THE CALDER QUARTERLY

January 1, 2021

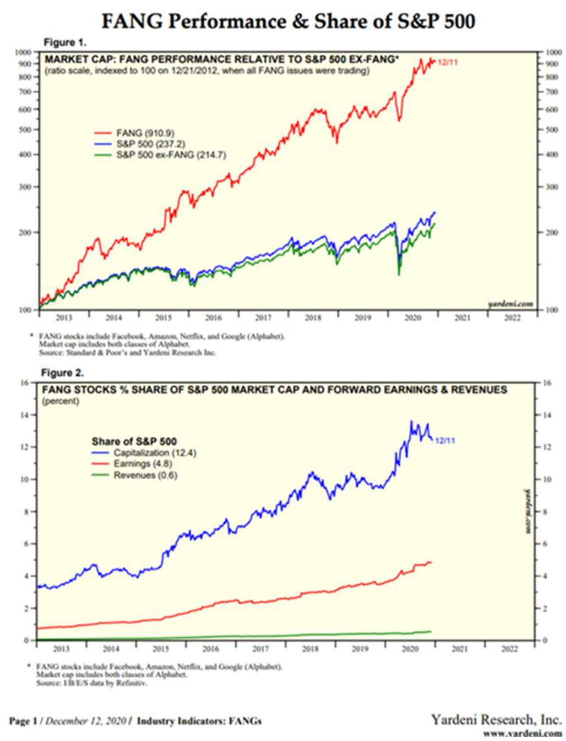
OUT WITH THE OLD…IN WITH THE NEW

Happy New Year! We are thankful for this year's opportunities and for making it thru a very challenging chapter. We are optimistic for the anticipated vaccine. We look forward to returning to a life and community that is more open, and we are excited to rebuild. We all hope 2021 is that new beginning.

In the world of financial planning, there is a calendar year reset that occurs in January. It's a new tax year. Health care deductibles reset. It is time for new contributions to IRAs, 401ks, and HSAs. We look back on the returns for 2020 and strategize for the year ahead.

By investment standards, 2020 was a rollercoaster of change and volatility. COVID-19 brought a swift decline in the financial markets. The Fed produced trillions of dollars in stimulus and markets ultimately recovered. By year end, most indexes ended the year in positive territory.

Facebook, Amazon, Nvidia, Google and Tesla led the U.S. stock market into a manic exuberance. Investment professionals and individuals alike were excited by these tech giants and about their prospects of market dominance. Let's face it, the world has changed expeditiously in the past few years. Tech companies are positioned to propel us into the future. The question is, "How much are you willing to pay for these future hopefuls?" Prices of these stocks are expensive. In fact, all other investments, globally and domestically, paled in comparison. Even the other 490 stocks that make up the broad U.S. large cap market haven't compared. Take a look at the charts on the right.



In 2020, Tesla has risen 657% and approximately 1,100% in the past 18 months. Here are a couple of numbers to stew on. Tesla market cap has increased by $500 billion in 2020. According to the market, Tesla's value has surpassed that of the nine largest car companies globally. This includes Volkswagen, Toyota, Nissan, Hyundai, GM, Ford, Honda, Fiat Chrysler, and Peugeot. To bring these numbers into context, Tesla only accounted for ~1% of the total vehicle sales in 2020 or approximately 500,000 vehicles. We are of the firm belief that those returns won't continue along the same upward trajectory forever.

We have recently been asked, "Why do we need bonds in a portfolio, especially now?" Prevailing thought is that if interest rates go up, the price of bonds will surely go down. Interest rates are almost at zero and inevitably they will go up. We have had low interest rates for a decade and near zero rates for a year. Stocks have beaten bonds 91% of the time over rolling 20-year periods. Given where interest rates are, 30-year treasury bonds still produced a total return of 18.88% for 2020. However, bonds play an important role in a portfolio's stability. When equities are bullish, the case for bonds is challenging. But when markets selloff, it is conceivable to experience a 60+% drop in a portfolio without bonds. We like to think of bonds as an insurance policy. This insurance policy also allows us to buy equities when markets sell off.

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A few salient points that we like to remind folks: we can't time the market and there isn't a correlation between GDP and equity returns. Earnings look back and stock prices are an anticipation of what the stock earnings and company growth will look like in the future. Studies of investor behavior indicate that those who try to time the market usually sell after their portfolio has plummeted and resist reinvesting at the bottom because the market decline has instilled too much fear.

So where are the opportunities today? We see an opportunity in emerging market equities that have been underperformers for several years. Specifically, we are focused on value categorized companies. For the past 10 years, we have seen a stark disparity between the returns of value and growth companies. Value names have experienced their worst decade in history. To further the pain, they have just experienced their worst 12 months in history. We see this underperformance as an opportunity to reallocate portfolios that favored domestic growth equities and shift them towards more international and value-oriented names. Regarding fixed income, we are favoring some credit risk in exchange for term risk. Currently, inflation remains tepid. Although current spreads between conventional treasuries and TIPS have widened to 1.8% in the later part of 2020, this is well below the 2% fed target. If inflation does increase, term risk will weigh more on the fixed income portfolio.

Current portfolio changes for 2021

To best position our portfolios to take advantage of where we forecast returns in the near future, we have made the following adjustments for the first quarter 2021. We exchanged our passive positions in MSCI EAFE Growth and Value for an active position in Oakmark International Value fund. We added positions in Sharepost 100, a late-stage private equity fund, and the Columbia Dividend Income Fund. We also increased our positions in Robinson Municipal Bond fund and the ATAC Rotation fund and decreased our positions in Fidelity Conservative Income.

Market Returns for 2020

S&P	18.4%
DJIA	9.72%
NASDAQ	44.00%
International	7.82%
Emerging	18.31%
10 YR Treasury	8.5%

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Market Returns for Certain Sectors in 2020

Leading US Sectors		Lagging US Sectors	
IT	42.6%	Energy	-33.4%
Consumer Discretionary	30.7%	Real Estate	-4.0%
Communications	21.3%	Financials	-3.6%

As always, we welcome any questions or comments. We wish you peace and look forward to serving you in the year ahead.

THE CALDER TEAM

You've got the entire Calder team serving you with our collective thought leadership and diverse expertise. We're here for you.

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