

Dear Investor:

Be sure to take our 2021 Financial Highlights Quiz on Page 3! It's been such a wacky year that it seems that 2021 has gone by in the blink of an eye while at the same time feeling like it's been something like three tough years rolled into one. And while we may feel bruised in body and soul, the stock market skipped merrily along making new all-time highs and clocking a 29% total return gain for the year. All eleven S&P 500 economic sectors were in positive territory for most of the year with Energy, Real Estate, Technology and Financials leading the way.

Why are stocks still not taking a sustained breather in this very long post 2008 Great Financial Crisis bull market save for the short-lived correction in March 2020? The reasons are many but anchored by the massive amount of cash sloshing around in corporate and individual pockets searching for investment. The Federal Reserve's asset purchases have injected liquidity into the economy on an unprecedented scale from 2008 through 2020 and then doubled down in response to Covid. This has kept interest rates unnaturally low and we don't expect that the Fed's plan to stop purchasing bonds by March 2022, and increase short interest rates soon thereafter, will cause interest rates on the longer end of the yield curve to immediately rise. There is too much foreign investor interest in our treasury markets, and if there is a first whiff of our economy weakening, foreign and domestic treasury investors alike will jump in with both feet to the safety of treasuries.

### *A Picture is Worth a Thousand Words*



In addition to not worrying about interest rates at the moment, investors are also pretty dazzled, and rightfully so, by the remarkable innovations in Covid vaccinations and treatments, digitization, cloud computing, artificial intelligence, electric vehicles, and alternative energy sources. As awful as the pandemic has been, it has had a silver lining in fast forwarding a transformation of our economy to accommodate a new way of living and working. People are reassessing their lives and millions have been quitting their jobs and jumping from one company to another for better pay or benefits. But this "Great Resignation" shouldn't overlook the fact that over a million people have filed for a new business startup company. That's a record! The hot housing market as wealth creator has also been playing a large role in supporting stock prices.



*FROTH: a mass of small bubbles in liquid caused by agitation, fermentation, etc.*



Caution: Hot. Stocks are pricey. Markets don't go up forever. Eventually stocks always readjust to rational prices.

Adding to the proverbial fuel on the fire is the new crop of millennial investors that have been piling into stocks with nary a care for asset fundamentals like realistic earnings expectations, cash flow, and leverage. For them it's about the story, the momentum, and the FOMO!

Inflation is the economic conversation du jour. If it gets too high then longer-term bond yields will rise and attract money from riskier assets, and also stifle future earnings on aggressively priced stocks. But is sustainably high inflation - by high, we mean high single digits or more - possible or probable?

First, let's briefly review the demand and supply drivers for inflation over the last year. And remember, inflation is when prices go up because demand for products and services is greater than their supply. On the demand side, the government through stimulus policies, put money in people's pockets with payments to cushion the blow from the potential shutdown of the service sector. Though extra household cash had an affect on demand, the more powerful driver was the relative shift in consumption patterns away from services and towards manufactured goods because of Covid. This was and still is being exacerbated by pandemic supply side disruptions of container ships in short supply at ports, and labor shortages for loading and unloading of containers at distribution locations. The increase in demand for computers, digital games, and other tech hardwares led to computer chips being in short supply. And that led to new cars being in short supply and prices of used cars pushed to all time highs.

This demand/supply combination overlaid on the fact that GDP is fully recovered, labor markets are pretty robust, and inflation is elevated, persuaded the Fed to turn to a neutral monetary policy sooner rather than later. That is, no more asset purchases and also bringing short interest rates more or less aligned to their 2% inflation target. The Fed's transparency has had a calming affect on investors and unless inflation and interest rates rise much higher than expected, a more deadly Covid variant surfaces, or some other shock arises, stocks can stay aloft.

Here's a few tips for navigating the markets in 2022:

- Stick to your long-term plan
- Avoid portfolio leverage
- Stay patient with cash on the sidelines
- Spend less if possible
- Lower asset withdrawals by working longer or take on a part-time job

We wish you a very Happy and Healthy New Year! Stay invested but stay rational!

Sincerely,



Ellen P. Le, CFA  
President

*Happy New Year!*





## 2021 Financial Highlights Quiz

1. Meme stocks are stocks that have:
  - a) safe underlying fundamentals
  - b) low risk and volatility
  - c) been hyped by a new group of investors on social media
2. Archegos was a:
  - a) cave in Greece with computers that mine Bitcoin
  - b) a leveraged hedge firm that lost \$20 billion in two days due to concentrated bets gone wrong
  - c) a leveraged hedge fund that lost \$5 billion over one week from a Ponzi scheme by Archegos' founder
3. It was a stellar year for Initial Public Offerings (IPOs):
  - a) 835 companies went public and beat the last record set in 2000
  - b) more than 1,000 companies went public and beat the last record set in 1996
  - c) more than 1,000 companies went public but didn't beat the last record set in 2001
4. The Metaverse is a:
  - a) Facebook sponsored national poetry slam
  - b) a virtual and augmented reality space where users interact with each other
  - c) a virtual reality space where users get invited to play games and sports
5. This country is the first and only to make Bitcoin its national currency:
  - a) El Salvador, and the US dollar is also legal tender
  - b) China, and the US dollar is banned
  - c) Bahamas and the British Pound is also legal tender
6. Tesla's company share of the global electric vehicle market and its stock market value are:
  - a) to the moon and back
  - b) 15% and \$1 Trillion
  - c) 35% and \$1.5 Trillion
7. A SPAC is a:
  - a) Special Potential Acquisition Company that wraps around an underlying technology company
  - b) Special Purpose Acquisition Company that derives revenue from an underlying technology company
  - c) Special Purpose Acquisition Company that doesn't have any underlying business
8. Donald Trump created a SPAC to:
  - a) launch a social media platform called "Truth Social"
  - b) launch a social media platform called "You're Spacked"
  - c) launch a real estate company to franchise Mar-a-Lago properties globally
9. The \$1.2 Trillion Bipartisan Infrastructure Deal (Infrastructure Investment and Jobs Act) that Congress passed in November:
  - a) includes no new spending and will add about \$350 billion to the federal deficit over the next five years
  - b) includes \$550 billion of new spending and is fully paid for by the Highway Trust Fund
  - c) includes \$550 billion of new spending and will add about \$250 billion to the federal deficit over the next ten years
10. Inflation over the last 12 months ending November 2021 was:
  - a) 6.8%, which is the highest it has been since 1982
  - b) 6.8%, which was the highest it has been since the mid 1970's
  - c) 7.2%, which was the highest it has been since 1982
11. BONUS QUESTION:  
Many countries use the US Dollar but how many countries have it as their true legal tender?
  - a) Ten: United States/Belize/Ecuador/El Salvador/Greenland/Luxembourg/Nigeria/Nicaragua/Palau/Singapore/
  - b) Four: United States/Ecuador/East Timor/Zimbabwe
  - c) Eight: United States/Ecuador/El Salvador/Marshall Islands/Micronesia/Palau/East Timor/Zimbabwe



Quiz Answers:

1. c 2. b 3. b 4. b 5. a 6. b 7. c 8. a 9. c 10.a 11.c

Congratulations! If you scored 8 or more right, you are a financial guru!

Good job! If you scored 5 or more right, you know stuff!

Wow! If you scored less than 5 right, you simply are relaxed and enjoying life!



Interesting Covid Trivia....

The World Health Organization (WHO) names each variant of the Covid virus according to sequential letters of the Greek alphabet. The first 15 Greek letters are: Alpha, Beta, Gamma, Delta, Epsilon, Zeta, Eta, Theta, Iota, Kappa, Lambda, Mu, Nu, Xi, Omicron. Currently only two of these, Delta and Omicron, are determined to be variants of concern. The last variant of interest was Mu. What happened to Nu and Xi?

When the latest variant of concern was found in South Africa, the letter Nu was supposed to be applied to it. But Nu sounds a lot like new. WHO didn't want to confuse people, so it skipped to the next letter in the Greek alphabet, which is Xi. Xi sounds too much like a Chinese surname and happens to be the name of China's president, Xi Jinping. So, for the sake of global political stability, that letter was skipped also. And so, the latest variant of concern we are dealing with is called Omicron. Hopefully, Pi (Greek letter number 16) and all its followers will be of little or no concern!