

Up, up, and... *which way?*

It's an unfortunate fact that much of last year's market performance was influenced by attitude, fear, and opportunism versus a strong reliance upon fundamentals and discipline. Encircled by business disruptions, massive unemployment, and even death, many investors succumbed to anxieties or overwhelming despair and sold out completely or just sat back and watched in disbelief as world events unfolded around them. From the depths of the market's sell-off to the heights of all time records, incredulity abounded. However, we feel that a return of confidence is in the offing.

Above all, the will to thrive has not been defeated. Although the recovery from the ravages of the Covid virus might be difficult, businesses still make it their mission to attain profitability and sustainability. The task might take longer than our patience is willing to allow, but the end result is entirely within reach. In specific sectors, such as healthcare and technology, the recovery is already robust. Earnings in those shares are advancing faster than anticipated. In fact, many segments of the economy are gaining market share...a testament to their will to succeed. Interestingly, the last few weeks of 2020 saw a wave of profit taking in overpriced stocks followed by reinvestment into sectors and shares of more "traditional" names that had been ignored during much of the value-buying frenzy.

Markets

Being that willpower is an element to any business equation, the reality of the next few quarters is that the backdrop *really is* different this time. Investors must be prepared to accept a slowing upwards trajectory in one area, while fulfilling new expectations in others. *Bear in mind, though, that unless there is a significant reorientation away from emotion and fear, and back towards fundamental analytics, there is a likelihood of slippage once again.*

Disruptive economic convulsions might take days or months to explode upon the landscape, but their repair almost always takes years in the aftermath. Associated fissures develop...in this instance, uneven distribution of deaths from the virus within certain communities...which add to the duration of the event. Some populations are well equipped to flourish during crises while others have the proverbial deck stacked against them. Inequity abounded even before the pandemic. Let's not pretend that social and economic inequality hasn't persisted for decades.

Everyone assumes, for example, that the vaccine is the "miracle cure", one whereby the disease is eradicated and things return to normal. Unfortunately, we have already seen some unevenness in the distribution of the vaccine...an issue that we hope is only temporary. Nor are forecasters predicting an immediate resumption of 2019-type economic expansion; more likely not until the latter part of 2021. Most of our data shows significantly slower growth in the first two quarters as the nation...and the globe...deals with issues of population dislocation, high unemployment, political deadlock, and emotional and financial insecurities. In other words, there are no quick fixes, nor are there any regions that are unaffected by the pandemic.

The world does not stop functioning while we lick our Covid wounds. There is much to do to enhance the quality of life including *ecology, infrastructure, personal security, healthcare, technology, education, and eradicating hunger and poverty.* While the disease may have occupied our immediate attention, the capacity to nurture our planet and our fellow citizens might have been strengthened as a result. The weakest and poorest amongst us have been disproportionately afflicted, so it will take the most able-bodied to do some of the heavy lifting initially. Corporations and nations with the resources to do so must coalesce brainpower and money to lead the way. Public and private sector alliances have always been the benchmark of problem solving in decades past, replenishing capital, supply chains, jobs.... and hope.

We believe in globalization and multilateralism. As noted, all regions of the planet have been affected by virus and economic stagnation. The virus knows no borders or political affiliation. Thus, nations and multi-national corporations must integrate their endeavors to bring our common purpose into focus....to rebuild roads, supply our hospitals, clean our air and water, feed the hungry, educate the unfortunate, and to replenish optimism through innovation and investment.

The financial establishment must also soul-search and reprioritize their persuasion over how capital is formed and used. A significant element of that task is understanding how the rotation of leadership in sectors influences the deliberateness with which people trade their affairs. Encouraging competition and fair access can close the exponentially widening gap between those who have the resources to succeed and those who aspire to participate, but heretofore have been left out of the conversation. **There cannot be a global marketplace if more than half the world's population is excluded from contribution, suffering from famine, under the siege of war, dislocated, or too poor to attempt.** Each day, those macro things which bind us as "persons" seem to be subjugated to the narcissism of the few. The world doesn't only exist during trading hours of the Dow Jones Industrial, DAX, or CAC exchanges. While the rich get richer, the poor are indeed falling further into poverty.

Overcoming those financial and social conundrums requires capital, discipline, forethought, cooperation, and patience. Our most successful portfolio investment disciplines at Alexander Capital are predicated upon *earnings acceleration driving asset prices forward*. Unfortunately, we see the valuation spikes at the end of last year as outpacing, on the whole, the ability of company's earnings expansion to sustain those lofty prices. Creating economic continuity was highly constrained in the past year by the scourge of sickness and death, yet market valuations soared across the board. This is noteworthy because customer purchasing demand was restricted and limited only to a few highly visible sectors (pharmaceuticals, technology, consumer staples). A good portion of the price increase in the financial bourses was as a result of excessive speculation and value hunting. A slower economy should actually have *restrained* market trading, but instead the old adage that "Wall Street is not Main Street" rang truer than ever. Once again, greed laid bare the gross inequality of the rich versus the poor.

We doubt that anyone facing eviction, furlough, unemployment, standing in line at a food bank, lying in a hospital bed, or mourning the death of a loved one gives a damn about anyone else's "big score" in the biotech sector....

Conclusion

If 2020 hasn't demonstrated the precariousness of life and that the future is unpredictable I'm not sure what will. Although no one can accurately envisage what will happen going forward we must be cognizant that change and luck will always play a role in creating opportunity and other ways to adapt to unforeseen extremes. One might be proven to be "correct" in hindsight, but having an effective process ahead of time, whereby decisions are made based upon data and strategy, reduces the impact (magnitude) of negative exogenous forces upon the desired outcome. This is something we believe we did most effectively for our clients *prior to* the onset of the pandemic.

There is a high correlation between low interest rates and robust equity markets. The options for investing presently, besides stocks, are few. While we would always prefer multiple alternatives to investing exclusively in stocks, conditions are sufficient to provide adequate structural safeguards against dangerous valuation pullbacks in the coming quarter. Our hope is that a new political and social dynamic will foster more robust confidence and capital investment.

Portfolio building is not wishful thinking...it is hard work. The effort one puts in *before* the crisis so that you don't have to dig out *afterwards* is the unseen and often underappreciated task. We feel reassurance in the fact that we looked into the abyss this past year and were able to rally with our assets, our lives, and our aspirations intact.

We are urging more of the same, with a strong tactical weighting in ready money early this year in anticipation of a resolution to the virus crisis and an outsized opportunity for the socially responsible themes we highlighted in this missive. We want to stress, again, that allocations into savings and cash are not a "default" decision when managing portfolios but, rather, an active and prudent way of defending against unforeseen destructive events.

A page has, indeed literally and figuratively, been turned. The markets are hungry now for initiatives that sustain and enhance the social compact, and reasons to believe that the worst is behind us.

Suggested balanced account asset allocation, Q1, 2021

Equity:	47%
Fixed Income:	15%
Cash:	38%

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