

January 6, 2021

LIFE CAN ONLY BE UNDERSTOOD BACKWARDS,
BUT IT MUST BE LIVED FORWARDS.

– Søren Kierkegaard

The close of a year often moves us to reflection. With the unforeseen societal changes we have been forced to endure, 2020 is likely to bring strong emotions to the surface. All of us in the wider Cannell family had to persevere and overcome challenges we never thought we would face. Yet, as we enter the new year, there are reasons to be optimistic for our future. With the rollout of the Covid 19 vaccines globally, we can expect our lives to begin to normalize in the near future.

As we know, 2020 was tumultuous not only for our personal lives, but for the capital markets as well. The impact of the pandemic drove equity markets to extremes. The S&P 500 Index started the year by building on the gains of 2019, only to fall 34% from the February 19th market high. The rapidity of the selloff brought us the year's lows by March 23rd, only 32 days later. From that point, the S&P 500 Index fully recovered to finish the year at record highs.

Many have questioned as to why the equity markets delivered such strong returns in the face of global economic stress. As we look back, we understand why the markets reacted the way they did. Aggressive fiscal and monetary actions by governments around the world created a liquidity event the likes of which the world has never seen. Specifically, in the US, the surplus of savings created by the lockdown coupled with the stimulus totaled \$1.56 trillion (\$1.03 trillion total increase in disposable income + \$535 billion contraction in personal spending)*. With interest rates at historical lows, this tide of cash found its way into a broad number of markets.

Of these, stocks were a major beneficiary. Investors' initial enthusiasm was directed toward a narrow set of companies that looked to benefit from the behavioral changes resulting from the lockdown. Once the initial shock of the spring passed, investors turned their focus to a wider set of companies, thus broadening the rally into the fall. Finally, the beginning of a worldwide vaccines campaign has investors thinking about a return to an existence that reflects something closer to normal.

*Source: Bureau of Economic Analysis from data March to November 2020 compared to same time 2019 (New York Times 1/1/2021)

As Kierkegaard reminds us, life “must be lived forwards”. 2020 was another reminder that trying to prognosticate how financial markets will behave is a fool’s errand. In 2019’s year-end letter we were cautiously optimistic for the coming year. On balance, fundamentals were favorable for equities and we believed that if we stuck to our disciplined investing methodology, we would be rewarded. Clearly the favorable economic trends we foresaw disappeared with the onset of the pandemic. However, our focus on individual companies coupled with our emphasis on their longer-term prospects allowed our clients to finish the year having fully recovered from the depths of the March selloff. Therefore, we look toward the coming year focusing on what we can control: our investment discipline.

During this extraordinary year, our firm continued to grow. We are proud to announce the additions of Walter Giles, Portfolio Manager, and Amanda Johns, Client Service, to our Cannell family. Walter brings a unique perspective on investing, particularly in new disruptive technologies. Amanda’s attention to detail, operational knowledge and strong client relationships have enabled a seamless transition. Walter’s decades of investment experience, along with Amanda’s high level of client service, will enhance our offerings and are aligned with our foundational core values.

With this broadening of the firm’s capabilities we are continuing to evolve to meet each of our client’s financial needs. As part of this process the firm’s mission is to help enable

Generations climb the ladder of success, each with unique goals. We preserve, protect and grow what has been earned which, then, enables the next journey.

We will always incorporate past learning that has driven our historical success, while we will look to the future to ensure you will continue to be well served. We look forward to continuing our partnership with you to help you focus and achieve your financial goals.

We wish you and your families health and safety for 2021.

Sincerely,

The Partners of Cannell & Co.