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Year End Review and Outlook

As a year nears its close, it is the usual procedure for investors to reflect on the events of the year and the prospects for the year ahead. This year's review is challenging because of the volatility and sharp swings caused, directly or indirectly, by the Covid pandemic. However, there is value for the future in the analysis and interpretation of the events of 2020. The sudden and sharp swings in the world's economies and capital markets caused many traditional relationships to shift, while new protocols were developed and tested. As we go forward in the next year, many of these new measures will find greater application, while others will be discarded as one trick wonders. We will put our combined efforts and experience in discerning the opportunities inherent with this challenge and will keep our clients apprised of our progress and actions.

Not to be forgotten amidst the economic and financial turbulence was the election of a new administration and the importance of new policies aimed at trade, taxes, infrastructure, and international relations. All these matters and more will be the subjects of future reports relating to investment opportunities and risks as we weigh the new measures. A further reason for waiting relates to the January 5th runoff election for two U.S. Senate seats, which could alter the balance of power for our country, without eliminating the divisiveness which already mars our legislative structure.

The rapidity of the economic reaction to the shock of the aggressive nature and tragic impact of the pandemic created massive apprehension amongst investors as our economic activity seemingly shut down in March and securities markets tumbled in response. The political response of widespread lockdowns gave some feeling that the virus could be contained, and financial markets calmed. This calm was followed by substantial improvement in securities, as we saw impressive coordination of monetary and fiscal policies. The monetary policy support by our Federal Reserve has continued, while fiscal support has again become captive of competing political tenets and personalities. This bifurcation of actions has been unfortunate, but not unusual, and may be capable of returning to the earlier path of close coordination.

The year's results for the broad securities sectors tended to reflect the effects of the monetary and fiscal policies and the consistency of their applications. All maturities of the fixed income indices have been stable at historically low interest rate levels as a direct result of the Fed's zero interest rate policy and massive open market purchases of securities. The equity markets were more diverse and largely positive on the year, with returns led by technology related firms and companies seen to be important and sustainable beneficiaries of the "stay at home" and "remote working" trends. Other equity sectors that showed improved returns were precious metals and some natural resources which were credited with scarcity and/or store of value safe havens.

Looking ahead, if the vaccines are widely dispensed and effective, the domestic economy should make up the shortfall experienced in 2020 by year end 2021. With that potential in mind, we are screening for companies that are beneficiaries of a cyclical recovery, are valued at ratios that are attractive and supported by sound financials and have demonstrated an ability to apply new technological methods. These adaptations could have significant implications for labor costs, enhanced productivity, and less volatile sales and earnings in the future as new markets are opened for firms in transportation, machinery, industrial equipment, clean energy, and cybersecurity. Digitization has already transformed retail trade, and many other traditional industries now have the need for and the opportunity to realize enhanced and sustained market prominence and may be trading at attractive valuations relative to other recent market darlings.

Our investment mission is anchored by a commitment to identify and analyze sectors and companies with the objective of attaining the investments which we believe have the best potential of increasing valuations for our clients. We generally prefer companies with the proven management skills to recognize early new opportunities while maintaining strong balance sheets and cash flow growth; but, we also keep a close eye on newer and less seasoned firms which have the potential to capitalize on future trends in consumer and corporate needs and applications. These newer companies offer the longer-term potential opportunities for inclusion in our managed accounts and have historically added to our performance profile.

As a result of the challenging and strenuous events of 2020, we are intentionally keeping this year end message short. We have earlier indicated that we expect that we will have a full order of issues of importance to consider and discuss in future reports. Change and the challenges accompanying new policies are ever-present in our world, and we are prepared to respond and adjust as needed.

In closing, we are grateful for the steady support of our clients and we intend to maintain a close working relationship in the future. As always, we encourage you to keep in touch (virtually) when you have questions or concerns. Our partners are closely knit and capable of seeing that you are well served and comfortable with your portfolios.

Wishing a healthy and safe new year to all!