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"Ring the bells that still can be rung.
Forget your perfect offering.
There is a crack, a crack in everything.
That's how the light gets in."

—Leonard Cohen, singer songwriter, "Anthem" 1992

Dear Friends,

We always strive for these twice-a-year messages to be both informative and entertaining. Somehow, at this time, that aspiration seems like a bridge awfully far. For the moment, we are simply grateful to be where we are on the vaccine front and investment wise following a surprising year. We hope that rings a bell with you, too. As for Cohen's *light*? We can use some. Noises coming out of Washington DC, Portland and Seattle are deafening in their dissonance. Markets have been like a roller coaster which no mother would allow her child to ride. *Barron's*, a Wall Street Journal publication, put it thusly: *"We have effectively watched a full market and economic cycle happen in a more condensed period than anything we have ever seen in the past."* Bond investors still face *ten-year* interest rates starting with a decimal point. Valuations for stocks are among the highest on record which leads us to approach the market with caution much as we did at this time last year. Therein lie the cracks. Now if we can just find the light.

Thomas Alva Edison

Who else to turn to for *light* than Thomas Edison? In addition to the not-so-inconsequential invention of the incandescent light bulb, Edison was one of the most quoted fellows of his time. Among his more than 1,000 recorded quotes was… "Everything comes to those who hustle while they wait." …And the winners of the TAE Hustlers-of-the-Year award are the researchers at Gilead, Pfizer and Moderna who produced at light speed treatments and vaccines for COVID-19. The New Year is dawning with an opportunity to begin turning the tide on this deadly disease. With it will hopefully begin the process of physical, emotional and fiscal healing. A rare second TAE award goes to the healthcare workers who have treated millions of COVID sufferers at their own risk. They literally are the power that illuminated the bulbs and allowed the light to seep through the cracks. If there is a better explanation for the behavior of the financial markets in the second half of the year, we are clueless as to what it may be. Broadly speaking, consider it's likely to be up to *two years* before corporate earnings at large reach the high-water mark set at year end 2019. We are well advised to recognize that many, if not most, corporations are trading at valuations *above* where they were at the start of the year despite *lower* earnings in 2020 and an uncertain recovery into early 2022. Not much light there.

Different Decades but Same Story

Precedents are nice. They help us to put things in perspective, especially in difficult markets. Back in the year 2000 (aka Y2K), we faced a situation much like a year ago this time and yet again today. The old economy was, well, old and the new techno-economy seemed limitless. In some cases companies came public in *less* than a year after they were <u>founded</u>. Valuations were determined by those fighting to just get a few shares on the initial public offering. Today we have a vehicle called a SPAC, aka a "Special Purpose Acquisition Company." A SPAC is essentially a blind trust that empowers the promoters to find a business about which the markets will be enthusiastic and thereby inflate the value of the SPAC. Are earnings required? No. Traditional measures like free cash flow emanating from the venture (meaning more cash coming in the door than out)? No. What about managements with experience as managers of a publicly traded business? Silly investors! No. In some cases no revenues are expected for years. Bear with us here. We are not making this up. Over 240 SPACs came public in 2020, mostly all operating in the dark. As in… trust me. Suffice it to say that we are concerned about this sort of raw speculation being widely accepted in the market place.

If It Ain't Broke Don't Fix It

A year ago next week we closed our Client Letter with a paragraph entitled **2020 Foresight**. In it we laid out our case for approaching the new investment year with caution. As it turns out, we were correct to have some concerns. The investment climate *today* is a near carbon copy. There is value in revisiting our counsel from *last* January:

The last time we had a handle for a year as poetic as 2020 was Y2K. Coincidentally, the market's build up to this event was wildly speculative and resulted in what became known as the Tech Wreck: an eighteen-month bear market. Valuations were in the top decile, dividend payments in the bottom decile, venture capital and IPOs were flowing like beer at a Friday afternoon college kegger. Consider the old saying which goes… History may not repeat itself but it does rhyme. As we stare into the year 2020 with foggy glasses, it seems to be a particularly wonderful time to emulate old school disciplined investing. As in, what would Warren Buffett (who is sitting on the largest cash hoard in the history of Berkshire Hathaway) do? It's our guess he would sit on his hands and wait until the real deal comes along. As we are fond of saying, don't do something, just stand there. Works for us! Hopefully for you as well.

At the risk of sounding like a broken record, we are approaching the new year with the same strategy as 2020 for the same reasons. We were sellers in the last four months of 2020 and are positioned to take advantage of bargains the market may present in the months ahead. Dry powder is the best kind.

We leaned on songwriter and performer Leonard Cohen to introduce this letter. We rely upon him again for a close also taken from "Anthem":

"The birds they sang at the break of day,
Start again, I heard them say."

So we begin another year with more than the usual amount of bell ringing. Suffice it to say these are not ordinary times. There are cracks-a-plenty. Watch for the light! With more than the customary amount of vigor, we wish you a Happy and *Healthy* New Year.

Best regards,

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