January 15, 2021

Dear Client,

> *It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair*. — Charles Dickens, *A Tale of Two Cities*

Arguably among the most famous opening lines in English literature, these words by Charles Dickens were first published 1859. Before the American Civil War. Before the horrors of World War I. Before the economic euphoria of the "roaring twenties" and subsequent devastation of the Great Depression. Before World War II wrought destruction on a scale never seen before. Before the nuclear age and the Cold War. Before Sputnik and then the triumph of the Apollo moon landings. Before the Iran hostage crisis. Before the hyperinflation and stagflation of the late 1970's and early 80's. Before the internet, tech boom and bust. Before the attacks on 9/11/2001. Before the financial crisis of 2007-09. Before the smart phone. Before "zooming" entered the vernacular.

Each of these events "changed the world" in their own way and, depending on where you sat, were the "best of times" and "worst of times" all rolled into one and accompanied by the deep anxiety of uncertainty. History is replete with this paradox of the human condition going back thousands of years. As has frequently been attributed to Mark Twain, "history doesn't repeat itself, but it often rhymes."

2020, of course, was no exception. COVID has been devastating to huge swaths of our economy and social fabric. What took place at our nation's Capitol on January 6th was disgraceful and shocking, and it is hard to digest the political polarization in the country.

Yet, for some reason, the stock market seems oblivious, reaching new highs as we venture into 2021. Does this make the market "good" or "bad"? The "market" is not a sentient being therefore it should not be judged with such human terms. The "market" just *is*. It is a creation of humankind which reflects the judgment of its' participants. What those participants are betting on is that we will get through this turmoil as we have throughout history. It does not mean it will be an easy ride, as 2020 showed us, but long-term, market participants are betting human ingenuity will "figure it out" on everything from political turmoil to advancing medical technology, to new ways to confront our problems (why else would a low earning company such as Tesla soar to such heights?).

We are not political analysts or pundits, rather we are stewards for our clients' financial well-being. Therefore, it is our job to navigate these paradoxes to the best of our ability. And we believe the best way to do that is with a disciplined, diversified portfolio tailored to a financial plan.

Let's turn our attention to what that meant in 2020 in a way that matters directly to you, our clients. Many of you may recall we undertook a flurry of rebalancing activity back in March as the markets were crashing with the onset of COVID lockdowns. We did as our discipline tells us – sold bonds and bought stocks into a crashing market. So, what happened next?

As measured by the S&P 500, the market's pre-COVID peak was on February 19, 2020 and then hit bottom on March 23, 2020. Since that bottom, the S&P is up 70.18%. That is the discipline of rebalancing at work. Granted this example is more dramatic than one would typically expect but it illustrates yet again that no one can predict the future.

Let's expand this analysis to your portfolios. As you review your reports and returns, you may not see what you expect over the past 12 months given the data we just presented. As you know, we take a diversified approach which means we spread out your portfolio among different asset classes, it is not all wrapped up in the S&P 500. We have allocations to growth stocks, value stocks, large and small stocks as well as US and foreign stocks and each of these asset classes behave differently. As it turns out, US large growth was by far the dominant asset class of 2020. For instance, the Russell 1000 Growth index outpaced the Russell 1000 Value index 38.49% to 2.80%. For a diversified portfolio, that's a big ouch!

The dominance of growth stocks was fueled by the post COVID boom in tech personified with the FANGAM stocks that we talked about in our July letter. Add the aforementioned Tesla to that group and you have an asset class exploding. However, as we have said numerous times in these letters, the past is one thing while the future is another and digging deeper into the data tells another story. Growth had a relative peak in late August and since August 31, the performance tide has turned with the two Russell indexes reversing so that value outpaced growth 13.40% to 6.15% to the end of the year. It's the same story looking at the other assets classes as well – small and foreign stocks, especially emerging markets, outpaced US large growth. In other words, the second half of the year was a very different story for your portfolios than the first half. The rebalancing discipline had us selling growth all through the year as clients needed cash but now, we're selling the others, keeping your portfolios on target and in line with your risk tolerance.

In other words, asset class returns for the year were their own *Tale of Two Cities* if you will. We do not think there is a better way to summarize 2020 either in the macro concept or your portfolio.

The new year has started off with added uncertainty in the world and it is important as ever to focus on what you can control. We will maintain our disciplined investment approach as we navigate through these unsettling times.

Jim, John, Richard, Mary and Ryan

22 Hilliard Street, Cambridge, MA 02138 • (617) 492-6223 • Fax (617) 492-8025