THE YEAR OF THE OX

Q 1 Market Update

"The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty."

-Winston Churchill

As we turn the page on 2020 and look forward to a new and better year, it is hard not to feel anxiety about our future. The "what-if" virus has bitten us hard this year, as for the first time in a long time, the worst-case scenarios that run through our heads were realized, if not over-delivered. *"Fool me once, shame on you, but fool me twice, shame on me",* -we all think, and are determined not to get caught out being optimistic or unconcerned again. So, here we stand on the precipice of a new year and our minds are clouded with doubt, fear, and anxiety. But, like all difficult times, this too shall pass, and a brighter future is possible, nay, probable.

We are bullish on our future, bullish on the recovery, and bullish on humanity to pick itself up and carry on to new highs. Our path is full of potential dangers and viper pits, but we trust in our ability to avoid the worst of it and keep moving forward.

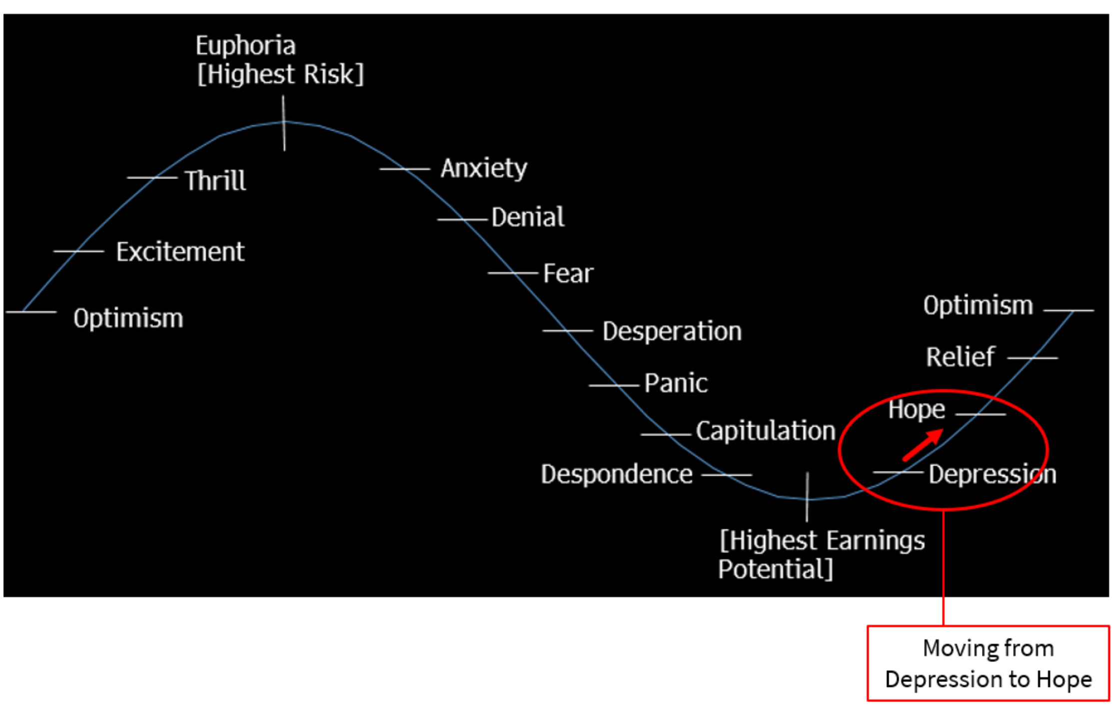
Trust is a difficult word in these changing times. Who and what can you trust? We are bombarded with information constantly, and this year has blurred the lines between opinion and fact. Fake News. Manipulation. Partisan Politics. It's almost to the point where we want to know someone's credentials, background, and blood type before we will listen to what they have to say. It has been a difficult year for facts and trust.

We trust math and numbers. Numbers are finite, unflinching, and truthful. What percentage did a stock go up or down? How much money did a company make? How many people are unemployed? Yes, there is context to every number, however the stark reality is there in black and white on the spreadsheets and graphs. And the numbers are telling us that there is potential for 2021 to be a respectable year. The macro feels terrible- as if the world is lining up all the reasons why you should not be in the market and all the ways it can go wrong. But, a Bull Market never announces itself and tells you it's time to invest, and it's safe. Investing will always involve risk. Fortune favors the bold. Not the stupid, but yes, the bold. It takes courage to invest, it takes an ability to look towards the future and wade through the incessant chatter and noise and see clarity.

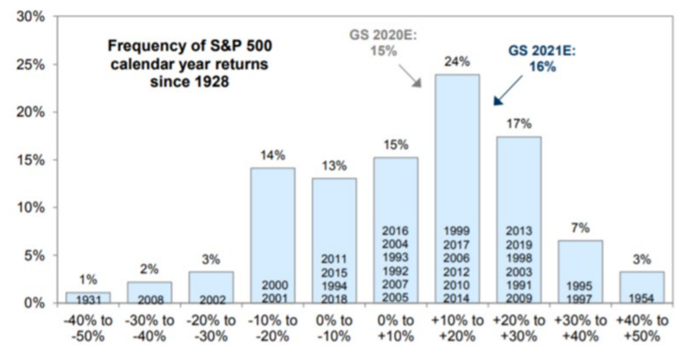
Let us look at the Bull and Bear Case:

BULL	BEAR
Accommodative Fed Policy	**Valuations are stretched and too high**
Stimulus and Fiscal Aid	**Sovereign Debt levels are unprecedented**
Discount models indicate the markets are not as overvalued as some traditional readings show	**Markets are artificially high due to Fed intervention**
Relative to rest of market, stocks are attractive	**Unemployment is too high**
Vaccine provides normalization	**The Virus isn't going away**
Earnings and Profit improvement	**Slow return to normalized spending**

Overall, we feel the markets can give us 8-12% which would put year-end target on S&P 500 at 4,100 based on 3,700 current value. This is near the low end of street forecasts with JP Morgan at 4,500, Goldman Sachs at 4,300, Credit Suisse 4,050 and Barclays at 4,000. This also puts us on par with 2004, 2010 and 2017 which were the years following a big bull market rally off a bear market low which we experienced this year in 2020. If you chart 2020 vs. 2003, 2009 and 2016 it is a very similar pattern. Especially compared to 2009, where the markets rallied 66.47% in 205 trading days off the March 9th, 2009 low. 2020 has seen a similar furious rally up 63.02% off the march 23rd low through close on 12/14/2020 at 3,647.49. This rally has caused us all to pause and re-evaluate positioning as it has been steeply "V" shaped market recovery. There are concerns that it is overvalued and has run up too far too fast. However, we feel that the rally is sustainable. Especially when viewed in the context of a market cycle, illustrated by the chart below, where we feel markets are just moving up from Depression towards Hope after the Capitulation in March. Bull Markets can have pullbacks and volatility, which we feel is likely in 2021, but the overall trend is up and makes it worth keeping allocations weighted towards stocks. So, similar to 2009-2010, many are waiting for the other shoe to drop and markets to crash back to Earth. Do not get stuck waiting for the perfect moment, it may never come. Like the driver who refuses to merge onto a busy highway because they are afraid and paralyzed waiting for just the right spot, you can get frozen with indecision.



Markets are a leading indicator, meaning they usually recover before the economy does and can go up even with high unemployment and structural cracks in the economy. The main driver is that the market continues to feel that economic recovery and earnings growth is possible in 2021. The fundamental question you should ask yourself is: Do you think the economic situation is improving and getting better, or eroding and getting worse? Most likely, 2021 will trend better globally. Vaccine, reopening, normalized habits and increased spending on travel and discretionary items will help drive higher profits. Goldman Sachs put together a good histogram exploring the frequency of calendar year returns since 1928. 66% of the time the markets are positive, with 10%-20% being the most frequent return potential. 2/3 of the time markets are positive and only 6% of the time do you see losses greater than -20%.

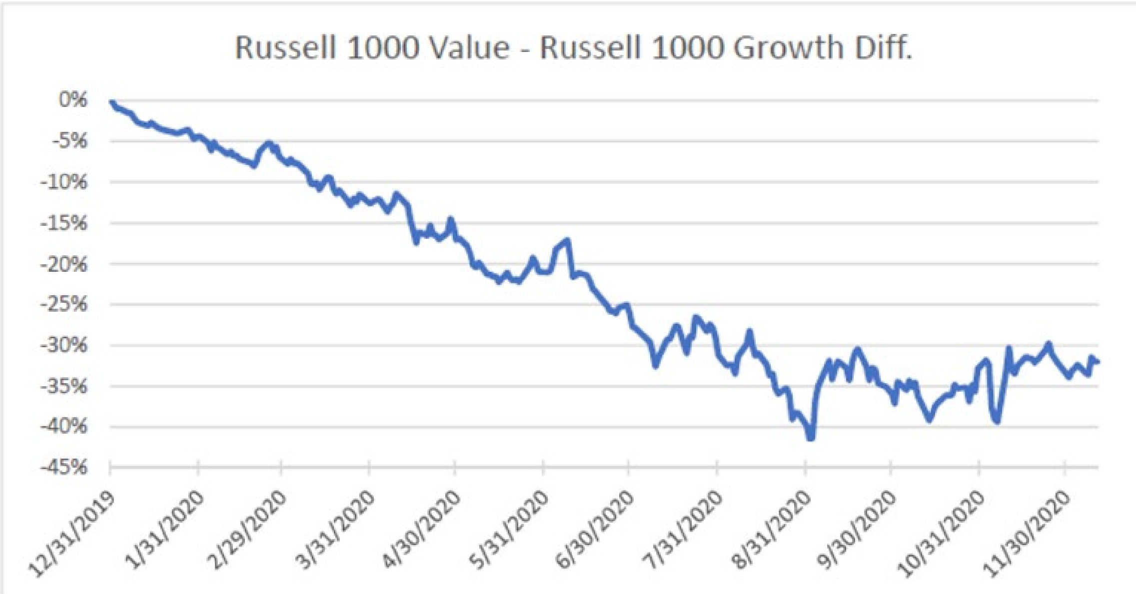


2020E return assumes S&P 500 index ends the year at 3700. The current level is 3551.

Source: Goldman Sachs Global Investment Research

Not all stocks are created equal. The 2020 rally, as well as the past 3 years, has been driven mainly by technology and growth stocks. We feel there is opportunity in Value Stocks, Small Caps and potentially some in Emerging Markets for those with the risk appetite. It can be difficult to rotate out of a winning investment, but you must stop and evaluate future growth prospects vs. historical performance. Zoom (ZM) is a great example. ZM is such a successful product that I would be shocked to hear you have not utilized their platform at least once this year. However, ZM has gone up +479% YTD (as of 12/14/20). Its rapid deployment and adaptation make it difficult for it to sustain its rate of user growth and revenue growth going into next year. Which is why the stock has dropped from highs up near 600 back down to 390's. Looking into the future for ZM, questions arise as to whether the sources of revenue and growth are sustainable and if the pace of growth can increase. Especially for a growth stock, they need to continue to increase the rate of growth change. If ZM grows 50% next year it will be a huge disappointment coming on the heels of its recent net-expansion rate of 130%. Many companies would love 50% growth, but relative to historical performance, that same 50% is a disappointment and make it likely the stock could drop. By looking towards undervalued stocks and sectors, as well as cyclical and economically sensitive stocks, you may be able to pivot towards areas of the market with more upside potential which is why we recommend evaluating more Value oriented investments.

It is not that we dislike Growth stocks; it is more that we feel there are better opportunities in other parts of the market. Growth has outperformed Value the past 3 years. Since Dec 2017, The Russell 1000 Growth Index has returned 80.70% Total Return vs. Russell 1000 Value with 18.63%. This was similar to the late 1990's tech bubble when growth vastly outperformed value stocks until the bubble burst. Now, we may finally be seeing the rotation towards value which may shift which stocks lead this market. We are not calling for a bubble and full meltdown of Growth stocks- many of them are extremely profitable and generate Billions in Free Cash Flow, unlike the 1990's bubble when there were Zombie stocks with no earnings. We are focused more on a secular rotation back towards Value. From 2000-2006 Value outperformed Growth 5 of the 6 years post Tech Bubble burst. Value stocks also tend to do well early cycle and are projected to grow EPS faster in 2021. While Growth has still outperformed value YTD, you can see some of the shifting. In November, the market pivoted towards Value and Small caps. Below is a chart from Schafer Cullen showing Growth vs. Value and the recent rotation.



Start	End	RLV	RLG	Diff
12/31/2019	12/11/2020	1.30	33.26	-31.96
3/22/2020	12/11/2020	55.11	74.67	-19.56
9/30/2020	12/11/2020	14.57	7.18	7.38
10/31/2020	12/11/2020	16.09	10.95	5.14
11/6/2020	12/11/2020	10.06	1.40	8.66

2021 is the Year of the Ox according to the Chinese Zodiac Calendar. The Ox is considered hard working, diligent, honest and handles things steadily. So, channel your inner Ox and go forward with a steady hand and cool head. As Ralph Waldo Emerson says, “This new day is too dear, with its hopes and invitations, to waste a moment on the yesterdays.”

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