# JANUARY 2021 UPDATE

We provide composite returns for Growth, Growth & Income (a combination of "Growth & Income" and "Moderate Balanced" accounts), Conservative Balanced, Retirement Income (a combination of "Retirement Income" and "High Monthly Payout" accounts) and Closed-End Income. We present net-of-fee results in the following table. (SSB composites are in boldface.) For the sake of comparison, we also include returns for various indexes and blended benchmarks that we believe are commensurate in risk to our strategies, as well as passively managed funds-of-funds from Vanguard.

| Salzinger Sheaff Brock | Dec. 2020 | Q4 2020 | 12 Months | 3 Years | 5 Years |
|---|---|---|---|---|---|
| **Growth** | **4.5%** | **13.6%** | **23.4%** | **13.3%** | **13.6%** |
| *Benchmark (90% Lipper Multi-cap Core/10% Lipper General Bond Fund)* | *4.7%* | *14.6%* | *15.7%* | *8.7%* | *10.9%* |
| **Growth & Income** | **3.8%** | **11.7%** | **17.9%** | **11.3%** | **11.8%** |
| *Benchmark (75% Lipper Multi-cap Core/25% Lipper General Bond Fund)* | *4.2%* | *12.7%* | *15.1%* | *8.5%* | *10.3%* |
| **Conservative Balanced** | **3.1%** | **9.6%** | **12.7%** | **9.0%** | **9.6%** |
| **Closed-End Income** | **3.2%** | **11.2%** | **5.7%** | **6.8%** | **9.8%** |
| *Benchmark (60% Lipper Multi-cap Core/40% Lipper General Bond Fund)* | *3.6%* | *10.7%* | *14.3%* | *8.2%* | *9.5%* |
| **Retirement Income** | **2.4%** | **7.2%** | **5.7%** | **6.1%** | **7.6%** |
| *Benchmark (50% Lipper Multi-cap Core/50% Lipper General Bond Fund)* | *3.3%* | *9.5%* | *13.7%* | *8.0%* | *9.0%* |
| **Index** | | | | | |
| S&P 500 | 3.8% | 12.2% | 18.4% | 14.2% | 15.2% |
| Russell 3000 && | 4.5% | 14.7% | 20.9% | 14.5% | 15.4% |
| Russell 2000 ## | 8.7% | 31.4% | 20.0% | 10.3% | 13.3% |
| FTSE Global All Cap X-US@@ | 5.6% | 17.3% | 11.5% | 5.3% | 9.4% |
| Barclays Aggregate Bond | 0.1% | 0.7% | 7.5% | 5.3% | 4.4% |
| **Mutual Fund/ETF Comparisons** | | | | | |
| Vanguard LifeStrategy Growth & | 4.1% | 12.5% | 15.5% | 9.8% | 11.3% |
| Vanguard LifeStrategy Moderate Growth # | 3.1% | 9.5% | 13.6% | 8.8% | 9.7% |
| Vanguard LifeStrategy Conservative Gr @ | 2.1% | 6.6% | 11.5% | 7.8% | 8.0% |
| Vanguard LifeStrategy Income ^ | 1.2% | 3.7% | 9.1% | 6.6% | 6.2% |

Through 12-31-2020. PLEASE SEE IMPORTANT DISCLAIMER ON BACK. Returns over 12 months annualized. Notes: &&A benchmark for the entire U.S. stock market, ##Small-cap stocks. @@ Foreign stocks, including developed foreign countries and emerging markets. Style Comparisons: &A good comparison for SSB Growth and SSB Growth & Income. #A slightly lower risk comparison for SSB Growth & Income. @A good comparison for Salzinger Sheaff Brock, LLC (SSB) Conservative Balanced. ^A good comparison for SSB Retirement Income. Composites include all fully discretionary, management fee-paying including those accounts no longer with the firm of reasonable size that are substantially invested in accordance with the composite strategy or style. Returns are presented net of maximum management fees and all trading expenses, and the reinvestment of all income. Net-of-fee performance was calculated using maximum management fees. Actual advisory fees and transaction fees will vary depending on, among other things, the portfolio, account size, and activity. Fees are described in SSB's ADV Part 2A. Securities mentioned in this report may be owned by clients and employees of SSB. Past performance is not indicative or a guarantee of future results (continued on back).

Stocks ended the year on a strong upward move. While the S&P 500 gained 3.8% in December, the small-cap Russell 2000 Index performed even better, with a gain of 8.7%. Because the portfolios of most actively managed mutual funds have a smaller weighted-average market capitalization than the S&P 500, the average diversified U.S. stock fund also beat the latter, achieving a gain of 5.1%, according to the January 2021 edition of *The No-Load Fund Investor*.

For the year, with dividends the S&P 500 was up more than 18%. After struggling for much of the year, the Russell 2000 rebounded to end the year up about 20%. Despite a huge rebound over the last half of the year, most 'value' funds and ETFs produced gains on the order of 0% to 10%, while many 'growth' funds and ETFs gained more than 30%. Meanwhile, despite a strong performance from Pacific Rim markets, the FTSE Global All Cap ex-US index gained 11.5%, once again lagging broad indexes of U.S. stocks.

The big political news from early January was victory by the Democrats in both Georgia Senate races. Since this will result in a 50/50 Democratic/Republican breakdown, Vice President Harris serves as tie breaker, effectively giving Democrats the majority in this body.

This makes it easier for the Biden administration to implement its plans for fiscal policy, though the small advantage means that doing so will still be tricky. Spending will rise over the level that would have existed with Republicans leading the Senate, while certain tax rates, including on corporate profits and high-earning individuals, will likely rise as well, though the latter, especially, isn't a certainty.

In the short run, the added jolt of the government spending will likely outweigh the tax hikes, and the economy will be a little stronger than it otherwise would have been. This is probably why much of the stock market, but especially the more economically cyclical parts, has added a bit to its gains so far in 2021.

Over the longer run, however, I expect some of the new administration's proposals, if legislated by Congress, to dampen the economy's growth potential. Much of this has to do with legislation and regulation that could work to inhibit incentives to work on the one hand while increasing the cost of employing people on the other.

However, it's really too soon to tell, as obviously we don't know at this point what will become law. More generally, it's worth reminding ourselves that changes in the partisan makeup in Washington have rarely turned out to be good reasons to sell or buy stocks wholesale. While some adjustments in one's portfolio could make sense as a result of the election, getting all out of equities--or all in, for that matter--most definitely would not.

Of more importance than politics to the market's path this year will be everything having to do with the public health crisis, including the efficacy, safety and uptake of vaccines, the performance of the economy under different COVID-19 scenarios, and how much the economy "goes back to normal" in the blessed event that COVID-19 is essentially vanquished.

Here, too, it's impossible to know at this point. However, what also

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should matter is, what does the market expect? If stock prices are high in relation to earnings over the past 12 months, then investors must expect the vaccines to enable the economy to reopen, consumers to spend down much of the savings they've accumulated during the pandemic and earnings to jump, especially for companies leveraged to changes in consumer demand.

While loose monetary policy (to put it mildly), ultralow interest rates and the potential for resolution of the public-health crisis are positives for 2021, current valuations are generally negative: the broad market indexes are priced very optimistically.

At the end of December, the P/E of Vanguard Total Stock Market was 28.8, up from about 22 a year ago, based on trailing earnings for the past 12 months, according to Vanguard. Meanwhile, the growth outlook for 2021 is absolutely uncertain. Earnings growth should be better than in 2020 even with only an incomplete victory against COVID-19, but I suspect returning just to 2019 levels will be difficult even under more positive scenarios for public health.

In an absolute sense, 28 is a very high P/E for the broad stock market, even if earnings increase by 20% or so for the year. I start to get nervous about the market's P/E when it hits and then exceeds 20. (The higher it gets above that level, the more nervous I get.) However, when inflation and interest rates are low, the market's natural P/E has been higher than average. So, while 28 on trailing earnings is high for the total market index, it isn't quite so stratospheric as to be a strong sell signal, given the fair, or better, likelihood that vaccines against the novel coronavirus will allow much of the world to get back to what might pass for normal in 2021.

If the stock market had risen less in 2020, I would not be as concerned for 2021. The issue I have is the market has reacted as if the vaccines will conquer COVID-19. In other words, the market already "discounts" excellent future news.

As an adviser who cares about risk as well as return, I want to balance the accounts such that they reflect the possibility both of a potentially prosperous future and a more difficult 2021 than the market seems to expect.

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Thank you for your interest in Salzinger Sheaff Brock (SSB), the only source of personalized money management by me,

**Mark Salzinger**
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