Goldman Lancaster , Inc.
A Registered Investment Advisor

THE FOUNTAINHEAD(?)

HELPING BUSY PEOPLE MAKE SMART FINANCIAL DECISIONS

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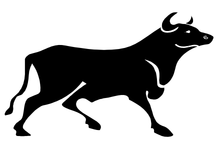
Fourth Quarter Summary

Winter 2021

The forceful rise of the markets from the March depths continued through the fourth quarter. After stalling out in early Fall, November finished as one of the all-time best months with the stock market accelerating from vaccine optimism and getting past the election uncertainty. From the March lows, the S&P 500 Index of large company stocks, the Russell 2000 Index of small company stocks, and the tech-heavy Nasdaq Composite were up 71%, 94%, and 104%, respectively. The 4th quarter standout was the Russell 2000 sporting a flashy 31% return. Investors are obviously betting that, as usual, smaller companies will lead the expected economic rebound. Developed foreign and emerging markets were also on a strong upward trajectory. In the fixed income market, rates increased on the 10-year Treasury but remained flat to down everywhere else. In fact, real yields on U.S. investment grade corporate bonds turned negative for the first time in history, reflecting the combined effects of extremely accommodative monetary policy and firming inflation expectations. While spreads between high and low quality bonds started 2020 in serene fashion, the COVID-driven market crisis caused them to widen dramatically in the first quarter. Spreads almost tripled for lower rated bonds. Given the worries about issuer default and a full-fledged market meltdown, that was not surprising. What is surprising is how quickly the fear factor faded with spreads returning almost to pre-crisis levels. Average yields on junk bonds are at a new all-time low. While that can be partially explained by a quest for yield in a low interest rate world, it's also undeniable that the Federal Reserve's pledge to backstop that market has had a significant impact. (Moral hazard?)

Looking forward 12 months or so, it's difficult to be negative about the U.S. markets. The Federal Reserve is expanding the money supply like crazy and a more unified Congress is eager to pile on the stimulus. President Biden has called for a massive $1.9 trillion relief package. If the vaccine rollout is successful this year, and that's a big "if" considering the initial ineptitude, growth might be well above trend. (Goldman Sachs estimates 2021 GDP growth to be in the 9% range.) Combine the free money floating around with a pent-up demand for many services, and that could easily add up to a Roaring 20s style boom time. All of which is a recipe for big improvement in corporate profits after 4 consecutive quarters of decline. Consequently, the industry consensus is that earnings are likely to grow solidly throughout the year. If that happens, stocks should then be able to grow into their lofty valuations.

Of course, the market environment won't always be this favorable. At some point we'll need to put the genie back in the bottle. That means painful adjustments like removing stimulus from the markets, shrinking the Fed's balance sheet, increasing the Fed Fund's rate, raising corporate and personal income taxes and other moves to get our fiscal house in order. While the Government has made it fairly clear that this will not occur until a later date (likely 2022-2023), at some point investors will probably start worrying and that could lead to more challenging markets.



4th Quarter Summary

Total Return %

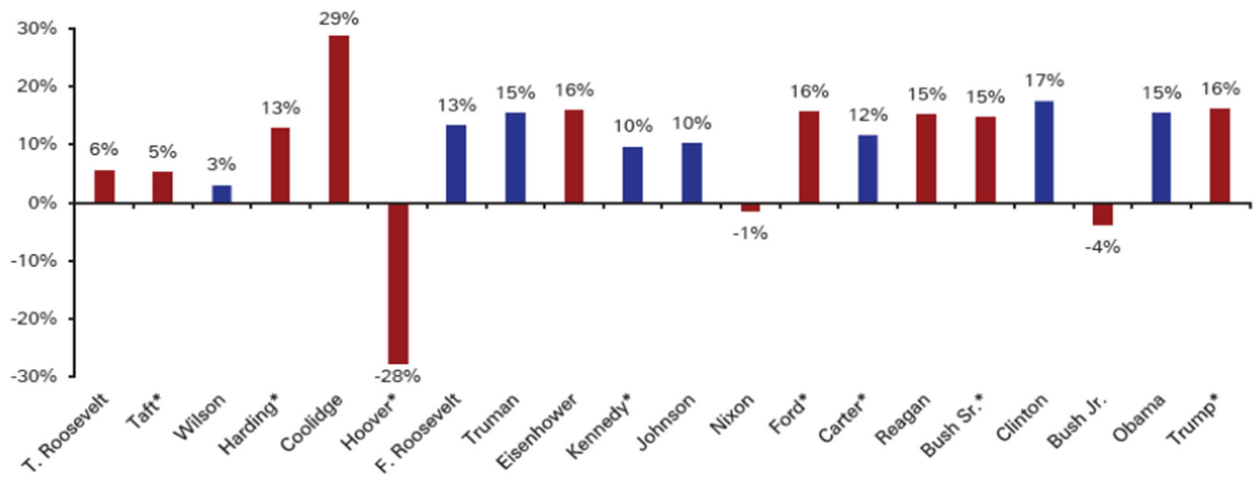
	3 month	12 month
S&P 500	+12.2	+18.4
Nasdaq Composite	+15.6	+44.9
Russell 2000	+31.4	+20.0
MSCI EAFE	+16.0	+7.8
MSCI Emerging Markets	+19.7	+18.3
Barclays U.S. Aggregate	+0.7	+7.5
Barclays High Yield	+6.5	+7.1

Treasury Bond Rates	12/31/20	12/30/19
2 year	0.13	1.58
10 year	0.93	1.92

Source: US Treasury, LPL Financial Research) Indices cannot be invested into directly.
Past results are no guarantee of future performance

Historical Returns per Presidential Party

Figure 1: Annualised S&P 500 performance by President (total return basis)



Source : GFD, Deutsche Bank
*Note: * for those Presidents who served 4 years or less*
Daily S&P total return data only available from 1988. Here we started at inauguration. Before that, nearest month to inauguration used.

Based on recent client discussions, I can tell there is a great deal of angst regarding which political party controls the White House. Just my judgement, but I don't think it matters that much. I do think that the best political outcome is a divided government. (Based on what's happened over the past 20 years when one party has been in control, an impotent government seems the safest to me.) However, that's not our future for at least the next 2 years. But really, so what? Historically, the party occupying the White House hasn't had a meaningful impact on broad stock market performance. Of course policy matters, but larger economic forces are much more influential and businesses are very good at adapting to different political environments. Having a regulatory system where it's easier to start or run a business can make a big difference in people's lives, but the policy impact on markets, which are driven by huge companies, tends to be more focused.

- Relevant to our current situation, notice that no Democratic president has presided over a total return decline in the S&P 500 over the period covered above. Could that be a positive signal when it comes to the Biden presidency? Probably not, but it's certainly no reason to assume the worst either.
- Like him or not, stocks did very well under President Trump, the best for a Republican president since Calvin Coolidge. 126 new highs were made, the most since Bill Clinton whose presidency coincided with the dot com bubble.
- On average, the stock market has performed stronger under Democratic presidents than Republican. But, I'm disinclined to think it's due to the superiority of the economic policies of Democratic presidents. More simply, it looks like bad timing for the Republicans. Tthe U.S. had Republican administrations when the 2020 pandemic hit, the period between the peak of the dotcom bubble and the GFC lows (Bush Jr.), when the 1973 oil shock occurred (Nixon), and during the Depression (Hoover).
- Herbert Hoover is by far the worst on stock market performance. No one else is even close. He had the misfortune of presiding over the 1929 Wall Street Crash and then a sustained period of stock market declines amidst the Great Depression. Of course, he certainly made things worse with clumsy policies.

Based on history, President Biden's success in stock market terms will be determined as much by luck as policy. However, his 4 years have gotten off to a very good start with the S&P 500 hitting another record high and up 14.3% from election day to the inauguration. As citizens, we get the political leaders that we deserve. It's very easy to be worried in the current environment, but it's generally a mistake to bet against the American economic juggernaut.

I Actually Read it Somewhere

Bret Stephens
"We also need to think about why we are burdening college students with mountainous debt in exchange for increasingly useless college degrees. B.A. now stands for Bankruptcy by Arts. The best thing that could happen educationally is an investment in community colleges that enhances their value, rigor and prestige."

LA Times 12/2/20
State investigators have so far identified $400 million paid on some 21,000 unemployment benefit claims improperly filed in the names of California prison inmates. Over $400,000 to death row inmates. Meanwhile, according to Jim Neilson (R-Gerber) hundreds of thousands of legitimate claims have yet to be processed.

Advisor Perspectives 12/23/20
In 1898 delegates from across the globe gathered in New York City for the world's first international urban planning conference. One topic dominated the discussion. The delegates were driven to desperation by horse manure. The horse was no newcomer on the urban scene. But by the late 1800s, the problem of horse pollution had reached unprecedented heights. The growth in the horse population was outstripping even the rapid rise in the number of human city dwellers. American cities were drowning in horse manure as well as other unpleasant byproducts of the era's predominant mode of transportation: urine, flies, congestion, carcasses, and traffic accidents. The situation seemed dire. In 1894, the Times of London estimated that by 1950 every street in the city would be buried nine feet deep in horse manure. One New York prognosticator of the 1890s concluded that by 1930 the horse droppings would rise to Manhattan's third-story windows. A public health and sanitation crisis of almost unimaginable dimensions loomed.

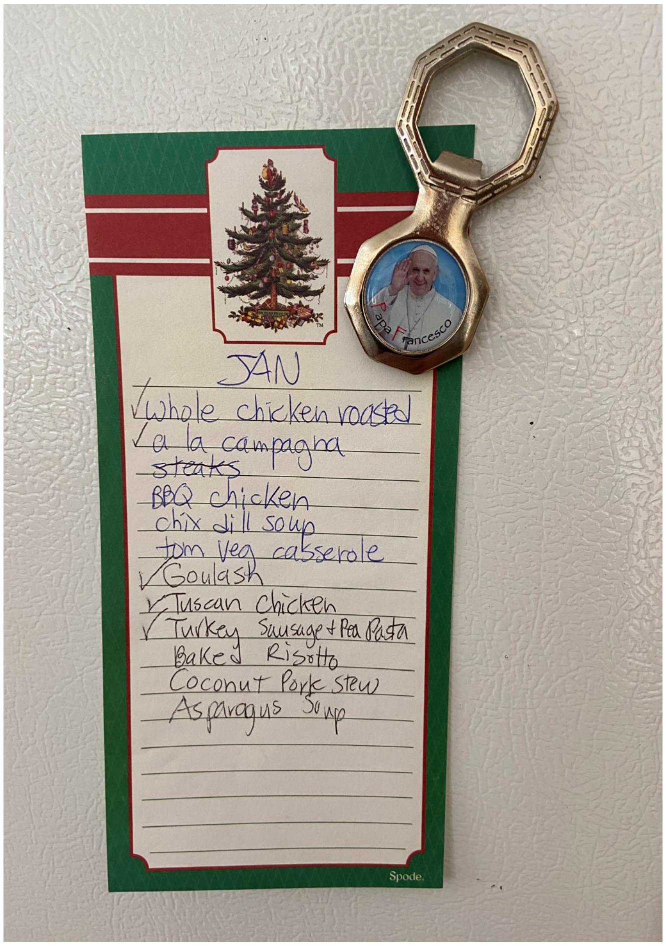
Jeremy Grantham
"As a Model 3 owner, my personal favorite Tesla tidbit is that its market cap, now over $600 billion, amounts to over $1.25 million per car sold each year versus $9,000 per car for GM."

Things That Probably Only Brad Cares About

The Little Princess and I are strong proponents of Adam Smith's specialization of labor principal as a way to optimize household output. We each stick to our own area of expertise and defer to the other for everything else. Furthermore, I've persuaded her that, to be truly optimal, we need to think in terms of "comparative advantage" as elucidated by David Ricardo in the early 19th century. So, even if the Little Princess is better than me at everything, which she certainly believes, we're better off as a household if she concentrates on her particular areas of expertise and leaves things in which she has relatively less "superiority" in my fumbling hands. In practice, that means she makes all of our decisions regarding the arts and anything to do with ancient Rome. Her "superiority" in those two areas is vast! By default, and consistent with the principal of comparative advantage, I'm in charge of matters relating to economics and finance. Not because I'm necessarily better, but because she's less superior to me in those areas than is the case with the Roman stuff. Since economic decisions permeate the political theater, I'm also the guiding hand for our collective voting decisions. As an economist in the classical liberal tradition, I'm a libertarian. Consequently, my "recommendations" are often in conflict with her socialist upbringing and academic leanings. However, she swears that she sticks to my prepared script in the voting booth. Since legend has it that every lasting relationship is built on a foundation of trust, I must accept her assurances.

One area, outside of the arts or the Romans, in which she is clearly superior to me, is household organization. Working in academia for years, Maureen is the consummate bureaucrat with nonpareil organizational skills. She has a list for everything. Enormous grocery lists with meals planned weeks in advance, lists for work and leisure and travel and even a fanciful list of household projects that she thinks I'm eventually going to get around to doing. I'm grateful because the plethora lists enhances the quality of my life. It's clearly a case where specialization of labor improves outcomes. If it was left to me, we would be without lists and every meal would be a crisis.

Planning the Last Part of January



See what I mean? This isn't just comparative advantage. This is outright superiority. Tastes great, too! If we depended on me, dinner would often be a handful of nuts and going to bed hungry. Also, note the pope bottle opener acquired at great expense and in large quantities during her last visit to the Eternal City. Francis, who I think can be more than a touch sanctimonious, appears to be giving us his blessing.

Business Philosophy

Our objective is to make working with us a pleasant as well as rewarding experience

..# We take our responsibilities seriously

..# We return calls promptly

..# We're nice when someone does call

..# We don't lie or mislead

..# We do what we say we're going to do.

..# We're knowledgeable and current in our discipline

..# We admit (infrequent) mistakes and do our best to right the wrong

..# We listen to suggestions and take them seriously

..# We work in your best interest in the most straightforward and transparent way possible

Thank You ! !

Special thanks to the following people for referring their friends, family and associates

Nancy & Rick Glass

Jeff Dahl

Please notify me in writing if you would like a hard copy of our full ADV part 2A brochure or if there are any changes to your financial situation or investment objectives

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