January 2021

Dear Friends and Clients,

As we begin 2021, we are hopeful that this year will bring a new normal to our lives. We don't like to overuse superlatives, but 2020 was truly an unprecedented year – a deadly global pandemic, the most severe recession since the depression, a bear market in stocks, followed by the fastest stock market recovery in history (*Barron's)*, civil strife, and a divisive presidential election.

At the beginning of 2020, the coronavirus was just beginning its aggressive spread here in the U.S., and more than 20 million jobs were lost, with unemployment spiking to almost 15 percent (*Washington Post*). After a harrowing decline, with stocks losing about a third of their value, global markets began to recover in late March and early April – even in the face of terrible news. The market began to move up before there was any positive information that was evident to the public.

As we know, the stock market is generally forward looking and appears to have reflected the world coming together to develop promising vaccines in record time, and it began its recovery when the light at the end of the tunnel was just a faint glimmer. The Federal Reserve and other central banks around the world lowered short-term interest rates basically to zero, and longer-term interest rates and inflation also fell well below historical averages. The U.S. Government also added trillions of dollars of fiscal stimulus, and all of that helped to anchor the economy and push the stock market up. By September the S&P500 had fully recovered from the losses earlier in the year and then continued its climb to reach new all-time highs by the end of the year, when the first of the vaccines were approved (*Wall Street Journal*).

The market volatility of last year reiterates the benefits of our patient and long-term approach to investing. No one could predict how the markets and economy would do last year, and investors were whipsawed; yet those who remained patient generally fared quite well. Industry data suggests, however, that the "average" investor sold stock investments during the market decline, and equity investment flows only became positive again toward the very end of 2020 (*Yardeni Research*) – after the significant gains had already taken place. This pattern unfortunately appears to repeat itself over and over throughout history.

So here is an important reminder: Even in "normal" good years, the market never goes straight up. There will be days, weeks, and months when the market goes up and it goes down, but that historically over time the market goes up – just not every day. The commonly used term "correction" is just a fancy way of saying that sometimes there are more sellers than buyers – for many different reasons – and such occurrences are part of a market cycle. Even more important is that when the market does pull back, it often will create an opportunity to invest back in the market – what the professional money managers refer to as "buying on sale."

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As always, diversification remains a crucial part of a sound investment plan and financial strategy. The chart following our letter may be one of the most important pieces of information we send you (separate PDF attachment from Wells Fargo Investment Institute, "The Value of Asset Allocation 2021"). Each major market index is color coded and is the same color year to year. At a glance, you can see how each index performed (best performance at the top) for every year going back 15 years. What this chart tells us is how broad-ranging the market can be – how the heroes one year can be the goats the next, and vice versa. It is one of those lessons that keeps getting relearned…year after year, cycle after cycle.

That leads us to the inevitable question, "what will the market do in 2021"? Of course, no one knows, but despite all of the uncertainty from Covid-19, the economy, and geopolitical pressures, we are seeing signs of a global economic recovery and pent-up demand from consumers. Strong technology and productivity gains from 2020 are here to stay, and the Federal Reserve has stated that interest rates and inflation are likely to remain low for several years, a compelling environment for stocks. In addition, there is an estimated $4.2 trillion in cash holdings worldwide to invest (*Federated Hermes*), and the International Monetary Fund (IMF) estimates that worldwide economic GDP growth will be in excess of 5 percent in 2021. And it is a little counter-intuitive, but with global unemployment remaining high, there is a large supply of workers to fill jobs for years to come, helping to allow for growth with low or modest inflation.

Risks to the market include uncertainty on the coronavirus vaccine rollout, new strains of the virus, significant government debt around the world (more of a longer-term issue), higher taxes, geopolitical issues, and pockets of wild speculation (always good to try to stay away from those). Above-average stock valuations don't necessarily imply an immediate correction, but historically have resulted in returns going forward that trend below the long-term averages, as the markets revert to the mean over time (*Professor Jeremy J. Siegel*). In short, we may see stock-market returns in the coming years that are positive but less than what we have been used to recently. We are cautiously optimistic but careful – as always.

Speaking of predictions...
Our 2020 "Guess the Dow" winner was Tim B, and in addition to bragging to all of his friends, Tim will be enjoying a dinner out on us! According to the *Wall Street Journal*, the Dow Jones Industrial Average closed December 31, 2020 at 30,606, and Tim's guess was just 50 points off, at 30,556. Of the several hundred guesses that we received, Tim's was in the highest quartile, and he apparently didn't need to wait for 2020 hindsight to see how the market would finish. Your guesses were generally conservative and mostly positive, which suggests that you continue to take the balanced, measured approach that we have been advising for so many years. Please email Lichelle Yalung at lichelle.yalung1@wellsfargoadvisors.com to submit your 2021 "Guess the Dow" entry by February 28th, and you may win a dinner out (or in!) on us next year.

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In closing, we would like to share a few memorable quotations from some famous and successful investors:

- *Patience is the investor's single most powerful ally.* ~Benjamin Graham (the "father" of value investing and mentor to Warren Buffett).
- *Time is your friend. Impulse is your enemy.* ~John Bogle (founder of the Vanguard Funds).
- *Invest for the long haul. Don't get too greedy and don't get too scared.* ~Shelby M.C. Davis (founder of Davis Advisors)
- *Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves.* ~Peter Lynch (Fidelity)

As always, we will give you our best, objective, and unbiased counsel. If we have not already discussed with you your plans for the year ahead, including any changes you want to consider in your investment planning, please email or call Lichelle for an appointment. Also, keep a look out for important 2020 tax documents that are expected to arrive toward the end of February (either in the mail or in your online account).

Our team is doing well and thankful for technology gains that have allowed us to work remotely and efficiently during 2020. We do have bittersweet news to report – Laura Newton has decided to retire next month after almost 20 years with our team. We will miss her but are so grateful for all of her years of excellent service to our clients, and we wish her and her family the best.

On behalf of the entire team – Tristan Caudron, Matt Megary, Laurie Blackburn, Ivana McNeill, Jessica Jackson, Laura Newton, Lori Polonsky, Chalee Ricciardi, Melissa Rush and Lichelle Yalung – THANK YOU for affording us the honor and great pleasure of working with you. We would especially like to welcome our new clients and we greatly appreciate those who have referred our services to others over the years. We wish you a wonderful 2021, filled with health, happiness, and prosperity, and we look forward to seeing you in person later this year!

Very truly yours,

Laurie Blackburn

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Enclosures (1)

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Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Diversification does not guarantee profit or protect against loss in declining markets.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

Bloomberg Barclays U.S. Aggregate Bond Index is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index. The Bloomberg Barclays U.S. Government/Credit Bond Index is an unmanaged, market-weighted index generally representative of intermediate and long-term government and investment grade corporate debt securities having maturities of greater than one year. The Bloomberg Barclays Mortgage Backed Securities Index is an unmanaged index of mortgage pools of the Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association.

The MSCI Europe, Australasia and Far East ("MSCI EAFE") Stock Index is an unmanaged group of securities widely regarded by investors to be representations of the stock markets of Europe, Australasia and the Far East. Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

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