Hamilton-Bates
Market Update

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2020 Hindsight
There is no question that 2020 was one of the most challenging years we have faced, personally and professionally. With Covid-19 concerns and effects in front of us daily in the media, and in many of our own loved ones' houses, sorting through a turbulent market and an economy riddled with shut-downs was difficult.

Covid and its associated economic concerns seemed so intertwined with the markets that it was difficult for investors to separate them, especially later in the year as the markets began to diverge from the current situation and began to 'look ahead' to a post-Covid 2021. Yet to be successful investors that is what we must do—we must control the emotions from what may be a chaotic or even depressing situation around us, in order to make rational investment decisions for our long-term future.

Strong Market Despite a Weak Economy
US and global stocks ended 2020 with pretty strong investment results. Given how grim the outlook for the economy markets looked at the end of the first quarter, the return for the full year may be surprising, but the 2020 recession and stock market drop were unusual with the speed in which it happened (a record drop in record time), the unprecedented Fed and Government reaction, and finally in the fact that post-Covid was an eventual known (a vaccine was going to come).

To the extent that the stock market reflects the expected value of a company's *future* earnings, it is not surprising that the stock market and the economy's progress would not perfectly align, since the stock market would be expected to <u>lead</u> the economy both up and down.

However, the US economy and the stock market probably seemed completely disconnected for much of 2020 to most investors. The reason for the rising stock market, alongside unemployment at the highest level since the Great Depression, was a combination of unprecedented monetary and fiscal stimulus. This support and stimulus, along with Near-zero interest rates buoyed stock prices from the depths and provided enough strength for the market to begin to look beyond Covid once the vaccines were known to be on the horizon.

The GA Election and Blue Wave
Our overall outlook was positive for post-Election into early 2021, with some concern around the Georgia run-off elections. By and large that is what we got, with a brief hiccup right at the eve of those elections. The Dems ended up sweeping, creating a 'late breaking blue-wave' that has given the Dems control across the board. However, while there is control, the slim margins suggest (at least for now) some measure of cooperation and moderation. If it lasts it will be a positive. The market's reaction to the results suggests a belief that more stimulus is coming which will boost economic activity.

2021 Outlook
The nascent economic recovery that began in late 2020 looks to continue in 2021, with increased vaccination availability, increased economic opening, low interest rates, and further fiscal stimulus combining to support the recovery as the

year unfolds. In fact, as shocking as this may seem now, we could see 'too much growth' by mid-year that leads the Fed to consider tapering at some point. When we say 'too much growth' we mean economic growth, inflation pressures, and stock market enthusiasm. Should the Fed decide to let its foot off the gas, it could create stock market volatility later in the year.

For now, the bull trend remains intact and the election concerns have been decided. The market can now weigh the pros and cons of further stimulus and Dem control of the levers of power. For now the market has judged positively, and we expect that trend to continue in the first part of 2021. Seasonal strength lasts through the first quarter, and historical trends of past post-election years suggest any weakness will lead to higher prices in late Spring/Early Summer.

Some statistical review of Covid suggests that the infection rates should begin to drop about now, and that with increased vaccinations and treatments, we will soon see good news on that front. That, coupled with the re-opening of the economy, could be very positive in the first half. Our targets suggest 5-10% upside from current levels based on the major averages.

We look forward to a better and more prosperous 2021. Happy New Year!

Managed Portfolios

Our managed portfolios did well in 2020, declining much less than 10% in the turbulent first part of the year, then recovering for solid gains the rest of the way.

Our conservative balanced accounts returned 6-12% (depending on risk tolerance) net of fees, and growth oriented accounts have returned 15-20% net of fees. In face of a turbulent market and tough personal conditions for many of us, we feel good about how our process handled rough seas in 2020.

Individual Model Portfolio Results (Net)	
Index Conservative	**5.50%**
Index Growth	**11.57%**
Flexible Balanced Moderate	**12.19%**
Flexible Balanced Conservative	**8.70%**
Tactical Sectors Growth	**26.80%**

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S&P 500 Chart (below)

The market moved higher pretty decisively after the election, just as we thought it might. The clear push above 3600 on the S&P has provided a breakout for stock prices, which has occurred across the board with the DJIA, NASDAQ, Russell 2000 and S&P 500 all participating. There is also strength and confirmation in the Advance-Decline Line (not shown), which also suggests further bullish developments.

The S&P 500 chart below clearly shows this breakout and the key levels to watch. With the S&P above the breakout point (3550), we expect to see higher prices with a move toward 4000 in early 2020. Dips back toward the 50-day average (in blue) should be expected, and are good entry points for new capital.