SOUNDVIEW FINANCIAL

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We seldom make perfect investment decisions. In 2009, after the Great Recession, we bought equities (stocks) very near the market low but we should've bought more rather than hedging our position. After last year's COVID crash, we added "stay-at-home" stocks but we were early with our purchase of "recovery from the recession" cyclical stocks (happily, they are now working out well). Thankfully, with your help, we have a much higher batting average.

Last year's COVID crash, which was the fastest 30% decline in stock market history, coincided with our busy spring client meeting season.[1] Despite it being a stressful time for everyone 99% of the conversations were thoughtful and non-emotional. No small feat given that they were occurring during a unique time of crisis!

Your cool-headedness allowed us to focus on the task at hand which was to do what we always want to do – take advantage of opportunity when presented and employ our investment methodology discipline of flexible, diversified asset allocation. In this case, it meant increasing technology, health-care, international growth, emerging markets and cyclical equities as well as accumulating municipal tax-free bonds in non-retirement accounts. So, give yourself a big pat on the back. As you look at your portfolio almost a year-out from those events and see the positive results of your prudence and resolve.

The reason I'm so thankful to work with investors like you is because I know successful investing is not easy for us. Over the years I've learned it is not enough to be a student of market history and understand the variables that drive markets. We must understand our behavior. The reality is humans are not ideally wired for investing. We have "fight or flight" instincts and other biases such as herd mentality (following others), loss aversion (feeling more pain from loss than joy from gain), recency bias (giving more importance to recent events) and confirmation bias (seeking out information that confirms our beliefs). All of these hinder our ability to act in a way which promotes successful investing.

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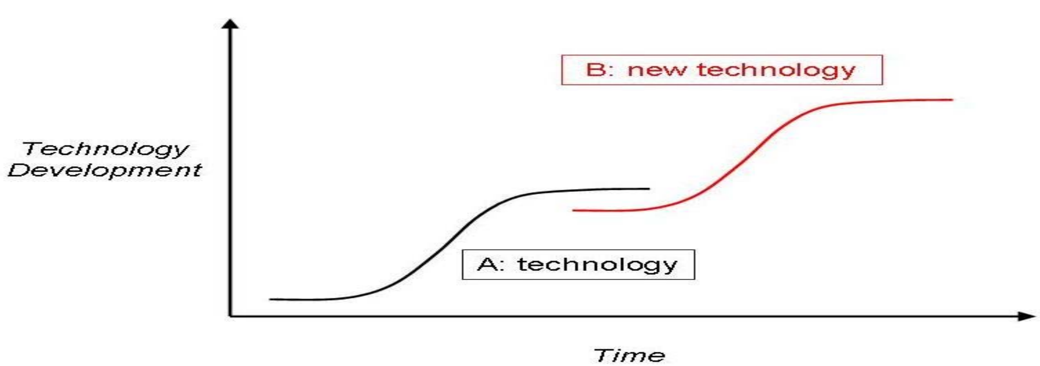
You might think if we were just automatons; emotionless, logical beings like Star Trek's Mr. Spock we'd be perfect investors always making the best choice. Unfortunately market fundamentals (e.g. earnings) are only "logical" (price determinate) in the very long-run. Remember the stock market is really just a "market of stocks." All markets with human participants can be volatile in the shorter-term. If you've ever held a Yard or Garage Sale with a much sought after item for sale you can understand this market reality very easily. Imagine having ten handymen all walk in at the same time and start bidding on that like-new, table saw you're selling. The price would skyrocket (you might also need a bouncer to keep the peace). Then again, imagine if only one fellow came near the end of the last day of your Yard Sale. What price do you think you might give him as you think about carrying that unsold table saw back into the house? Investor emotions affect market prices in the very same way.

Technically, we say the stock market has a long-tail distribution in describing this affect. Basically this means most of the time the market's average annual return is within a range but it has outlier years such as 2008 when it lost -37% and 2013 when it gained 32%. In those years especially we clearly see how our human characteristics and biases become major factors in driving the market's price movement. Investors simply don't act rationally all the time. Our challenge is to account for that and use it to our advantage.

Solomon's lament, "What has been will be again, what has been done will be done again; there is nothing new under the sun", at least partially speaks to our unchanging human behavior. We recently saw a microcosm example of this when young investors used the social media site Reddit and their Robin Hood brokerage accounts to coordinate buying which drove the stock price of the floundering video game firm, GameStop, up +1,000% in five trading days only to see it lose 90% of that gain the next five days.

Directly opposed to our consistent behavioral tendencies we have technological change accelerating at a rate unprecedented in human history. The Fourth Industrial Revolution's technologies are being used to blur the lines between the physical, digital and biological spheres. Technological growth can be graphed as a series of elongated S-curves.



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We are now in the middle area of the S-curve in which the speed of change becomes exponential rather than linear. How do we humans with our behavioral wiring shaped over prior millennia cope with this lightning-fast change? How do we deal with “nothing new” behaviorally vs. rapid revolutionary change?

F. Scott Fitzgerald said, "The test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function." That is our challenge. We overcome it using a two-pronged strategy I’ll label: 1) “past as prologue” and 2) the “better angels of our nature”.[2, 3]

Using “past as prologue” we look at what has occurred in the past as we consider the present. That is, we look at times in market history that may “rhythm” with the present situation. We look at the cold data. Here’s what we know (because it has happened already):

- The markets are in up trend
- Easy money is here to stay for a while [4]
- The government will not make the previous mistake of pushing for austerity to quickly [4]
- Consumers are in better shape now, even after the pandemic recession [5]
- There is light at the end of tunnel from COVID [6]
- Some studies have shown past stock market trading patterns similar to the past six months have been followed by higher prices three, six, and twelve months out with an average return of 22.9%. [7]
- Other studies have shown past stock market price patterns most closely correlated to the current stock market for the past year have resulted in positive returns in 74% of cased one-year out with an average return of 8.3%. [8]

The above bullet points are a small sample of the data we track. None of it is a guarantee that the markets past performance will repeat in the future. We look at history to form a baseline from which we can then compare current and future market behavior as we consider the multitude of investment assets available to us.

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Finally, we complement our “past as prologue” thinking with our “better angels” behavior which instructs us to be aware of our nature and disciplined, unemotional, and flexible in our investment approach.

We look forward to meeting with you virtually or in-person in the months ahead as we consider your specific situation and seek the very best outcomes and solutions for you.

As always, we offer a heartfelt thank you for the great privilege and honor of helping you with your financial decision making.

Kindest regards,

Bob

Robert J. Boronski, MBA, CFP©

[1] (23 trading days from Feb. 20th – Mar. 23rd low)

[2] William Shakespeare used the words, “What’s past is prologue” in his play, "The Tempest." In the play, several actors suggest that everything that has happened before (the past) has set the stage for what they felt the future should be.

[3] Abraham Lincoln in 1861 Inauguration speech which many take as meaning under certain conditions we should go beyond what comes easily or naturally.

[4] Paul Kiernan, Jerome Powell Sees Easy-Money Policies Staying in Place, Wall Street Journal, Feb. 24, 2021

[5] William Dwyer, Canaccord Genuity, Despite historic amount of debt, lower interest rates and fiscal stimulus make household debt very affordable, 3/31/81 – 9/30/20 Financial Obligation ratio mean = 16.31% now 14.27%, Feb. 8, 2021

[6] Barron’s, Vaccine Mobilization, Feb. 22, 2021

[7] www.Bespokepremium.com, Chart of the Day: Market Déjà vu, Feb. 16, 2021

[8] Kirk Report, Correlation studies remain positive, Feb. 21, 2021 sited in Bull Markets by Fundamental Capital, “Correlation”, Feb. 15, 2021

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