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January 20, 2021

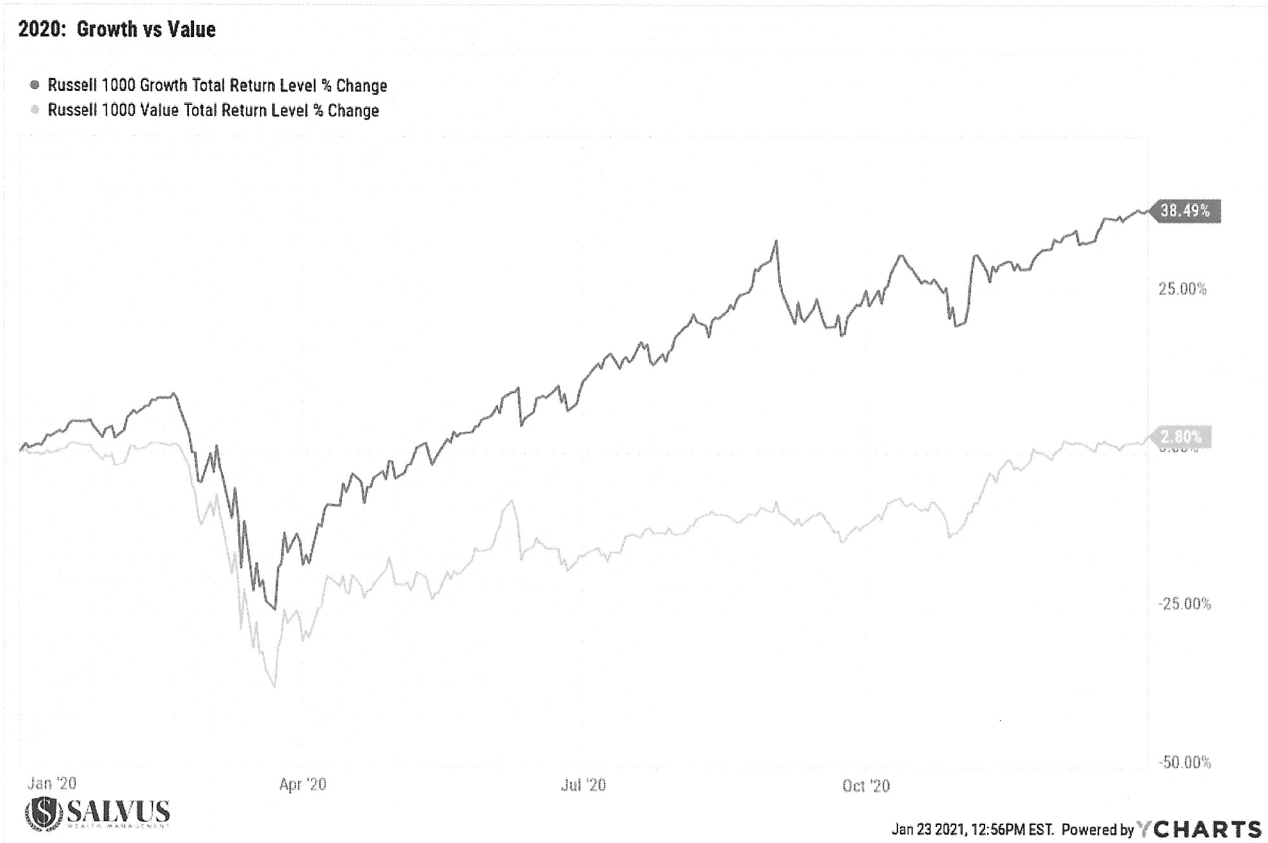
"Well, that was weird." – Walter Hobbs, Elf 2003

Dear Clients and Friends,

With just a few words, the line above from the movie Elf sums up last year quite well. As we mentioned in our letter to you last summer, it is very difficult to describe just how strange 2020 was for us all. How could anyone have seen the rapid worldwide spread of COVID-19, the shuttering of so many global economies, the unfathomable number deaths and hardships, the change in social behaviors and then the amazing scientific heroics of creating new and hopeful vaccines at breakneck speed? Add in the insanity before and after our presidential election and the extreme movements of the markets and you have one heck of a weird year. Even as we acknowledge the difficulties and sufferings of many in our society, we will focus our thoughts in this letter on the markets and investment ramifications of last year.

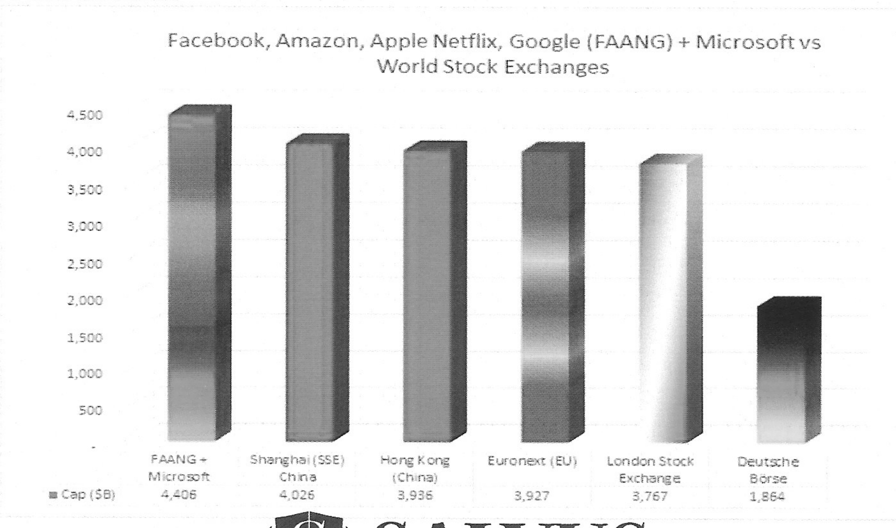
When the reality of COVID-19 gripped the world last February, the markets began to react violently. After modest returns in January and early February, the S&P 500 plunged approximately 33% between 2/19/20 – 3/23/20. Amazingly, the bond market decline was even more stunning. The 10 Year U.S. Treasury dropped 66% to its lowest level ever between 2/12/20 – 3/9/20. Then, the equity markets began to recover. Beginning in late March, many stocks started making rapid comebacks. Technology-oriented stocks led the rally as the S&P 500 finished the year with a positive return of 18.4%. Bonds, however, remained beaten down with historically low yields despite a small recovery late in the year.

Although the equity markets declined across the board during the spring of last year, the severity of the declines were very different depending mainly upon the characteristics of individual companies. Many technology-focused companies had no decline and, instead, experienced outstanding returns. In addition, many healthcare, biotechnology and communications oriented businesses performed quite well, while basic industries such as energy, banking and travel suffered large declines. In more broad terms, growth stocks significantly outperformed value stocks in 2020. As illustrated below by the Russell 1000 Growth Index compared to the Russell 1000 Value Index in 2020, the divergence of these returns was very large. The index of growth oriented stocks returned over 38.5% last year, while value oriented stocks only managed a return of 2.8%.



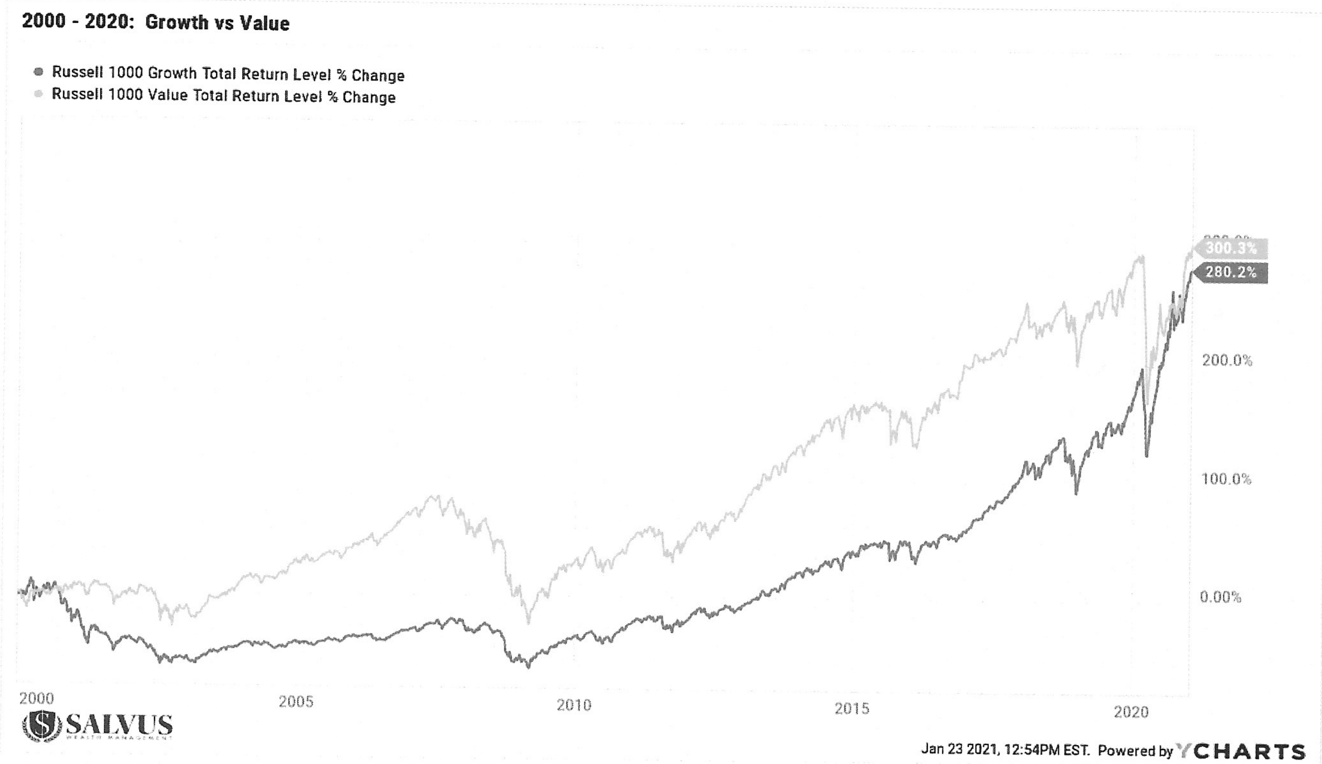
As mentioned above, the significant outperformance of growth stocks was driven by only a handful of the largest technology stocks that are household names. Amazingly, just six stocks (Apple, Amazon, Tesla, Microsoft, Nvidia, and Paypal) accounted for 60% of the return of the NASDAQ 100, a composite of the 100 largest companies that trade on the NASDAQ Exchange. Primarily because of these stocks, this index returned an incredible 48.9% last year.

To further understand the size and impact these few stocks had on the markets, the so-called FAANG+Microsoft stocks now account for over 25% of the S&P 500 Index and are worth a combined $4.4 Trillion in value. As the chart shows below, these six stocks have grown so large they are bigger than most countries' entire stock markets.



We believe that the recent domination of these technology companies along with the great disparity between their stock market performance and hundreds of other stocks that have languished is an important topic to discuss. There is little doubt that these businesses have grown so large because they have ingrained themselves into many aspects of our daily lives. Who has not ordered something from Amazon on their iPhone during the pandemic (probably while watching Netflix and doing a Google search)? While these businesses certainly deserve to trade at premium prices, why have the stock prices of many other critically important businesses lagged? The question becomes how much is too much and is it possible that these stock prices just keep going up forever? History would say not.

In fact, growth stocks in general have not outperformed value stocks over longer periods of time. If we look at the chart below, we see that value stocks have actually slightly outperformed growth stocks over the last twenty year period. We believe it is significant to recognize and understand in order to contemplate future investment decisions. Recent extreme outperformance with a small group of stocks does not suggest that it will last forever. Historic probabilities would tell us that these growth and value stocks will revert back to their mean at some point, meaning that performance will move back towards more normal levels.



The good news for our clients is that we are never forced to pick between these universes of stocks. We can, and do, invest in all. We place our capital with some managers who have a bias towards value stocks and some who prefer growth stocks. Many managers actually prefer both.

We recognize that those managers who select more value stocks have typically underperformed the markets over the last several years, while those who have favored growth probably kept up with or beat the markets. Understanding how and why managers select stocks appropriate for their strategies is critically important in evaluating how they are performing and if they are adding value. Underperformance for certain periods of time is understandable, just as outperformance is as well. It is just necessary to understand what drove results. Chasing strategies that are hot and avoiding others that are cold may help boost short term performance, but it is more likely to place a portfolio in exactly the wrong position at the wrong time. Instead, we prefer to have a balanced approach focused on long term results tailored to each client's unique situation.

Thank you again for your continued support and confidence and we look forward to writing to you next over the summer. Until then, we wish you and your families continued health and prosperity.

Best regards,

Bob

Robert W. Joel, CFP
Chief Investment Officer

Chuck

Charles T. Woolston, CPA
Chief Executive Officer