FLIPPIN, BRUCE & PORTER, INC.

INVESTMENT COUNSEL

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During the third quarter, the U.S. stock market continued to recover from its lows in March, but it was far from a smooth ride for investors as markets fell sharply late in the quarter. The high-flying Nasdaq composite advanced for the quarter, but it experienced a near 15% decline from record-high levels in August to its recent low in late September. With the coronavirus still in widespread circulation and the presidential election mere weeks away, volatility remains elevated.

To be sure, there were positive developments in the fight against Covid-19. A number of clinical trials are underway for vaccines. Pharma companies Pfizer, Johnson & Johnson, AstraZenaca and Moderna are each involved in vaccines that met critical endpoints in early phases and have already advanced to large, Phase 3 efficacy trials. The rapid progress on this front is a testament to science. Additionally, it appears that treatment protocols involving antivirals and steroids have produced more favorable patient outcomes than were evident early in the outbreak. As a result, the death rate from Covid-19 has stabilized at much lower levels than originally believed. But the coronavirus remains a threat, especially given how easily it transmits and how dangerous it remains for the elderly and other high-risk groups. Until a vaccine is widely available, not likely for several more months, we would expect virus mitigation efforts to continue to limit economic recovery potential. We do not expect widespread lockdowns of businesses that would push the economy back into recession, however, better control of the virus will be needed to fully unleash economic growth potential.

The 2020 election cycle is entering its final few weeks. It is hard to imagine a subject that could steal headlines from the coronavirus, but the showdown between President Trump and Democratic challenger Joe Biden is generating plenty of attention. National polls, as well as battleground "toss-up" state polling, indicate that the incumbent is trailing. Backers of the President point to 2016 polls that favored Hillary Clinton as evidence that he may win reelection. We expect the race will be tight. Furthermore, we expect the outcome will take some time to unfold due to the significant increase in mail-in voting and the wide range of state guidelines regarding those votes, with some states allowing ballot tabulation well past the election on November 3rd. Possibly more significant than the battle for the White House is the control of the Senate. We can easily foresee a scenario with one party controlling the presidency and the other in charge of the Senate. That outcome might be desirable for investors as it may bring about more moderate and broadly supported policy.

We are beginning to see evidence that a rotation from growth into value is occurring, a welcome sign as value stocks have been out of favor in the market for some time. The sharp correction in the Nasdaq is an early indication that broadening of the market is underway. Historically, market leadership has rotated between the two styles. We believe that in order for there to be a healthy market advance, value stocks need to participate. Economic growth is the key to this rotation. As progress is made towards better treatments and vaccines to fight Covid-19, economic prospects will improve greatly. We also believe additional stimulus measures to support both individuals and most affected by the virus will be passed after the election. This should help fuel equity markets and value stocks in particular.

As noted, this year has been difficult for value investors, but it has been especially tough for those seeking income. Bond yields are as low as we have ever seen, and the recession forced many companies to alter dividend policies. It has been a very unusual year such that, in an almost linear fashion, the highest yielding stocks have had the worst price performance. So, in a year when normally "safer" dividend paying stocks should have protected principal, that didn't occur. Our Equity & Dividend Plus approach has a primary objective to generate approximately 5% cash flow annually through a combination of dividends and call option premiums. This target should be met this year despite the difficult environment for dividend stocks. We know that total returns are also important to you, and we anticipate more favorable returns for the strategy as the economy continues to recover from the Covid-19 recession. During the quarter, we bought new positions in Amdocs, a technology services provider to telecommunications companies, and Devon Energy, an oil and gas exploration company. We sold Dominion Resources after the company announced it was selling its natural gas business and lowering its dividend payments, reinvesting the proceeds by adding to our holdings in Duke Energy. We also exited Ford, primarily through call option exercises.

For additional firm wide information please visit our website at www.fbpinc.com or call us at 1-800-851-3804. As always, we appreciate your continued interest in our firm.