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Inflection

In the wake of Covid-19 the investment landscape is shifting quickly and dramatically. There appears to be a new paradigm for valuation and macroeconomics, one which migrates away from strict integers and encompasses a "moral", or socially responsible, consciousness in addition. We believe that shift to be a boon to investment portfolios, particularly as global uncertainties recede. There is a new focus upon demographic and technological changes that emerged from the pandemic which encourages a greater emphasis upon sustainable environmental protections, healthcare, and social governance. More so than in previous generations today's thematic investments offer the combination of anticipated portfolio wealth-building as well as strategies for "doing good" for the rest of the world.

More specifically, however, is the question of whether or not those factors can be sustained in our collective psyches as new standardized benchmarks for growth and prosperity, or whether or not this post pandemic feel-good moment is just a fleeting illusion. As investors wonder "what's next" the new reality becomes a challenge of evaluating opportunity in a wholly redefined landscape. The pandemic affected not only our health and financial reckonings but also our *attitudes* about those things, as well. Should it not be true that what is good for the possibility of our investment accounts should also be good for the common sense of our social fabric and our responsibilities towards others? We believe that both can be affirmed concurrently.

There are several other factors which support our guidance that the markets are poised for a new era of wealth creation. Demographics become destiny. A demand for new technologies will have a dramatic multiplier effect upon healthcare, transportation and infrastructure, education, and energy. Global central banks are still maintaining a hands-off approach to inflation, keeping interest rates (borrowing costs) low. The end of the pandemic also incentivized corporations holding large cash reserves to start anew to endow innovative initiatives, begin to rehire displaced workers, and to think about the longer term once again. And it is the long term that has us excited about profit expansion and capital gains. There might be a period of modest contraction off of today's high valuations in the next two quarters but the runway for generational transformation and capital expansion is almost certain to be hectic.

Markets

One year ago investors found themselves at the depth of pessimism about the condition of their world and their spirit. Today, otherwise. So, what happened?

For one, the markets last spring and summer were driven by an inordinate amount of short term trading and speculation...on the way down and throughout the "bottom". Many thought that the best strategy was to bail out completely, hoping to avoid any portfolio depreciation, at the risk of abandoning all asset allocation protections taken earlier (that were designed precisely to mitigate just such a crisis). After the hysteria wore off many of those same individuals were the first ones calling their portfolio advisor to *get back in* to capitalize upon valuation decimation that ensued. For all the confusion and turmoil, the year-after, net-net should have been to restrain the hysteria and to stay the course. We are now at, or above, those previous, pre-Covid, valuations and rewarded for our persistence, patience, and methodology. The real issue is that *micromanaging stock returns usually backfires, does not begin with a macroeconomic overview, nor always end with the desired outcome.* For sure, there is now a greater appreciation for conventional portfolio method that reflects patience and discipline.

No doubt, ratios, prices, and earnings are quite high at this moment. But integers must be viewed through the perspective of sector rotation, geography, science, and ethics. In other words, our preference is to monitor patterns of revenue and asset growth that shape the markets and the economy for the long term. To be clear, there is no such thing as "perfection". But quantitative science deals in the realm of probabilities. And right now those probabilities are at an encouraging inflection.

As noted above, the next few months might be riskier. There is widespread concern that pricing pressure (inflation) is a bogey to be feared. We believe otherwise...that price pressure and higher interest rates are a harbinger of a renaissance of an economic expansion that was occurring *before* the pandemic arrived. The last 3 or 4 weeks of this past quarter were a manifestation of the market's inability to see the forest for the trees. Investors vote with their cash, and currently they are losing faith that upside momentum can be sustained. Any volatility and doubt, we believe, should be short lived and not a reflection of significant deep-seated headwinds.

The fact that the economic recovery (from 2008) was interrupted by a health crisis rather than by underlying fundamental elements is cause for optimism that the longest, largest economic expansion in recent times should continue.

Strategy

There is a troubling undercurrent that people are not only losing faith in market sustainability but in their other entrenched institutions. Lawlessness is on the upswing, unemployment is still a lingering a problem, schools are half-empty and doing a poor job of educating their students, government is stalemated, the racial bias gap is widening, and community agencies are behind the eight ball when it comes to feeding the hungry and providing shelter to the homeless. Our collective social disconnect, and the fissure between the haves and the have-nots, is wider than ever before. The fact is that one's choices are today dictated by their zip code, age, religion, geography, ethnicity, and capital reserves. One may not like it, but it is part of the truth that must be confronted. We may never go back to the old normal, because the devastation wrought by Covid-19 has created a period of introspection, revolution, and perception that has changed our realities forever.

There *is* space for capitalism and market optimism, but also for sturdy fundamentals and vigorous profits that give back to the less fortunate.

Conclusion

After a year of market turbulence, emotional suffering, and death we must approach our economic and social sciences with a new perspective, one which applies proven principles of supply and demand, profit and earnings...and, yes, moral philosophy. There is no statistical formula for personal happiness, but nor should we always try to equate market valuation to that integer. In fact, our economic and spiritual rebound can be even more robust and substantive if we apply new vocabulary and new thinking to the endeavor. Whereas asset allocation and sector weighting are the hallmarks of this author's quantitative methodology, determining which industries will flourish in the next 20 years is just as much about ethical ideology as it is about stochastic integers. From chaos, order. Particularly in areas that affect public welfare such as *environmental protection, renewable energy, agriculture, potable water, education, technology, housing, infrastructure, war and terrorism (population migration and displacement), and social responsibility*

Trying to understand the connection between emotions, objectives and facts is not just an ideal...it is our new imperative. How our cognitive biases influence our investment choices creates the financial maelstrom. Learning what is driving the rapid changes that we are all experiencing is not a pedestrian exercise...... it is a complex, multilateral conundrum that takes time to understand. Unfortunately, we live in a world of immediate gratification. The digital age makes us aware of and responsive to a multitude of stimuli minute by minute...all-time highs, all-time lows. Instead, it is time to understand that wealth is a partnership, created over time, between ourselves, our hard work, our money, and the benefits of which that accrue to others. *Real wealth* (resources) differentiates between method and impulse, expectations versus behaviors. Therein lies the riddle of modeling the future.

Suggested balanced account asset allocation, Q3, 2021
Equity: 40%
Fixed Income: 40%
Cash: 20%

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