Investment Management of Virginia

Opportunity Portfolio
4th Quarter, 2019

The Opportunity Portfolio Composite was up 11.90%, net of fees, for the quarter. The S&P 500 Index was up 9.07%, and the S&P 1500 Index was up 8.92%.[1] Year-to-date, the Opportunity Portfolio Composite was up 19.45%, net of fees. This was a nice return but remained considerably behind the S&P 500 and S&P 1500 Indices which were both up over 30% for the year.[2]

The Opportunity Portfolio had a strong quarter which helped salvage, to some degree, a year where the largest growth and technology companies dominated the equity market, once again. As discussed in last quarter's letter, we are increasing the use of exchange traded funds (ETFs) in the Opportunity Portfolio while maintaining positions in individual positions that appear especially interesting and attractive. We plan to continue this process in 2020 and want to eventually raise our ETF exposure to over 50% of the portfolio.

The Portfolio[3]

During the 4th quarter, we liquidated our positions in the XOP, an upstream energy sector ETF, and Wells Fargo. We reinvested the proceeds into the Vanguard Technology Sector ETF (VGT) and EOG Resources (EOG). VGT increases our broad exposure to the technology sector, primarily in large, high-quality technology companies. The five largest positions within VGT are Microsoft (MSFT), Apple (AAPL), Visa (V), Mastercard (MA) and Intel (INTC). This sector is clearly popular at the moment, but we believe that the relatively stable growth in large capitalization technology companies could be an important "port in a storm" if expectations for strong S&P 500 Index earnings growth in 2020 do not come to fruition. EOG Resources is one of the highest quality exploration and production companies in the world. The management team is committed to running the company for returns instead of profitless growth, and they have increased the dividend substantially over the past few quarters. We like this specific position for a rebound in the energy sector, which appears to be underway.

Regarding our ETF exposure, we will likely continue to build our DIA (Dow Jones Industrial Average ETF) position. The Dow Jones Industrial Average has been held back this year, in part, by the issues at Boeing (BA), which is the largest position in the DIA. The Dow normally has a fairly tight correlation with the S&P 500 Index, so we suspect there is some catch-up potential here. Also, the news at Boeing seems to be fully priced in, and the stock appears to be bottoming.

The Market

The U.S. equity market enjoyed a strong 4th quarter. The widespread fear of recession that gripped the market in August gave way (capitulated?) to a more bullish outlook as a variety of perceived risks faded from view. These positive developments included the partial resolution of Brexit, the increasing likelihood of a Phase 1 trade deal with China, the completion of a trade agreement with Mexico and Canada (USMCA), no real surprises in the impeachment process, and confirmation, basically, that the Federal Reserve is unlikely to raise interest rates before the election.

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[1] Past performance is no guarantee of future results, and no representation is made that results similar to those shown can be achieved. To receive a complete list and description of Investment Management of Virginia, LLC's composites and/or a presentation that adheres to the Global Investment Performance Standards (GIPS), contact Investment Management of Virginia at (804) 643-1100.
[2] Inception of the Portfolio is 3/31/1999
[3] The transactions/securities discussed in this section are generally portfolio-wide transactions for the accounts in this Portfolio and have not been selected by any performance criteria. It should not be assumed that all accounts in the Portfolio had the same transactions or that transactions in the future will be as profitable or will equal the performance of the securities mentioned.

Market projections are inherently problematic because investors price-in new news and/or predictions very quickly. So, we will leave 2020 market predictions to others, shown below. In general, we suspect optimism is currently high in the equity market, and that can set the stage for fear-inducing volatility. We don't see conditions for a recession in 2020, but, as we have said before, the equity and fixed income markets ensure that recessions are very hard to predict. We continue to suspect that small capitalization stocks are relatively attractive versus large capitalization stocks, and we believe the performance gap between growth and value stocks is likely to narrow.

Vanguard's chief economist is fairly cautious on 2020:

> U.S. stocks face a greater-than-usual risk of a sell-off next year (2020), with investors overconfident in an economic resurgence, according to Vanguard Group Inc.'s investment-strategy chief. "Financial markets run the risk of getting ahead of themselves," Joseph Davis, who also serves as Vanguard's chief economist. . . . He sees 50% odds on a correction in 2020, against what he terms a more typical figure of about 30% (A correction is often defined as a 10% drop). While this year (2019) investors were too pessimistic about recession odds, next year they'll be too optimistic on reflation, Davis said. He also sees a pick-up in U.S. equity volatility from "unsustainably low" levels. "Across the board, expected returns for most strategies are below trailing three-year returns," said Davis. The investment chief for the $5.6 trillion asset manager estimates that risk assets are pricing in close to 3% U.S. economic growth, an outcome he sees as unlikely. Davis said U.S. equities have broken out onto the expensive side of fair value on their price-to-earnings ratio, a measure Vanguard prefers rather than identifying target levels on indexes.[4]

Blackrock, the world's largest provider of exchange traded funds, is slightly more optimistic.

> Growth (U.S. economic) should edge higher in 2020, limiting recession risks. This is a favorable backdrop for risk assets. But the dovish central bank pivot that drove markets in 2019 is largely behind us. Inflation risks look underappreciated, and the lull in U.S.-China trade tensions could unwind. This leaves us with a modestly pro-risk stance for 2020.[5]

We are slightly cautious, given recent trends in market strategists' sentiment (increasingly positive). One comforting fact is that individual investors have been very suspicious of this bull market and are not participating fully. The Wall Street Journal reports that investors have pulled $135.5 billion from U.S. stock funds and ETFs this year; this is the biggest withdrawal on record and could be a bullish sign (since individual investors, especially market timers, are usually wrong). The Journal concludes: "This suggests the major indexes, such as the S&P 500, still have plenty of room to run after a decade-long rally".[6]

Basically, we agree with those who expect sub-par, long-term equity returns (5 to 10 years) from today's level and valuation, but we also believe dividend-paying equities are the best way to outpace inflation and preserve purchasing power over that timeframe.

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[4] "Stocks Face 50% Odd of Correction in 2020, Vanguard's Davis Says", Advisorhub.com, 12/30/19

[5] "Testing Limits", Blackrock 2020 Global Outlook,

[6] 'Individual Investors Bail on Stocks", The Wall Street Journal, 12/9/19. Data from Refinitiv Lipper.

INVESTMENT MANAGEMENT OF VIRGINIA, LLC
OPPORTUNITY PORTFOLIO COMPOSITE
ACCOMPANYING NOTES

Year[A]	Total Return Gross (Percent)	Total Return Net[B] (Percent)	Benchmark S&P 1500 (Percent)	Benchmark S&P 500 (Percent)	Composite 3 Yr. St. Dev.[C] (Percent)	Benchmark S&P 1500 3 Yr. St. Dev.[C] (Percent)	Benchmark S&P 500 3 Yr. St. Dev.[C] (Percent)	Number of Accounts	Composite Dispersion[C] (Percent)	Composite Assets End of Period (Millions)	Strategy Assets End of Period[D] (Millions)	Model Assets End of Period[D] (Millions)	Non-Fee Paying Composite Assets End of Period (MM)	Percentage of Non-Fee Paying Composite Assets	Total Firm Assets End of Period (Millions)
2009	53.64	52.89	27.25	26.46	N/A	N/A	N/A	13	3.48	16.06	61.18	N/A	0.00	0.00%	335.79
2010	32.90	32.26	16.38	15.06	N/A	N/A	N/A	10	1.69	19.35	95.79	N/A	0.00	0.00%	427.21
2011	-4.39	-4.85	1.75	2.11	25.44	19.06	18.70	13	1.21	18.28	114.93	N/A	0.00	0.00%	409.51
2012	46.98	46.27	16.17	16.00	22.60	15.39	15.09	15	3.09	26.82	173.34	N/A	0.00	0.00%	526.95
2013	44.66	43.89	32.80	32.39	20.10	12.24	11.94	22	1.99	40.79	264.32	13.60	0.29	0.71%	697.44
2014	-33.00	-33.42	13.08	13.69	18.11	9.12	8.98	28	1.64	41.63	142.45	13.16	0.19	0.47%	549.17
2015	-12.26	-12.75	1.01	1.38	17.38	10.49	10.48	71	1.47	59.56	110.71	3.76	1.16	1.95%	437.32
2016	22.26	21.60	13.03	11.96	17.12	10.66	10.59	70	1.09	82.87	129.75	3.30	1.21	1.46%	484.18
2017	7.01	6.42	21.13	21.83	15.23	9.92	9.92	66	0.89	74.32	123.23	1.89	2.83	3.80%	491.22
2018	-5.87	-6.36	-4.96	-4.38	17.86	10.99	10.80	72	0.74	75.67	105.74	1.10	5.30	7.01%	448.68
*2019	20.04	19.45	30.90	31.49	19.06	12.11	11.93	69	1.40	87.91	119.48	0.87	6.12	6.96%	509.85

* 2019 performance returns are for the period ending 12/31/19.

A. Inception of the composite was 3/31/99. Creation of the composite was 3/31/99.

B. Fee schedule: 1.00% per annum on the first $1 million of assets; 0.75% per annum on assets greater than $1 million. Fees are negotiable.

C. N/A for the current year signifies that the information is not available until year end. N/A for previous years signifies that the information was not required.

D. Supplemental information. In addition to composite assets, strategy assets include separately managed accounts that do not meet the criteria for inclusion in the composite and wrap accounts. Opportunity Portfolio model assets are managed by other firms based on model portfolios submitted by IMVA.

Investment Management of Virginia, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Investment Management of Virginia, LLC has been independently verified for the periods January 1, 1993 through September 30, 2019. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Opportunity Portfolio composite has been examined for the periods March 31, 1999 through September 30, 2019. The verification and performance examination reports are available upon request.

1. Basis of Presentation

Investment Management of Virginia, LLC ("IMVA") is a registered investment adviser under the Investment Advisors Act of 1940. IMVA was originally established as Scott & Stringfellow Capital Management, Inc., a division of Scott & Stringfellow, in 1982. In March 1999, Scott & Stringfellow became a wholly owned subsidiary of Branch Banking & Trust Company (BB&T). IMVA became an independent investment adviser in July of 2000 when the principals of Scott & Stringfellow Capital Management, Inc. purchased IMVA from BB&T. Total firm assets exclude model programs. Additionally, as supplemental information, as of December 31, 2019, the firm provides models to programs managing a total of approximately $14.40 million in assets based on those models (this figure includes the Oppporunity Portfolio model assets and all other model portfolio assets at IMVA).

2. Composite Criteria

The Composite consists of institutional, endowment, retirement, and individual accounts. Tax-exempt and taxable accounts are included. The Composite seeks a strong total return through capital appreciation in small, medium, and large capitalization companies, including use of ETFs. The primary investment criteria are strong upside potential at a reasonable price. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Performance results of the Composite are based on U.S. dollar returns.

3. Calculation Methodology

The Composite results are time-weighted rates of return net of commissions, custodial fees, and any other expenses incurred in the management of accounts. Accounts may be shown gross or net of withholding taxes on foreign dividends based on the custodian. These returns have been presented both gross and net of investment advisory fees. Quarterly composite rates of return, which are net of investment advisory fees, are calculated at the account level. Net performance returns have been calculated by reducing gross performance returns by the actual investment management fees charged. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding policies for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.

4. Comparison with Market Index

Results of the Composite are shown compared to the Standard & Poor's 1500 Index and to the Standard & Poor's 500 Index. The Standard & Poor's 1500 Index is a combination of the S&P 500, S&P MidCap 400, and S&P Small Cap 600 indices. This creates a broad market portfolio representing 90% of the U.S. equities. The S&P 1500 Index was added as a benchmark in January 2006. Performance has been linked in the same manner as the Opportunity Portfolio Composite. The Standard & Poor's 500 Index is a capitalization-weighted index, and is calculated based on a total return basis with divendends reinvested. The Standard & Poor's 500 Index is a capitalization-weighted index of 500 blue-chip U.S. companies representing the industrial, transportation, utility, and financial sectors with heavy emphasis on the industrial sector. The returns for these unmanaged indexes do not include any transaction costs, management fees, or other costs. The information contained in this material is based on data we have obtained from third party sources. While this information has been obtained from sources we believe to be reliable, we do not guarantee, nor are we responsible for, the accuracy, completeness, or timeliness of the information provided in this presentation.

5. SEC Advertising Disclosure Footnotes

All performance composite returns are reported **net** and **gross** of investment advisory fees charged by Investment Management of Virginia, and reflect the reinvestment of dividends and other earnings. The investment returns will be reduced by commissions, custodial fees, and any other expenses incurred in the management of accounts. Accounts may be shown gross or net of withholding taxes on foreign dividends based on the custodian. Net performance reflects the deduction of actual quarterly fees for each account in the composite. Gross of fees performance returns are presented before investment management fees.

6. Additional Information

A complete presentation of any composite and/or a list of all composite descriptions is available upon request. Such inquiries should be addressed to George McVey, Investment Management of Virginia, LLC, 919 E. Main Street, Suite 1600, Richmond, Virginia 23219, or contact him through email at gmcvey@imva.net.

Past performance is no guarantee of future results, and no representation is made that results similar to those shown can be achieved. All portfolios have the potential of profit and/or loss on the investment securities.