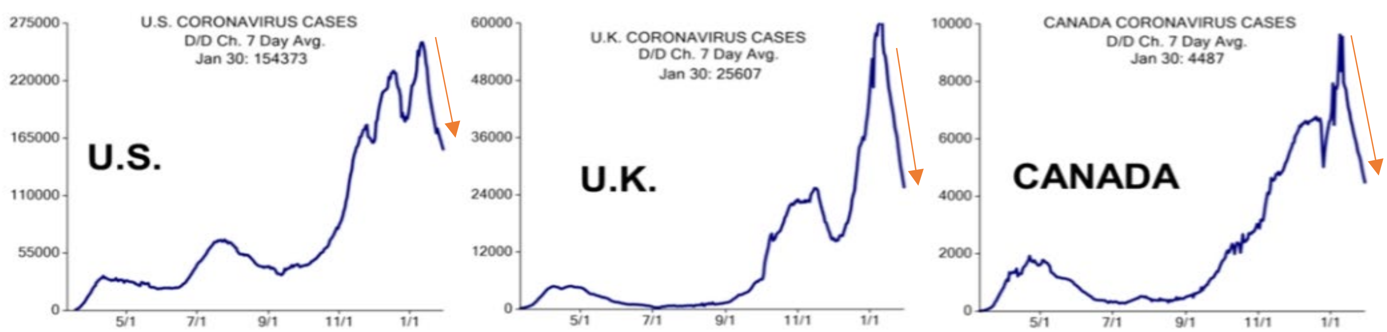
FINANCIAL MARKET COMMENTS – February 2021

Remembering, But Moving Ahead

A Retrospective

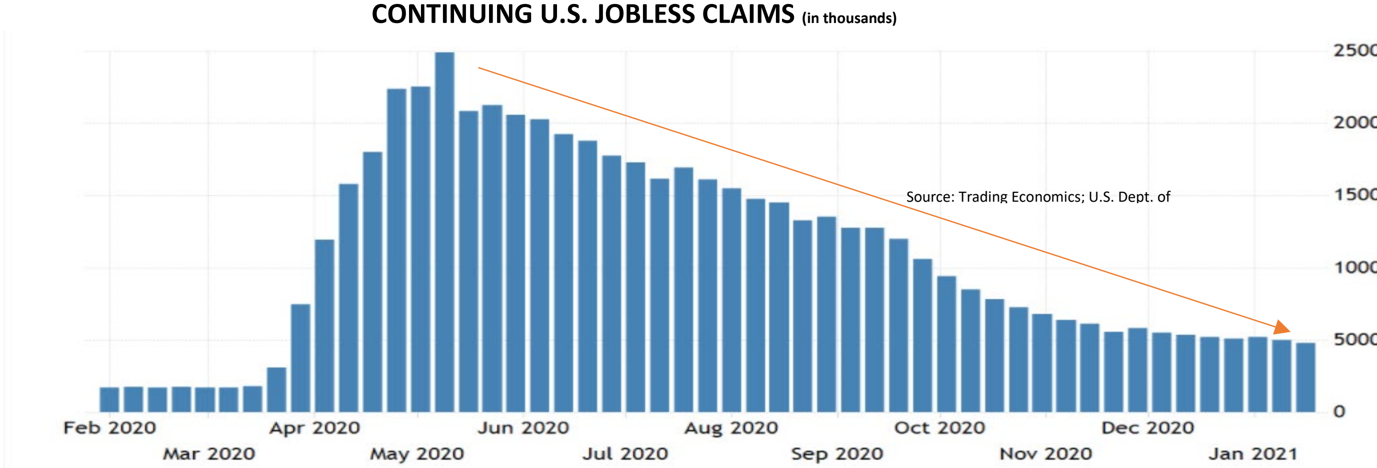
Like everyone, we were pleased to see 2020 come to an end. It was a year driven by the effects of an unprecedented health emergency that had unparalleled negative effects on the U.S. and global economies, employment, personal income, traditional retailing, and in general, how individuals managed their daily lives. In previous communications we discussed not only the negative effects of the coronavirus, but also the unique and exceptional ways that the healthcare industry (Operation Warp Speed)[i] and Washington (The CARES Act)[ii] addressed the needs of Americans. There is still much to be done to overcome the virus and get people back to work, however, there is also evidence that the country may be "turning the corner" as one can see from the recent improving virus (John Hopkins Dashboard)[iii] and unemployment trends (Bureau of Labor Statistics)[iv] displayed on the accompanying charts.

New Corona Virus Cases in Select Geographic Areas (in thousands)



Source: Evercore ISI; Johns Hopkins Hospital

CONTINUING U.S. JOBLESS CLAIMS (in thousands)



These displays are a limited sample of recent trends, but important ones none-the-less. We will continue to monitor closely these and other trends that may impact our economic/investment outlook and actions.

During a year like 2020, it is critical to regularly comment on significant news e.g., rapid spread of the virus, the equity market "melt-down", the significant economic slowdown, increasing unemployment, The CARES Act, the search for a vaccine, historically low interest rates, a momentous recovery in stock prices, the presidential election, etc. It is also critical though, to remember one's disciplines and long-term investment philosophy and not be swayed by what may be short-term "noise". We remained true to those disciplines but did execute modest purchase and sell actions opportunistically during the year. Now it's time to move away from the confines of 2020 and reflect on the broader picture of what has occurred during the past several years and the actions we anticipate during the remainder of 2021 and, beyond.

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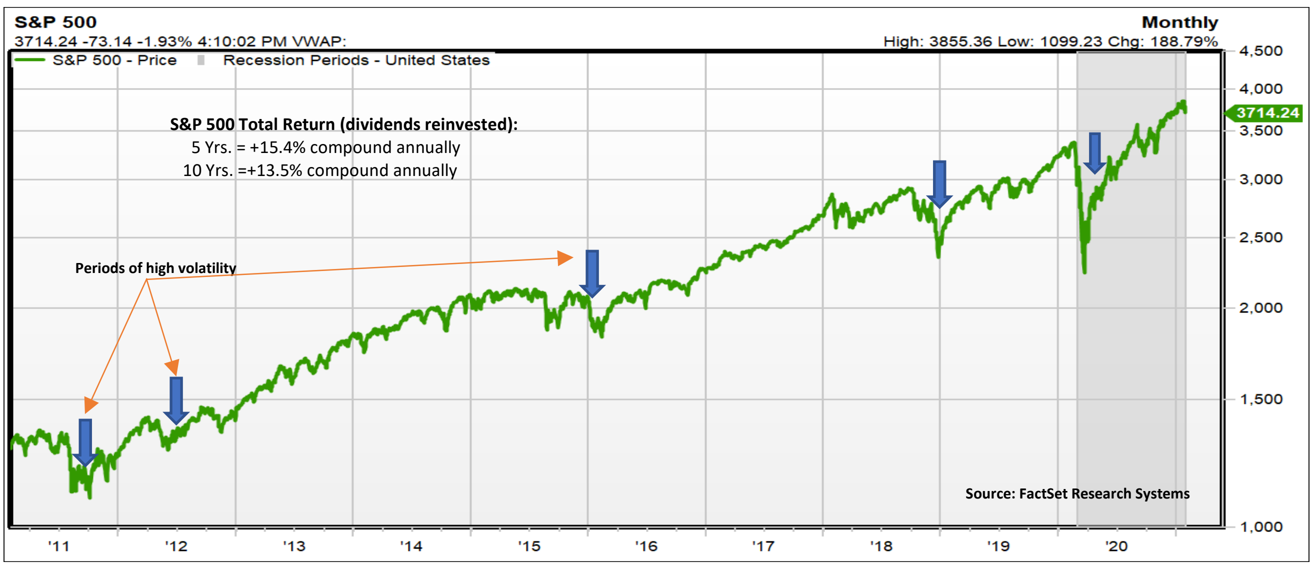
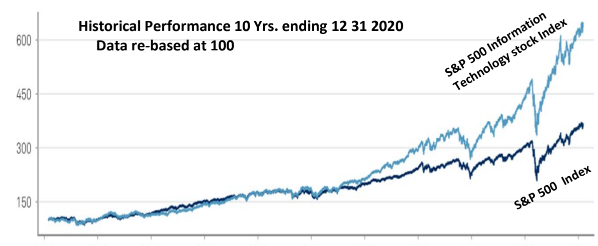
<u>2020 and Before</u>

While 2020 was certainly a challenging, volatile, and in some cases, devastating year, from an investment standpoint, it was also a rewarding one. When one reflects on the pattern of stock market trends during the past five and ten-years, some of the annual periods were not a great deal different from the one just ended. The volatility and change in value during the stock market declines in 2011, 12', 15'/16' and 18' may not have been as extreme as was the case last year, but at the time they were periods filled with fear and uncertainty.

On the other hand, the past five and ten-year periods have been quite rewarding for investors (five and ten-year rates of mid-teens returns) despite the periodic incidence of extreme volatility. This was particularly true if one had investments in Technology and/or Large Capitalization stocks in general. The chart below displays the S&P 500 index movement during the past 10 years, the periods of high volatility and the annualized return during both the past five and ten-year periods ending 1/29/2021 for the index. The smaller charts display the 10-year performance of Technology and Large Capitalization stock indexes *relative* to the S&P 500 index during the recent 10 years. Quite impressive!





Source for both charts: S&P Global/S&P Dow Jones Indexes 2/2/2021

The rationale for including the charts is two-fold. First, to reinforce the importance of not over-reacting to what may be short-term volatility caused by uncertainty, limited facts, and a good deal of angst. Long-term equity market returns have been quite consistent and positive over moderate to longer periods of time.

A second reason for including the charts is to display how well technology and large cap stocks in general have performed. Strong positive performance is generally reflective of companies' abilities to grow revenue, earnings, and dividends at rates greater than the "average" company because their products and/or services are in great demand. Examples of these companies, to no one's surprise, include but are not limited to Apple Inc., Microsoft Corporation, Accenture PLC (outsourcing), Google, Inc., Facebook, and Amazon. However, other companies such as PayPal Holdings, Zoetis, Inc. (animal/pet health), Thermo Fisher Scientific, Agilent Technologies (both are medical technology companies), Home Depot, and Estee Lauder along with other companies have also achieved significant gains.

Our disciplines, and philosophy of focusing on diversification and high quality, consistent growth companies has led to investment in a number of these and other quality companies, while our focus on tax-efficient management has allowed these investments to compound gains in client portfolios. The compounding of gains and the delaying of taxes are positive outcomes but result in some larger than anticipated holdings.

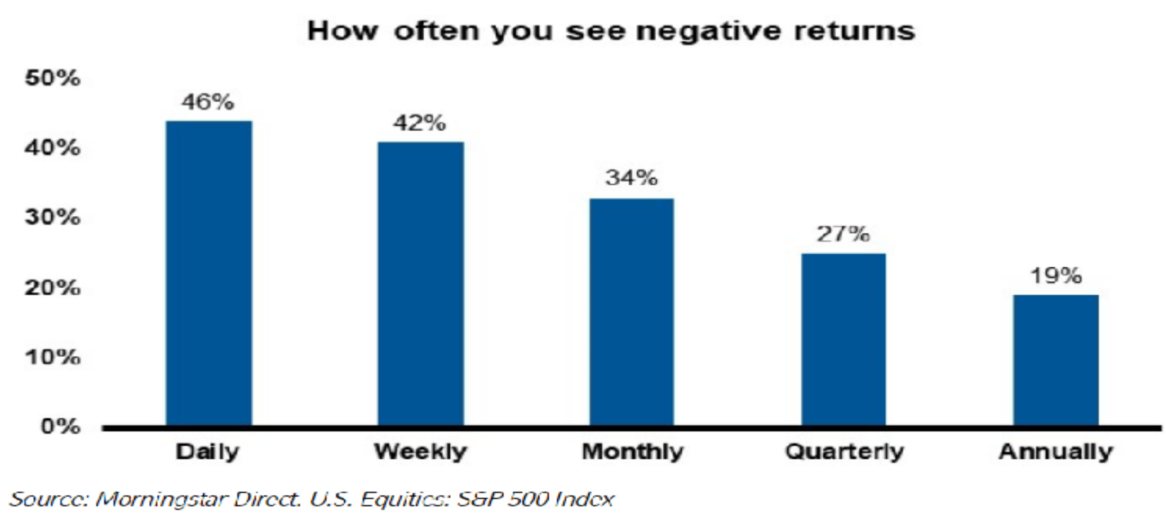
Moving Forward

In the year-end review, we suggested that an improving health environment should, within a reasonable period (first 6 months of 2021), lead to a broader economic "reopening", lower levels of unemployment, a "splurge" in pent-up spending for travel, cars, vacations, and consumer discretionary items in general. In addition, a resurgence in corporate capital spending is also anticipated to expand and modernize facilities, as well as manufacturing and logistics operations and to improve communication capabilities as more of the workforce works from remote locations.

As these trends materialize, corporate earnings will increase substantially and act to lower the valuation (P/E ratio not price) of the entire equity market. If interest rates remain low, though not at the lowest levels we have seen, and liquidity remains high, the environment for stocks should continue to be positive. While the transition from the current environment to one that is economically and health wise brighter, it will not be without challenges and volatility, as we witnessed last (week ending 1/29/21) week.

We continue to advocate a long-term investment outlook, and to actively manage portfolios in a well-diversified, and balanced manner. We will also persist in our equity (stock) management disciplines of seeking to identify and invest in the highest quality, most consistent growth companies. ***However***, as mentioned above, more than a few portfolio investments have "grown" quite large as a percent of total equity holdings, and thus consideration should be given to modestly reducing the size of certain of those holdings and to further diversifying the portfolio. As these actions are contemplated, minimizing tax liabilities will be a paramount consideration. After years of little or no capital gains realizations, this year may be a time to take some of those gains and moderately reduce some large individual stock holdings and sector weightings. We look forward to discussing this strategy as the year progresses.

Although we are aware of the importance of maintaining a long-term perspective, we use the chart below as a means of reinforcing to ourselves that perspective. As you can see, the chart points out that if you check the stock market daily (easy to do with today's "instant news"), you will likely see a negative return 46% of the time. However, as you check less frequency, seeing a negative return becomes less frequent as well. If one checks their portfolio on a quarterly or annual basis, the likelihood that they see _positive returns_ are 73% and 81% respectively - . Quite high probabilities. We hope you find the chart interesting.



As we have said most earnestly before, we appreciate your confidence and value highly our relationship. Hopefully, we will be able to meet with you personally again, sooner rather than later. While we have learned to appreciate our cell phones and virtual meeting even more than previously, there is no substitute for meeting face-to-face. While we are waiting for more of those opportunities, do not hesitate to call with any questions you may have or to share with us any comments, suggestions, or critique.

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[i] **U.S. Department of Health & Human Services, 5/15/2020**

[ii] **U.S. Department of the Treasury, 3/19/2020**

[iii] **John Hopkins University, Covid-19 Tracker 1/29/2020**

[iv] **Bureau of Labor Statistics, 1/28/2021**