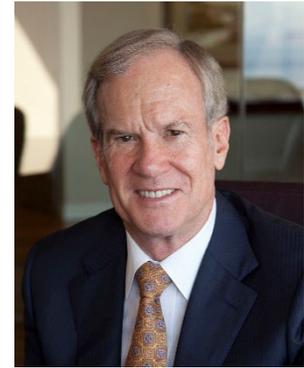


Chairman Jerome L. Dodson's Stock Market Insights

Dear Parnassus Investor:

I'm sure that you're just as concerned as I am about the recent volatility in the stock market. The broader market, as measured by the S&P 500, dipped into bear market territory at the end of 2018. (A bear market is defined as a decline of 20% or more from the prior peak.) Yet, the American economy is very strong, with unemployment well below 4%. What, then, is causing all this turbulence?



First, the economies of China and Europe are weak right now, and there is concern that they could pull down the U.S. economy. Second, the U.S. Federal Reserve recently raised interest rates a quarter of one percent, and this rate hike might slow the economy. Third, the federal government shut down at the end of December. Fourth, and most importantly, it looks like there may be a trade war brewing between the U.S. and China. Whatever the cause, the result is that investors are selling, and there aren't many people around to buy.

Since I founded Parnassus Investments in 1984, volatility has rocked the market a number of times. The events that come to mind are the ones that occurred in 1987, 1990, 2000-02 and 2007-09. Each time, it looked like the stock market was collapsing and stocks would never come back again. Each time, stocks came back and climbed to new heights.

Although I was rattled by each of these market plunges, I tried to put my emotions aside and decide the best course of action. During each downturn, I concluded that the stocks in the Parnassus Funds were significantly undervalued--and that there were a lot of bargains available. Fortunately, our investment team found some great buys for the funds in each case. Naturally, we could not know when the very bottom would be reached, and the market kept going down for a while longer after we invested. But sticking to our investment process turned out to be the wise decision every time.

From a psychological point of view, it's very difficult to remain on course at a time like this. However, history shows that selling during big market declines is generally not an effective strategy for long-term investors. The good news is that, in this volatile market, we're finding great companies that are trading at discounts to their intrinsic values.

Yours truly,

Jerome L. Dodson, Chairman
Parnassus Investments

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