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Year End Review and Outlook

As investors review the portfolio returns of 2021, we do not believe that the corona virus and its numerous variants should define and determine the extent of the challenges which impacted financial markets. Clearly, the incidence of new waves of infections and the resulting responses initially had measurable impact on market volatilities as official guidance and restrictions seemed to be often contradictory and confusing. But the positive impact from increased inoculations combined with lessened specific risks associated with each new strain, gave investors confidence to look past any near-term dislocations.

As the focus moved on, increased attention became centered on the clear sense that a change in monetary policies was highly likely in the first half of 2022. For an unusually lengthy period, our Federal Reserve has employed a very accommodative package of policies which has maintained confidence that monetary liquidity was essentially "certain", and that consistent monthly open market purchases of mortgages and fixed income securities provided a solid backstop. This 'friendly" operating policy, when combined with the very significant income and pandemic supplements passed by Congress, had a number of positive and less desirable impacts on our economy. As measures of current inflation began to rise and dislocations increased in our economy's supply chains, priorities began to change.

History shows that when monetary policies change and are accompanied with altered fiscal and taxation directives, financial markets become more skittish and less securely anchored. This is the challenge that we anticipate will likely confront investors in the new year. Our Federal Reserve has signaled that the policy of monthly liquidity additions will be reduced measurably and that it will follow with a several-step process of increases in managed interest rates intended to put a cap on future open market interest rates. While these are not draconian measures and should not be seen as disruptions to thoughtful longer-term investment programs, their impact on our economy will be supportive if there is coordination with other major central banks' policies regarding trade and capital flows. In addition, if the supply chain difficulties begin to ease as more employees return and production runs turn up, the upward pressures on inflation may reverse, obviating the calls for more government intervention and price controls. So, while there are problems and policies to be aware of, there are also potentially positive reasons and forces to be realistically hopeful about.

It seems reasonable to assume that the strengths shown in 2021 will provide a support structure for possible defense against the potential areas of economic, societal, and geopolitical forces that often can prove disruptive. Economically, there is the possibility of excess taxing and misallocation of resources to satisfy narrow agendas and which can foster political fractures and broad scale societal disillusion. This is a pot that is always on the boil and which can negatively impact progress and public confidence. On a global scale, our relations with China, Russia, Iran, and other Mideast countries are unstable and troublesome for International diplomacy.

It is likely that the most pressing near-term concern for investors relates to the extent, timing, and duration of the Fed's tightening of monetary conditions. We expect increased volatility in security markets initially, which could continue as the Fed provides new guidance monthly. The makeup of the Federal Reserve Board is undergoing one of its periodic changes in both new membership and voting members, and the impact of these alterations will be of future interest when viewed in relation to the positions voiced by Chairman Powell.

Our investment strategy has been keyed to the probability that the Fed will continue to be pragmatic as to the need for consistency in its messaging while balancing the shorter- and longer-term monetary objectives of adequate liquidity and dollar stability with the economic needs of employment growth and international coordination. It is the breadth of these goals and the inherent risks of achieving and maintaining these positions which has culminated in our investment tactical belief that a portfolio structure of high quality "growth" stocks along with opportunistic and strongly financed "cyclical" issues is appropriate for most client accounts with longer term objectives. The operating discipline upon which this strategic and tactical duopoly rests is continuing review and discussion of the big picture and a constant and unbiased analysis of individual company operational data and competitive industry conditions and opportunities. Challenging economic, financial, and societal times require continuing attention and a collective open mind.

Currently, we are maintaining our asset allocation for client accounts, while assessing financial, economic, and government trends and developments. Our conviction that well-positioned equities offer the clearer potential for long-term growth of capital is steady as is our belief that bonds are still only appropriate for income generation. Short-term cash substitutes will be utilized to moderate market volatility on a client-by-client basis. This portfolio approach has served us well thus far due to the steady attention to specific client sensitivities and requirements juxtaposed with the commitment of our investment professionals to apply their individual skills with the definable benefits of open discussion and challenge among peers. The months ahead will assuredly provide numerous topics for examination and discussion internally and to share with our clients.

As always, we are grateful for the support of our clients, and we encourage you to get in contact with our team members with any concerns or questions about your portfolio holdings or changes. We strongly believe that frequent communications are essential to beneficial long-term relationships for all parties. You have our pledge to remain alert and to the thorough weighing of the potential risks and rewards to your portfolio holdings.

Our best wishes to all for a healthy and happy new year!