The Hefter Report – December 2020

This has been a year like no other. Through no fault of their own, millions of Americans lost their jobs. Despite considerable sweat and hard work, countless businesses like restaurants, gyms and others permanently closed their doors due to the effects of widespread lockdowns. Meanwhile, front line heroes like health care workers and first responders continue to put forth a herculean effort to slow the rising death toll and suffering.

So it is with a heavy heart that as we reflect upon 2020, we take some solace in the message we have continued to share with clients since the onset of the pandemic: stay calm and don't panic. When the lockdowns began in March, we exited many cyclical stocks and began focusing on investing with managers buying innovative technology companies in areas such as cloud computing, DNA and gene therapy, artificial intelligence, and cybersecurity. As we mentioned in our prior Hefter Reports, it became a bifurcated market with the "work from home" related stocks doing well and many of the "old economy" stocks sinking as we entered into a brief but deep recession. Now that we can see the light at the end of the tunnel with the economy hopefully fully reopening as early as this summer, the rally in stocks has broadened out to many sectors. This gives us greater confidence in the sustainability of the recovery.

Today we remain invested with those managers and have added to economic recovery sectors such as leisure and entertainment, industrials, and materials as well as financials and energy to a lesser degree. On our November 11th HLM conference call, we noted that the level of fiscal and monetary stimulus is greater than the stimulus following World War I, the Great Depression, World War II, the double dip recession of 1980-1982, and the Great Recession of 2008-2009. We cited that after each of those periods, the S&P 500 had an average annualized return of 9.8% for the following 10 years.

We still believe we are in the early innings of a new bull market. There may be sharp, painful corrections along the way. But until our analysis indicates an imminent recession or end to the cycle, we remain bullish both in the US and globally.

Due to the efficacy of the Pfizer and Moderna vaccines, we believe global economic activity will return to more normal conditions by the second half of next year. With the high savings rates and low inventories that currently exist, we anticipate increasing demand for raw materials as industrial production could grow precipitously around the world. We believe GDP growth will continue to surprise to the upside and pent-up demand by consumers will combine to bring about a simultaneous global economic recovery. Given that assessment, along with a declining dollar, we expect international markets to outperform the US, which could lead us to add to foreign investments.

Currently, our least favorite asset class is cash and fixed income that is providing a negative real rate of return (less than the rate of inflation, or the annual rise in the cost of living). If you have cash positions, we would advise you to talk to us about considering alternatives including money markets, ultra-short fixed income, and stock/bond hybrids.

We at HLM wish everyone a very happy and healthy holiday season. And if you can please give to those in need.

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S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

Stocks are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Investing in emerging markets accentuates these risks.

Investments that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than investments that are more diversified.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

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