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October 2021

Quarterly Review and Outlook

In the quarter just ended, investors found that the highway returning to normalcy had developed some pesky bumps in the road along with some potentially hazardous longer-term structural conditions. During the first half of this year, optimism about the reopening of our economy, positive monetary policies supporting the important financial, industrial and consumer sectors and the apparent subsidence of the Covid 19 variants had bolstered a growing sense of relief and confidence. These supportive elements became less secure as the latest quarter unfolded, which is often the case following a period of layers of hope being piled upon recent positive returns in financial markets. As is also often not unusual, the more new worries and undesirable events loom, the weight of investor opinion becomes less secure and volatile. Now, as we look to the final quarter of the year and ahead into 2022, we will remain committed to identifying, analyzing and weighing the various economic, financial, and political trends and the likely outcomes and impacts on securities markets.

The items or areas of current uncertainty and/or concern is lengthy; and any list likely would be unsuccessful in itemizing all those which would satisfy the individual reader. Two issues, which always seem to be front and center when worries grow, are inflation trends and possible changes in Federal Reserve monetary policies. It is generally accepted that the Fed's commitment to providing adequate liquidity after the economic shocks related to the initial wave of the covid virus was critical to limiting long-term damage to business and banking system confidence. Now, the investor debate is when will Fed policies begin to taper its large monthly injections of liquidity and begin to signal a period of raising interest rates to obviate a return of rising inflation throughout our economy. Such changes are not made on a whim, and the Fed seems likely to telegraph its intentions, which doesn't guarantee widespread agreement and acceptance among all equity and bond investors, or address effectively the different inflation pressures which can be specific to production costs and consumption trends. A further complicating factor for anticipating future Fed actions is the pending renomination of the chairman and two vice chairmen whose future terms are dependent largely on support from Congress.

A contributing factor underlying the recent upward pressures on the production and consumption portions of the U.S. and other international sectors is the clogging of global supply chains which has been the result of spreading covid-related health concerns tied to labor

shortages, the slowing output of important raw materials as China and other Asian and South American producers have dealt with health issues. While these factors could reverse gradually, the inflation damage could be longer lasting. In any event, the monthly Fed meetings and follow-up discussions will take on an even larger than usual importance for a while. There are signs that the rates of covid infection are easing in the near term in many foreign nations as well as in the U.S., which could help ease the shipping backlogs and the overall clogging of the supply chains for many important raw materials, necessary components, and a wide variety of consumer goods. If, and when, such improvement occurs, the real issue for investors will be how much of the earlier cost increases will prove to be imbedded in future inflation measures and become an important factor in the Fed's planning and guidance.

Other important domestic issues are also problematic for the future economic and financial trends. These issues primarily are tied to the ambitious and wide-ranging new infrastructure bills which have significant probable impact on tax changes across the entire spectrum of corporate and individual taxable entities. The sheer size and scope of the proposed bills have thus far created confusion and sharp disagreement in Congress, between and within the political parties and too many mixed messages for the investment and capital markets to discern the most likely shape and success of these bills. This is the first major and critical domestic challenge for the Biden administration, and it is possible that the recent events in Afghanistan and along our southwestern borders have added to the difficulty in reaching a compromise set of bills. Until this contentious situation is clarified, the uncertainties may impact other items such as an increase in the national debt level and military allocations. The latter issue is of import as China is acting in a provocative manner relative to both Taiwan and the vital shipping lanes of the South China Sea and Russia is again becoming active in the Mideast.

Setting, executing, and monitoring an investment policy is always a challenging endeavor; and it is also a critical responsibility at times when political, economic, and corporate pressures are paramount and often at cross-purposes. We are frequently asked about our style of equity investing for clients with longer term horizons. While we have access to various knowledgeable sources of insights and information, we have generally found that intensifying our attention to the policies, forecasts, and actions of the successful business leaders and those that demonstrate the foresights to anticipate and/or create changes and opportunities are highly important to our efforts.

This is essential now when the equity markets are seemingly divided into two major camps: high technology and the cyclically sensitive entities. Recognizing that such categorization is an oversimplification, it seems an operational reality which ignores the number of outstanding companies and management teams which exist and succeed in ways that overlap their market positioning. In other words, there are good examples of firms deemed to be either highly cyclical or "high tech" which have achieved consistently above-average returns for shareholders that merit our consideration as long-term holdings through market cycles in client portfolios. As we strive to deliver appropriate investment returns for our clients, we will always find that there are opportunities to identify and invest in companies which meet our criteria for suitability and longer-term potential returns without frequent trading of these holdings.

Following the economic and investment shockwaves occasioned by the Covid 19 virus in early 2020, we have witnessed several changes of investor moods and preferences involving the "new age" technology linked sectors and the historically more cyclical industries, now thought to be "economy reopening" beneficiaries. Looking beyond these labels, we seek to identify companies in many diverse sectors which have utilized technology to strengthen both current and future operations and achieve competitive economic advantages. If we maintain continuing close attention to these essential attributes, we will all benefit from greater understanding of critical strategic decisions as well as confidence in future portfolio actions.

Our current asset allocation for accounts is little changed over the course of this year. Our conviction in the longer-term potential for a diversified list of equities continues, as does our view that bonds do not offer appeal for capital growth. The Federal Reserve is poised to begin a slowing rate of liquidity injection by year end, which diminishes the likelihood of sustained price gains for fixed income issues. Our policy of holding short-term cash substitutes will continue to be maintained based on individual client comfort and needs. We are cognizant that the continued domestic political strains are still problematic and the budgetary and immigration issues continue to be fractious, and we will be alert to any further disruptions to the proper functioning of our government's responsibilities.

We are pleased to report that our organization has continued to operate smoothly during this prolonged period of covid-related disturbance. Please know that we are ready to respond promptly to any questions or concerns. As always, our clients and their interests come first. Stay in touch in whatever manner meets your needs.