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FOURTH QUARTER COMMENTARY
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We hope this note finds you and your family in good health and we send best wishes for a happy and healthy New Year. This year begins with mixed emotions – while Covid cases are rising and there is political chaos, vaccines are available thanks to a great scientific effort and better protocols for treating Covid.

The stock market closed out 2020 with a strong fourth quarter as most major domestic indices posted double digit returns. The S&P 500 returned 12.15%. Small caps stocks outperformed large cap stocks, reversing the recent trend, with the Russell 2000 (small cap) up a record 31.37% in the quarter. Value outperformed growth in the quarter, but not by nearly enough to make up for the ground lost in the first eight months of the year. Gold was flat in the quarter, and almost all hedge funds produced positive results.

For the full year, the market was led by the growth and technology-oriented NASDAQ, which returned 44.92%. Growth stocks outperformed value stocks by margins not seen since 1999/2000. The Russell 1000 Growth (large cap), Russell Mid Cap Growth, and Russell 2000 Growth (small cap) indices outperformed their value counterparts by 30% or more. The S&P 500 returned 18.40% for the year. Foreign stocks trailed US stocks but had positive returns for the year, while gold was up 24%. Many equity focused hedge funds had a strong year and outperformed credit focused funds.

The US Treasury yield curve steepened in the quarter as interest rates declined slightly for near term maturities but rose for longer term maturities. Vaccine news and better than expected earnings and increased earnings expectations raised hopes for stronger 2021 growth and higher inflation. The following are Treasury yields for various maturities:

Maturity	12/31/19	9/30/20	12/31/20
3 Month	1.55%	0.10%	0.08%
2 Year	1.57%	0.13%	0.12%
10 Year	1.92%	0.68%	0.94%
30 Year	2.39%	1.45%	1.67%

The tremendous rally across all risk assets was driven primarily by the news that the medical problem now has some FDA approved medical solutions. Third quarter US GDP posted +33.4% annualized growth after the (31.4%) annualized decline in the second quarter and (5.0%) annualized decline in the first quarter, leaving the economy 3.2% below 2019 year end level and on a “V” shaped trajectory. US consumers (those who are employed) seem to be in better shape than a year ago, as cash balances sitting at commercial banks are 22% higher and credit card debt is 13% lower than at the end of 2019. The stimulus package in late December will undoubtedly put more cash in most consumers’ pockets.

We began 2021 with the stock market at or near all-time highs. While the employment picture recently weakened, vaccines are being rolled out and investors seem to be looking past the current spike in the virus with the hope for normal times ahead. In addition, with Washington now controlled by Democrats, an additional stimulus package is expected along with other spending initiatives which will boost economic growth.

A key highlight of 2020 was the gap in returns between high quality, dividend paying companies with modest earnings growth and lower valuations (value stocks) versus companies with strong current earnings growth and the expectation of high future earnings growth with considerably higher valuations (growth stocks). Value portfolios had single digit or negative returns last year while growth stock portfolios generally earned 30% or more. We believe very low interest rates and the expectation they will remain low for a few years is a possible explanation. Receiving a cash dividend with cash earning close to zero is deemed less valuable than reinvesting in a fast growing business, even though dividends are important to some investors. Another reason is human nature – people like to buy or chase what is rising in price or "sexy."

Last year, we saw an increase in rampant speculation in certain growth stocks and sectors. The valuations of some companies have reached levels which are not supported by even the most optimistic projections of future growth and earnings. While companies like Apple, Amazon and Netflix are selling at high valuations, at least they are well established businesses with strong brand presence. Consumers may love the products offered by Tesla, Airbnb and DoorDash, as examples, but the valuations of these and many other stocks are way out of line based on historical and financial norms. Many of these companies have little or no earnings. Bitcoin may be the new "store of value" but there is little chance that something that increases / decreases in value 5% - 10% every few days should be considered a store of value.

We have seen this speculative fever before. It is always fueled by greed and ends badly. The following example may be helpful in demonstrating that a speculative stock can be a successful business, however there is a difference between a great stock and a great company. Cisco Systems was one of the darlings of the 1998 - 2000 technology/growth stock bubble. Cisco was a clear leader in making routers, the "picks" and "shovels" of the internet. In 1997, the stock price averaged approximately $7.75 per share. The price peaked on March 27, 2000 at $80.06 per share. Investors at that time saw huge growth opportunities for the company. They were right! From 2000 – 2019, Cisco's revenues were $750 billion and its earnings were $110 billion. But the bubble burst in March, 2000 and the stock fell to $9 in October, 2002. In 2012, the stock price was $20, paying an attractive dividend, and was purchased well by our high dividend manager. The stock is now $45 per share. Cisco was a great company in 2000, but a lousy stock to buy at that time. Not every great company is a great stock all the time.

In the late 1990's, the internet craze drove many good and bad companies to unsupportable values. The problem is determining how long the "game" will last. One never gets a signal that it's over. In our January, 1999 commentary, we warned of a bubble forming among growth and technology stocks. Clients were disappointed in our view. Well, we were fourteen months early, but the decline in price of growth and technology stocks that began in March, 2000 led to a negative return for the S&P 500 and growth stock indices over the next decade. Value stocks had positive performance during that time.

We cannot predict when the bubble for some of these stocks will burst, and conditions today are different than 2000. Very low interest rates do support higher valuations, but not the silly valuations for some of

these companies. We receive calls from clients concerned about the market being too expensive and our opinion is the whole market is not too expensive – you must look behind the "headline" stocks.

The managers we utilize almost universally purchase profitable companies, so there is limited or no exposure to the "bubble stocks." We also diversify our clients in both growth and value stocks. We ended our commentary twenty years ago with a quote from Benjamin Graham, the co-author of the original "bible" of investing who Warren Buffet follows: "It is important to remember that no trend lasts forever. When the bubble bursts there will be spectacular losses. 'The most dangerous words in an investor's vocabulary are this time is different.' "