4TH QUARTER 2020 UPDATE

January 15, 2021

It was a year ago that we were enjoying the longest bull market in history and U.S. unemployment was at a 50-year low. In our quarterly client letter, I wrote that no matter how excellent the companies in our Model Portfolio* were, "their executives need to be able to see around corners to survive." Nobody could have foreseen what happened in late February as the COVID pandemic swept from the Far East around the globe and upended not just the U.S. stock market but the health of our economy. Almost overnight, companies both large and small had no revenue—zero—and as a result the S&P 500 fell 34% from its record of a month earlier. In response, our lawmakers and the Federal Reserve enacted a huge stimulus package that drove interest rates (a.k.a. the cost of money) to almost nothing.

At such a time the temptation is to run for cover, which many investors did. Our response in select cases was to reduce the large amount of cash some accounts had accumulated by buying or adding to the stock positions in our Model that had suddenly become cheap. We did the same with the few equities that scarcely fell or even rose. But the speed of the recovery in the stock market was unprecedented. It was apparent that many of the bargains were quickly disappearing as the S&P rose 20% in the second quarter. By late November that index was once again at a record high and at year-end was up 68% from its March low. The dramatic round trip has been justified in many minds by the assumption that there would be a U-shaped recovery and that corporate earnings will more or less be back to normal by year-end 2021. This simplistic notion fails to take into account that the sectors of the economy hardest hit by COVID have less financial and market impact than those that benefitted from it. In terms of market capitalization, publicly traded movie theaters, hotels and car rental companies are no match for the media's attention grabbers: Amazon, Tesla, Netflix and the rest.

One of the most striking imperatives from the COVID crisis has been the necessity of being in the right place at the right time. Smartphone makers, providers of videoconferencing services and online shopping entrepreneurs stand directly in the path of a veritable stampede of revenues. So do mountain resort real estate brokers and plastic surgeons who operate on people who aren't pleased with what they see in their Zoom meetings. While our Model Portfolio does not contain all the Big Six—Facebook, Amazon, Netflix, Apple, Google and Microsoft—we do own the latter three. We also have companies that have not benefitted from the pandemic or have been negatively impacted by it, such as ConocoPhillips and JP Morgan Chase. And one, Walt Disney, straddles both sides of the fence. It was fortunate in late 2019 to have created Disney plus (Disney+), a streaming service that has signed up 87 million subscribers for $7 apiece per month. This does not come close to offsetting Disney's theme park revenues, which dropped precipitously, but Wall Street analysts assume that streaming's future growth prospects will more than compensate for the short-term losses experienced at the theme parks. Once again, being in the right place when disaster strikes can generate a powerful tailwind.

It is important not to lose sight of the human cost of the pandemic as we discuss profit and loss and corporate survivability. In 2020, more Americans died from COVID-19 than in combat over four years of World War II: 352,000 versus 291,577 according to the New York Times. The nation's average unemployment rate as of late October was 6.9 percent, nearly twice the February rate of 3.5 percent. That number included 10.8 percent for Blacks and 8.8 percent for Hispanics. Among these are people who profited little or not at all from the 16.3 percent rise in the S&P 500 during the year, and for whom any benefit from the forecasted U-shaped economic recovery may be wishful thinking.

As to our own expectation for the New Year, we would welcome a modest investment return accompanied by less drama. With the stock market already highly valued, it appears that thanks to the Fed, to a COVID vaccine, and to expectations of a rapid recovery, many good years ahead are already anticipated. The effect of a huge hangover of national debt and the uncertainty of how many workers and consumers return to offices, restaurants and stores, and of many small businesses hanging on by their fingernails, makes any predictions about the coming year seem fatuous. As always, paying attention to the numbers, buying value and adhering to our basic discipline and strategy will remain our guidelines for 2021.

We appreciate the trust you have placed in us and will continue to work hard to earn it. Please consider passing our contact information to anyone you know who needs help in building and maintaining financial security. We are happy to share our perspective with them and to explore if there would be a good fit for working together

Best regards,

Noel F. Bennett

**The Model Portfolio is not a real cash portfolio. It represents the core direction of our portfolio management strategies. Individual client portfolios are managed in accordance with the clients' specific investment objectives and constraints. Historical results are available upon request.*