-00	Sep-01	20	-21.5	-26.2	-31.5	28.1	21.5	9.9	31.4	25.3	10.1	-6.8	-8.9	-20.2
Mar-02	Feb-03	11	-28.0	-24.7	-25.0	25.4	20.1	14.7	43.2	32.0	20.3	68.6	56.2	37.1
Oct-07	Mar-09	17	-53.7	-51.1	-49.5	40.2	31.2	24.0	61.7	47.9	37.7	82.2	70.3	50.2
Apr-11	Oct-11	6	-24.9	-22.8	-15.5	15.4	13.1	11.4	32.5	28.0	25.5	33.3	26.8	29.9
May-15	Feb-16	9	-19.9	-17.7	-7.2	13.4	12.4	7.0	21.5	18.2	13.2	37.0	29.0	21.0
Aug-18	Dec-24-18	4	-26.9	-20.8	-18.9	20.6	22.1	19.9	20.1	25.8	24.1	32.4	36.3	37.8
<b>2/19/20</b>	<b>Today</b>	<b>2</b>	<b>-36.5</b>	<b>-33.3</b>	<b>-27.7</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>?</b>
<b>AVERAGE</b>		<b>11</b>	<b>-23.0</b>	<b>-21.1</b>	<b>-18.2</b>	<b>19.3</b>	<b>17.5</b>	<b>13.0</b>	<b>31.9</b>	<b>28.5</b>	<b>21.7</b>	<b>42.7</b>	<b>38.8</b>	<b>29.8</b>
<b>MEDIAN</b>		<b>9</b>	<b>-21.5</b>	<b>-20.8</b>	<b>-15.2</b>	<b>19.1</b>	<b>18.6</b>	<b>12.0</b>	<b>30.8</b>	<b>25.9</b>	<b>20.2</b>	<b>35.9</b>	<b>36.4</b>	<b>32.6</b>

SOURCE: Center for Research in Security Prices (CRSP) / The University of Chicago Booth School of Business / Jefferies

## Time For Small Caps to Shine

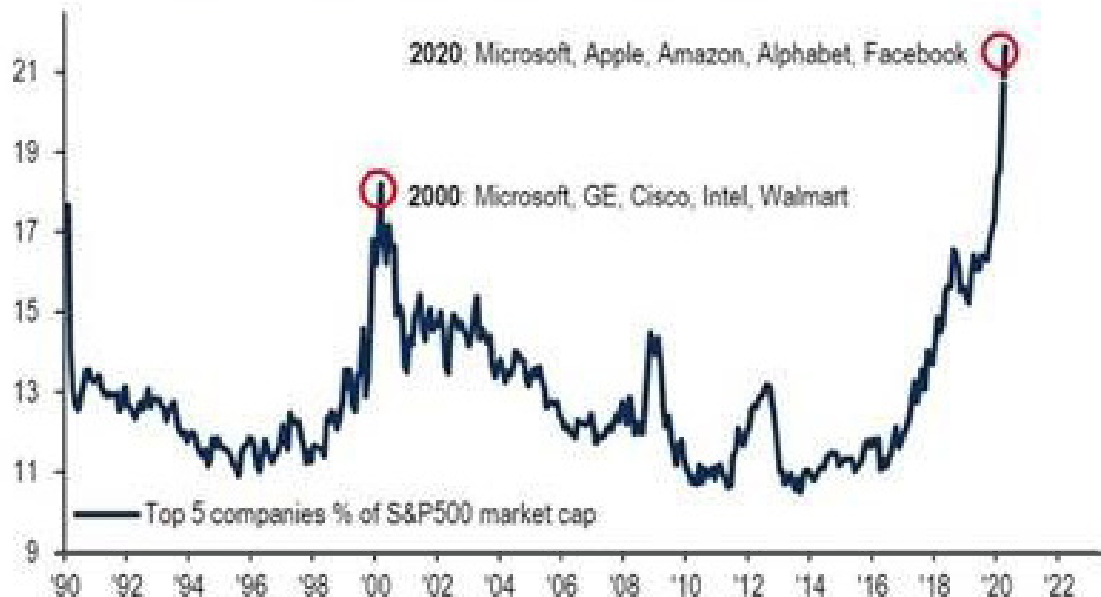
...and coming out of a recession—in fact 9 out of the last 10 since WWII:

Start	End	6 Months Prior				1st Half			2nd Half			1-Year After		
		Length	Small	Mid	Large	Small	Mid	Large	Small	Mid	Large	Small	Mid	Large
Oct-26	Nov-27	13.0	5.4	6.2	12.0	13.3	11.9	12.1	16.7	23.7	22.7	36.6	43.0	41.7
Aug-29	Mar-33	43.0	-4.9	4.1	24.6	-66.3	-64.7	-56.5	-48.8	-42.8	-47.9	214.2	161.0	83.8
May-37	Jun-38	13.0	0.3	-1.1	-4.7	-40.3	-35.3	-27.0	3.9	4.7	6.2	-4.5	-0.9	1.0
Feb-45	Oct-45	8.0	25.7	20.6	13.1	10.1	8.6	5.0	16.3	15.5	12.4	-4.6	-2.8	-5.3
Nov-48	Oct-49	11.0	-15.9	-14.9	-9.7	0.4	2.7	3.3	12.0	12.8	12.4	33.9	27.5	28.1
Jul-53	May-54	10.0	-3.5	-3.5	-2.4	-2.8	1.3	4.5	17.1	20.0	19.6	46.6	40.0	34.5
Aug-57	Apr-58	8.0	-0.4	0.8	7.3	-15.9	-10.7	-10.3	16.8	15.5	9.1	56.1	49.3	37.4
Apr-60	Feb-61	10.0	-4.2	-4.5	-3.4	-0.1	1.4	0.4	22.7	24.2	20.0	11.1	12.4	13.3
Dec-69	Nov-70	11.0	-5.6	-2.4	-3.3	-28.6	-23.1	-15.9	16.6	17.6	15.3	16.2	18.7	11.5
Nov-73	Mar-75	16.0	-5.9	-3.6	-6.7	-11.9	-13.9	-17.3	19.1	21.9	7.7	47.3	40.8	26.0
Jan-80	Jul-80	6.0	20.1	14.0	13.5	-14.0	-9.8	-5.2	25.6	22.7	15.0	26.5	23.1	11.8
Jul-81	Nov-82	16.0	10.5	11.2	2.6	-14.4	-12.2	-11.4	40.4	33.7	27.7	33.0	30.1	22.0
Jul-90	Mar-91	8.0	6.8	5.3	10.2	-19.4	-11.7	-7.5	33.5	26.8	17.1	23.1	19.2	11.2
Mar-01	Nov-01	8.0	-17.1	-17.2	-23.0	14.2	10.4	4.3	-2.7	-4.0	-6.0	-11.0	-10.3	-16.3
Dec-07	Jun-09	18.0	-7.8	-7.0	0.5	-13.9	-16.7	-19.5	-17.8	-17.5	-18.5	26.2	25.7	13.1
<b>Average</b>		<b>13</b>	<b>0.22</b>	<b>0.55</b>	<b>2.1</b>	<b>-12.6</b>	<b>-10.8</b>	<b>-9.4</b>	<b>11.4</b>	<b>11.7</b>	<b>7.5</b>	<b>36.7</b>	<b>31.8</b>	<b>20.9</b>
<b>Average (After WWII)</b>		<b>11</b>	<b>0.21</b>	<b>-0.08</b>	<b>-0.1</b>	<b>-8.0</b>	<b>-6.1</b>	<b>-5.8</b>	<b>16.6</b>	<b>15.8</b>	<b>11.0</b>	<b>25.4</b>	<b>22.8</b>	<b>15.6</b>

SOURCE: Center for Research in Security Prices (CRSP) / The University of Chicago Booth School of Business / Jefferies

## Relative Performance in a Nutshell

The S&P 500 is now even more concentrated in the 5 largest stocks than ever

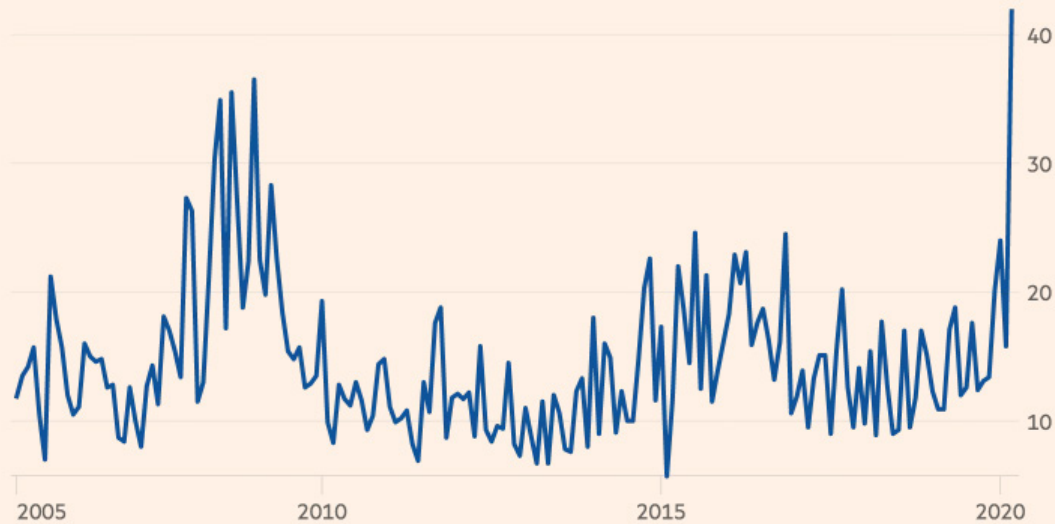


SOURCE: BofA Global Investment Strategy / Bloomberg

## A GOOD THING – As Wide As 2008/09

### Returns fracture across industries

Dispersion of returns by industry for companies in the S&P 500 index (%)



SOURCE: Financial Times

**Now This is a Dangerous Virus**

**Prospectus Supplement to Prospectus dated January 28, 2019**

**€1,000,000,000**

**Berkshire Hathaway Inc.**

**0.000% Senior Notes due 2025**

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SOURCE: Berkshire Hathaway Prospectus

" While is it always tempting to try to time the market and wait for the bottom to be reached (as if it would be obvious when it arrived), such a strategy has proven over the years to be deeply flawed. Historically, little volume transacts at the bottom or on the way back up and competition from other buyers will be much greater when the markets settle down and the economy begins to recover. Moreover, the price recovery from the bottom can be very swift. Therefore, an investor should put money to work amidst the throes of a bear market, appreciating that things will likely get worse before they get better. "

— Seth Klarman, Baupost Investors