Third Quarter 2020

December 4, 2020

Dear Client:

As the numbers at the end of the letter reflect, we generally had a good quarter. The market continues to place increased value on companies that benefit from societal digital transformation -- now being accelerated by the pandemic -- and we own lots of those.

Targeting the spike protein

As Pfizer and Moderna have both announced strong, safe results from their respective vaccine trials, ending the pandemic is now shifting away from being a problem of chemistry and immunology, and toward being a problem of the logistics of how to distribute the vaccine.

Unless something goes wrong, a meaningful portion of the American population will be vaccinated by the upcoming anniversary of the virus's first American casualties last March. Hopefully, as we move into this new phase, Americans will be reassured enough to remember that we share much in common that is worth celebrating, and, we hope, 2021 will benefit both from our inroads against the virus and from a more constructive public discourse.

The invention and testing of these vaccines in record time is an amazing scientific achievement, and as with many scientific breakthroughs, it is built on previous experiments that did not work. An immunology researcher that we spoke with explained that many of the genetics techniques that identified the virus and created the vaccines were invented only recently, some, in attempts to create a still elusive vaccine for HIV. He pointed out that we'd have been really screwed if the virus had hopped from its animal host to humans ten or fifteen years ago.

If you haven't read them, we recommend these three third party articles about the leading Western vaccine efforts, one each on Moderna[1], BioNTech/Pfizer[2] and Oxford/AstraZeneca[3]. All three are inspiring tales of hard work and scientific brilliance. They also show the power of humans to solve problems and build great things and suggest that our society might be on the cusp of a different relationship with disease.

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[1] https://www.statnews.com/2020/11/10/the-story-of-mrna-how-a-once-dismissed-idea-became-a-leading-technology-in-the-covid-vaccine-race/
[2] https://www.nytimes.com/2020/11/10/business/biontech-covid-vaccine.html
[3] https://www.bloomberg.com/news/features/2020-07-15/oxford-s-covid-19-vaccine-is-the-coronavirus-front-runner

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Fresh air

With an end coming into view, one way that we are looking forward is by finding investment inspiration in the behavioral changes that resulted from previous pandemics. Two years ago, my wife and I purchased a house in the Carroll Gardens neighborhood of Brooklyn. Going through our first winter in the house in 2019, we were surprised at how little effort the old hydronic heating system needed to keep the house warm. It seemed massively oversized for our little seventeen-foot-wide home. A little Googling… led us to Dan Holohan who has published dozens of books on the practice and history of hydronic and steam heating. As Holohan describes it in *The Lost Art of Steam Heating*, after the 1918 pandemic there was general consensus that fresh air prevented infection, and many homes that could afford it installed heating systems sized to heat the house not just on the coldest day of the year, but on that day with the all the windows open! Always cognizant that history rhymes, in July, we invested in Watsco (+6.8% during the quarter), the largest distributor of heating and air conditioning systems in the United States. While we haven't made much money on the investment yet, if, as in the aftermath of the 1918 flu, there is a movement to upgrade air handling to reduce the transmission of respiratory viruses, we think that they will do well.

More macabre, Holohan explains that the term "living room" was popularized after the 1918 pandemic by *The Ladies' Home Journal* because the word "parlor" had become so heavily associated with laying out those who had died from the virus. The 1918 pandemic did away with the word "parlor"; the 2019 pandemic has helped popularize the new reactionary social media app Parler as a safe space for Covid-deniers to discuss their theories without getting their posts tagged as questionable by mainstream social media applications. We suspect the irony of the name is lost on Parler's denizines. After the 2016 election, much ink was consumed with media stories of Clinton supporters quitting Facebook (+15.3% during the quarter) because they blamed the social media company for Trump's election. However, we think that Facebook continues to thrive because it provides a valuable community for so many people. We suspect that Parler will remain a niche application and Facebook might even benefit if the minority of users who care deeply about divisive political conversation have a different outlet for those conversations, leaving Facebook a more positive place.

Better primary care

1Life Healthcare (One Medical) (-21.9% during the quarter) was among our largest losers during the quarter. In time, we expect it to be a beneficiary of structural changes catalyzed by the pandemic. One Medical provides high quality primary care enabled by mobile apps and software automation. While most primary care offices are barely profitable, One Medical makes good margins while also investing in better patient care. They offer same day, un-rushed appointments that start on time combined with robust tele-medicine. They can afford to do this because in addition to charging customary rates for care, they charge a Costco-like subscription fee to employers. In addition to benefiting from healthier, happier employees, employers save far more than the cost of the One Medical subscription because, for example, employees who have access to same day primary care appointments are less likely to visit the emergency room. We think One Medical will benefit from the pandemic both because the virus makes finding top quality primary care top of mind and also, more sadly, because many primary care providers whose businesses were already marginal are closing because of the pandemic.

Building a better internet

And lastly, we are experimenting with posting our client letters to a private blog. If you have time to check it out at http://alex.gghc.blog, please let us know what you think. We've enrolled the email addresses that we have on file, or if you would like us to authorize an additional email address, please let Caroline or me know. Never wanting to miss an opportunity to test the products that we invest in, we've deployed it to Cloudflare's (+14.2% during the quarter) breakthrough edge computing service, Workers, instead of using a traditional web server. The experience has been fascinating. The version on Cloudflare loads 3.5x faster than a similar blog that one of our co-workers hosts and the experience writing a serverless application has increased our confidence that low latency, low overhead, edge computing systems like Cloudflare's Workers and Fastly's (+10.0%) @Edge will increasingly be the glue that binds together modern internet applications. Cloudflare was founded 11 years ago to build a better internet. They spent a decade building the foundation and now appear to be hitting their stride, releasing numerous products like Workers, or their coming browser isolation product that can make all internet applications better, safer, and more programmable. The company already hosts a staggering 15% of all websites, growing market share approximately 40% YoY. We are excited to watch as they invent new services that their customers, many of whom use their free tier of products today, want to pay for.

With a month left in what has been the most volatile year for the stock market in at least a generation, there remains an extraordinary list of things to worry about. However, as investors, we think we are best served by trying to default to being optimistic, because the alternative is a bet against human ingenuity and invention.

Thanks for your support,

Alex Derbes

P.S. Just as we benefited from a broad trend in the market placing higher value on the type of stocks that we own, we will be hurt, possibly significantly, when the trend is the opposite. We have had two very good years. Please consider your personal financial situation and don't hesitate to give us a call if you'd like to discuss taking some money out.

We have always reported a single performance statistic, summarizing a range of results. Many factors affect where your account landed in that range. Accounts that missed one or more top performing stocks, or had a larger position in a poorly performing stock, can land at the bottom of the range. The performance of new accounts, smaller accounts and accounts that had significant deposits or withdrawals during the period is particularly variable. Even among the remaining accounts, there is a wide range from the aggregate performance we report[4].

We derive aggregate performance by totaling the equities in all of the accounts under management and calculating performance (net of commissions or wrap fees) as if we managed one account. This methodology weights large accounts more heavily and is not representative of any particular account. Therefore, we provide the worst performing account[5] in the relevant period to give an indication of the potential range in investment performance. Please look at your account statement for changes in value from one period to the next[6].

	Q3 2020 aggregate	**Q3 2020 worst**	**FY 2020 aggregate**	**FY 2020 worst**
Margin	20.7%	10.6%	104.7%	50.7%
Cash	22.8%	16.3%	82.0%	60.9%
Retirement	22.6%	11.6%	77.0%	50.0%
S&P 500	8.9%		5.6%	
Nasdaq	11.2%		25.4%	

The companies discussed in this letter were selected because they are representative of our thinking. Since GGHC manages individual accounts, some of the companies discussed in the letter are not necessarily held in every account.

Please remember our goal is to build your wealth by aggressively investing your capital over the long term. This approach carries considerable risk and is not for everyone. It requires tremendous patience and commitment in the face of large swings, and has the possibility of failure. At the same time, success can only be measured on an absolute basis. We do not invest with any particular benchmark in mind. While we provide comparative performance of various widely-reported indices to give you a sense of the overall market environment, you should not expect our results to track any one of them. There are material differences between GGHC accounts and the indices shown, as volatility, investment objectives and types of securities differ.

[4] All accounts, except for non-commission and non-fee paying accounts, are included in the calculation of aggregate performance. Past performance is not indicative of future results. Aggregate performance and the worst performing account are net of all fees, commission and expenses and includes the positive impact of reinvestment of dividends. At the end of Q3 2020, Alex Derbes managed 104 margin accounts, 8 cash accounts, and 55 retirement accounts.
[5] The worst performing account excludes accounts opened within the period, accounts with an equity of $1,000 or less, accounts that transferred between GGHC money managers during the period, and uninvested accounts.
[6] Non-retirement accounts pay a commission rate of 1.5% per equity trade. Retirement accounts pay an annualized wrap fee of 2.5% to 3% based on account size. See GGHC ADV for details.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks. The S&P 500 is a market-capitalization weighted index containing 500 widely held companies. The NASDAQ Composite is a market-weighted index that measures all stocks listed on the NASDAQ Stock Market. The Russell 2000 is an index of the smallest 2,000 companies in the Russell 3000 Index, as ranked by total market capitalization. All index results shown are calculated on a total return basis with dividends reinvested. Index results do not reflect the deduction of any fees or expenses.

You can access the GGHC Privacy Policy and our Firm Brochure, Part 2A of Form ADV and our Form CRS on our website at www.gghc.com. This letter is intended for you, our client. If you would like to share it, please contact us and we will gladly provide a copy to the intended person.