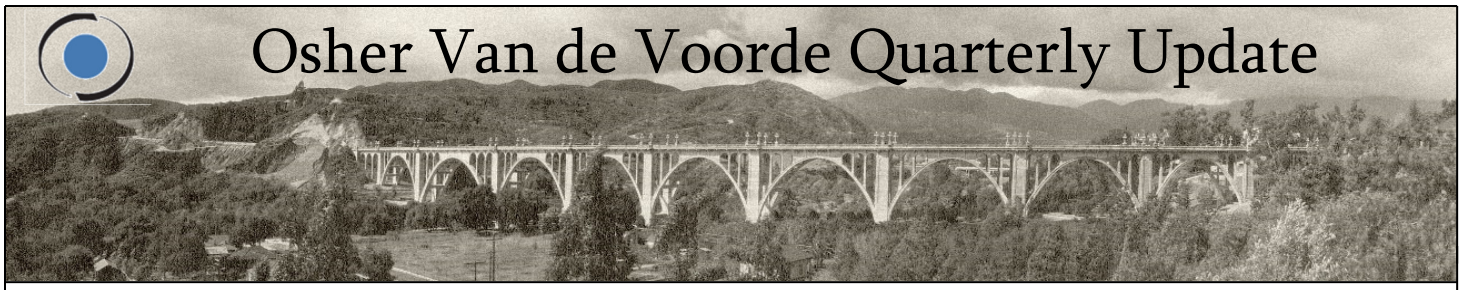
Osher Van de Voorde Quarterly Update



Outlook 2021

January 2021

Despite a worldwide pandemic and subsequent rolling shutdowns across the global economy, the stock market managed to deliver spectacular gains in 2020. The S&P 500, Dow Jones Industrial Average and NASDAQ Composite rose 16.26%, 7.25% and 43.64% respectively for the year. More impressive than these absolute gains was the manner in which the stock market ferociously roared back from the depths of last March's "coronavirus crash." One of the swiftest bear market declines in history has been matched by one of the greatest recoveries of all time.

To understand why the markets have been able to sustain such a remarkable rebound, one need look no further than the unparalleled fiscal and monetary stimulus ushered in by Congress and the Federal Reserve. With over $4 trillion pumped into backstopping the economy and interest rates pegged at rock bottom lows, the government cavalry clearly came to the rescue. Moreover, the Fed intends to continue buying "at least" $80 billion of Treasuries and $40 billion of agency mortgaged-back securities "until substantial further progress has been made toward the Committee's maximum employment and price stability goals." In keeping with their new policy to target *average* 2% inflation over time, the Fed has also telegraphed its intention to keep the current 0% to 0.25% Fed Funds target rate extended through the end of 2023. Further, with Kamala Harris now the tie-breaking vote in the Senate, there seems to be a clear path for President-elect Biden to enact even larger fiscal stimulus measures in the coming weeks. As we wrote about in our last quarterly newsletter, the new "gov put" is here and markets are responding accordingly.

With otherwise "safe" fixed income instruments (treasury, corporate and municipal bonds) and money market alternatives sporting negative real yields, investors have been forced to climb the ladder of risk to obtain any worthwhile return on their investment. It should come as little surprise then that the combination of abundant liquidity and 0% interest rates provides perfect fodder for froth and potential valuation excess. While admitting that we are tempted to call "bubble" on certain corners of the market, we also recognize that stocks (particularly those that generate steady growth of cash flow and predictable dividend growth) should be worth more in such an environment. There are numerous tell-tale signs of a bubble-in-the-making or potential melt-up that should give us pause as we embark on the coming year:

- Momentum investing, buying shares that have risen sharply while dumping losers, continues to gain traction as a bonafide discipline. More stocks with a market value of at least $100 million gained over 400% at their yearly peaks in 2020 than in any year since 2002. Perhaps the posterchild of momentum investing, Tesla gained over 700% in 2020 and now sports a market cap approximating $800 billion and a forward PE ratio of 200x. The old adage "buy low, sell high" seems to have been replaced by "buy high, sell higher."

- There are now 13 million active users of the Robinhood trading platform with over half signing up during 2020. Robinhood has become a very popular app for millennial investors who want to trade in smaller quantities, including fractional shares and cryptocurrencies, and who require little research beyond seeing what others are buying and selling. Markets experienced a similar surge in interest by novice individual investors during the dot-com bubble. For comparison, E*Trade has just over 5 million customers while the newly merged Schwab/Ameritrade serves 26 million customers.

- Companies raised a new record $167.4 billion through 456 initial public offerings on U.S. exchanges in 2020, shattering the previous record of $107.9 billion at the height of the dot-com boom in 1999. Over half of all IPO funds raised came through special-purpose acquisitions vehicles (SPACs) that raise money through new listings and then look for businesses to merge with. There were 248 of these so called "blank check" companies that went public in 2020, more than half the number of all IPOs for the year.

- Options volume jumped to the highest level on record with over 30 million contracts traded per day, up from 19 million contracts per day in 2019. Options have typically been the domain of expert traders and allow investors the ability to bet on directional moves in stocks and indices, often short-term bets that are cashed out within hours or days.

- Sentiment is becoming increasingly bullish. A recent Bank of America fund-manager survey revealed that optimism for stocks has risen to its highest level since January 2018 and fund managers have reduced cash holdings to 4% of total portfolios on average, the lowest level of cash since just before the pandemic. Meanwhile, the AAII Investor Sentiment Survey indicates 54% considered bullish and 26.6% considered bearish. By comparison, in May of 2020, 52.7% of all AAII Survey respondents were bearish.

- Net equity exposure for hedge funds has risen sharply to approximately 51%, compared to a long-term median of 48% net long position in equities.

- Cryptocurrencies such as Bitcoin have exploded to the upside. Indeed, Bitcoin enjoyed an impressive 260% increase in 2020 and has advanced 900% since 2018. While there remains the possibility that Bitcoin or the digital blockchain platform upon which Bitcoin trades will someday become integral components to global finance and currency trading, Bitcoin is backed by no underlying asset or government and ultimately worth only what one is willing to pay for it. As we entered the new year, Bitcoin showed no signs of slowing down and managed to trade 180% higher than its average price over the last 200 days, three times as high as the NASDAQ 100 ever reached during the peak of the dot-com bubble.

- Combining two of the hottest 2020 trends, cryptocurrency and SPAC IPO, Intercontinental Exchange (parent of the NYSE) will take its cryptocurrency venture public by merging it with a special-purpose acquisition company, CPC Impact Acquisition Holdings.

- Anecdotally, we have observed more speculative stock tips from novice investors since the dot-com bubble. Just as it was a great signal to sell in 1929 when the shoeshine boy offered stock tips, it's now your Uber driver.

While there can be no denying that these signs all point to rampant speculation, we do not currently see any obvious reason, other than valuation, why the party will imminently end. With vaccine production ramping up, the U.S. economic recovery likely to gain steam at the back end of 2021, massive Fed stimulus with continued quantitative easing and 0% interest rates, and additional fiscal stimulus expected under the Biden administration, the underpinnings are conducive for risk assumption. Interest rates have been on the rise with the ten-year Treasury back above 1% - the pace at which rates rise will bear watching as a potential catalyst for correction.

Even as institutional fund manager cash levels have dropped to pre-crisis levels, there remains approximately $5 trillion invested in retail money markets overall. Further, with record debt issuance and pandemic-induced cash preservation measures, U.S. companies are sitting on the largest pile of cash in history, up nearly 40% in 2020 to over $2.5 trillion. Stock buybacks are poised to rebound sharply in 2021 and we maintain that investors will continue to buy the inevitable dips.

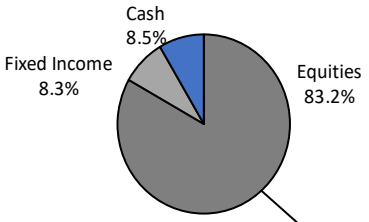
We expect additional volatility in 2021 and further expect a very typical yet painful correction to materialize at any moment, yet we also expect the decline to be especially pronounced and maybe even segregated to the aforementioned most speculative corners of the market. We further expect that our stable of scarce, high quality companies that consistently buy back stock and predictably raise their dividend will continue to deliver worthwhile total return.

With earnings expected at $170 for 2021 and $195 for 2022, the S&P 500 trades at 22x expected earnings for 2021 and 19x forward earnings for 2022. A range of 20x to 25x seems reasonable in this environment and supports a valuation range of 3,400 to 4,250 for 2021 and 3,900 to 4,875 looking out to 2022.

Investment Strategy Summary

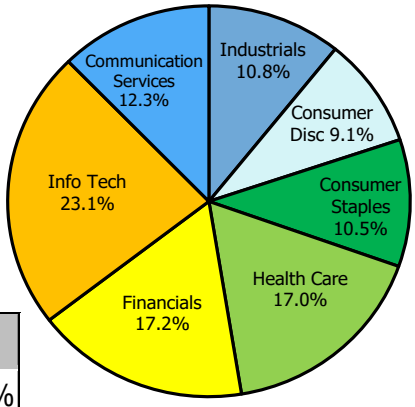
As of December 31, 2020

Firmwide Asset Allocation



OVIM Equity Composition	
International Core	9.6%
U.S. Core	90.4%

Equity Sector Allocation

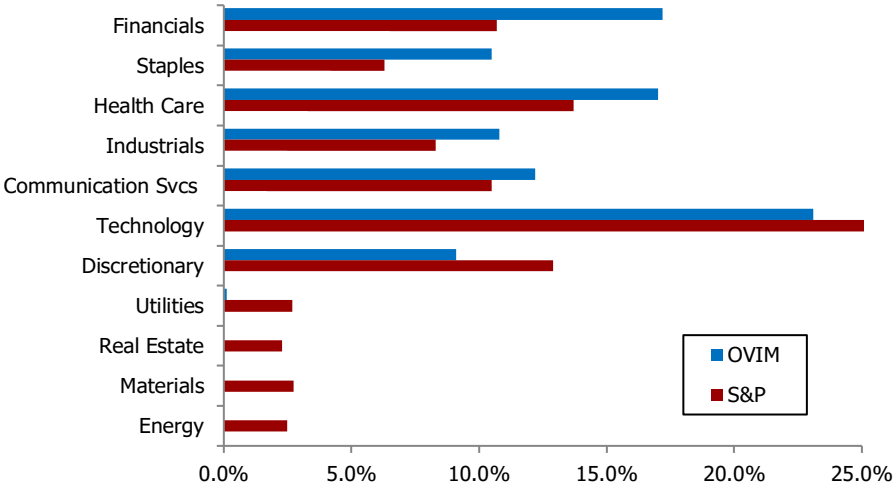


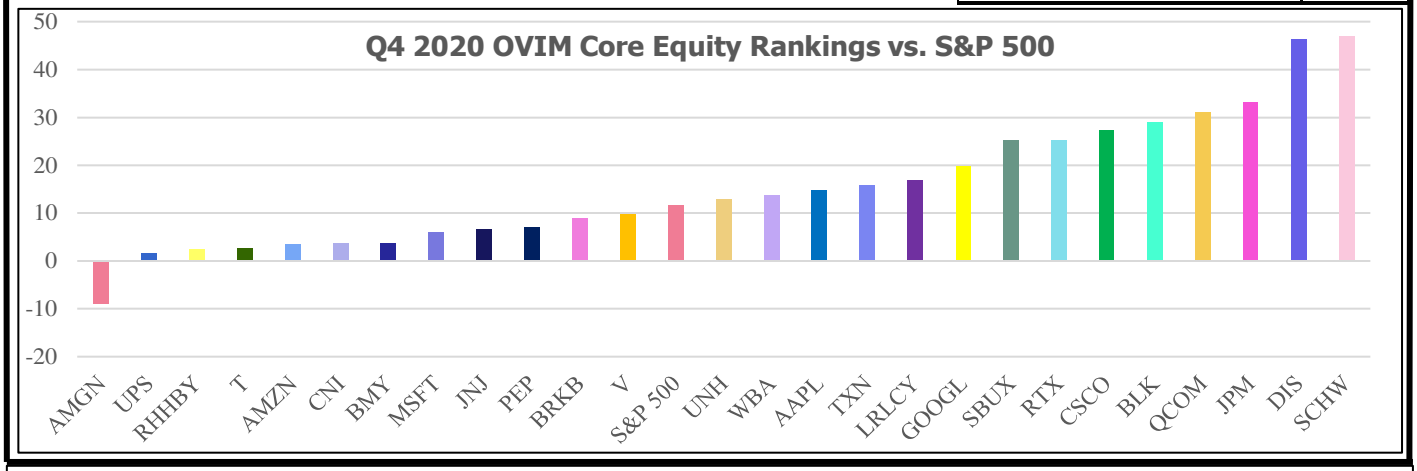
Top Core Global Equity Holdings

BlackRock Inc.	BLK
Walt Disney Co.	DIS
Qualcomm, Inc.	QCOM
Charles Schwab Corp.	SCHW
Starbucks Corp.	SBUX
Amazon.com Inc.	AMZN
Alphabet Inc. Class A	GOOGL
United Parcel Service Inc.	UPS
JP Morgan Chase & Co.	JPM
Apple Inc.	AAPL
Texas Instruments Inc.	TXN
Berkshire Hathaway "B"	BRKB
UnitedHealth Group Inc.	UNH
Cisco Systems Inc.	CSCO
Pepsico Inc.	PEP
Bristol-Myers Squibb Co.	BMY
Walgreens Boots Alliance Inc.	WBA
Microsoft Corp.	MSFT
Visa Inc.	V
Raytheon Technologies Com.	RTX
Johnson & Johnson	JNJ
L'Oreal ADR	LRLCY
Amgen Inc.	AMGN
Canadian National Railway Co.	CNI
Roche Holding AG	RHHBY
AT&T Inc.	T

Sector Weightings Relative to S&P 500

Ranked by Largest Overweight





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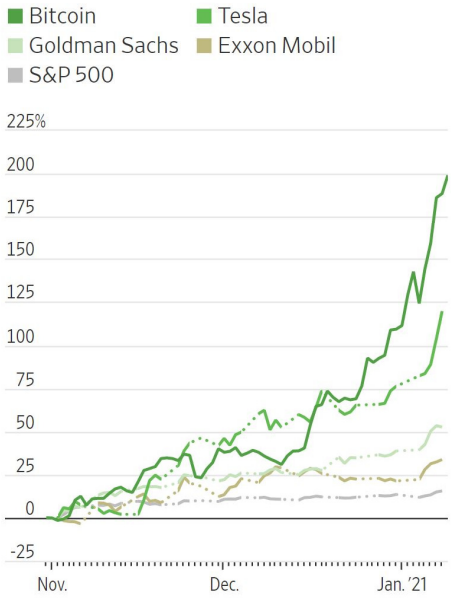
The S&P 500 Index or the Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P 500 is a float-weighted index, meaning company market capitalizations are adjusted by the number of shares available for public trading. Note: Investors cannot invest directly *in an* index. *These unmanaged* indices *do not reflect management fees and transaction costs that are associated with most* investments.

Charting the Markets

Market Mania

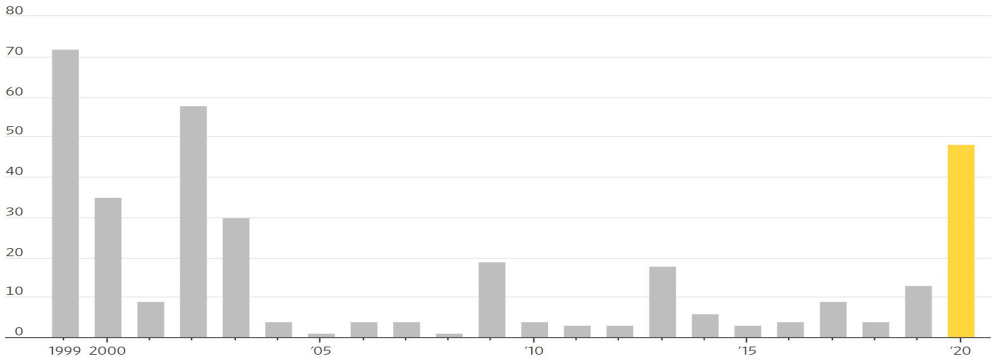
Stimulus-era favorites like Tesla and cryptocurrency bitcoin have rallied alongside reflation-trade stocks.

Share price, index and digital-currency performance



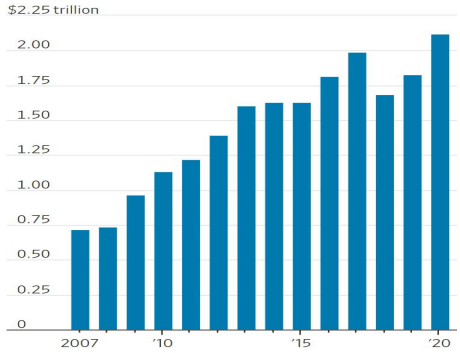
Sources: FactSet (indexes, stocks); CoinDesk (crypto currencies)

Number of stocks up at least 400% at yearly peak



Note: Among stocks listed on NYSE, NYSE American, NYSE Arca and Nasdaq exchanges with a market value of at least $100 million as of the previous year.
Source: Dow Jones Market Data analysis of FactSet data

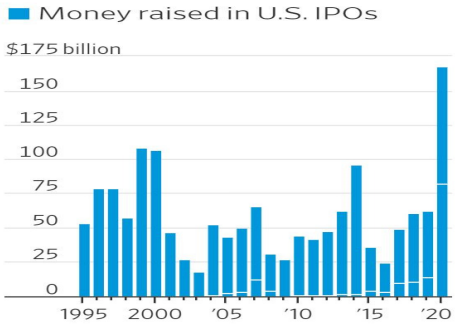
Total year-end cash holdings at U.S. nonfinancial companies



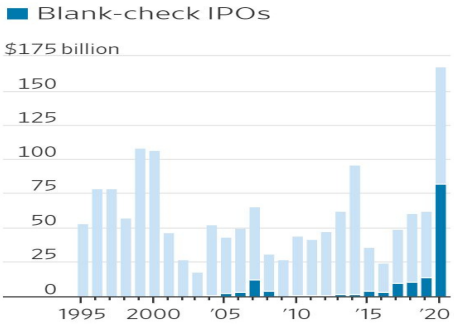
Note: 2020 total is as of June 30
Source: Moody's Investors Service

SPACtacular Year

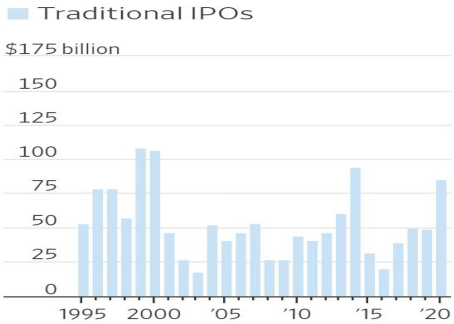
This year was a record breaker by dollars raised...



... and blank-check companies raised far more than ever before.



Taking SPACs out of the equation, 2020 was no longer a record year for IPOs.



Note: 2020 data as of Dec. 24
Source: Dealogic

Bitcoin price

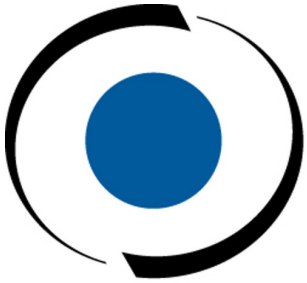
Source: CoinDesk

Index performance

Source: FactSet

OSHER VAN DE VOORDE
investment management

Delivering unbiased financial solutions that help clients realize their lifelong aspirations.



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Dividend Report Card 2020

The table below illustrates historical and projected dividend growth for Osher Van de Voorde core equities. Excluding companies that have not paid dividends, these high-quality businesses have rewarded shareholders with 12.9% and 13% average annualized dividend growth for the last ten and five years respectively.

OVIM Core Equities	5-Yr Ann Div Growth	10-Yr Ann Div Growth	1-Yr Proj Div Growth	5-Yr Proj Div Growth	Payout Ratio	Annual Dividend Yield
AAPL	16.5%	N/A	6.3%	16.5%	25%	0.64%
AMGN	22.0%	N/A	9.4%	8.0%	39%	2.96%
AMZN	N/A	N/A	N/A	0.0%	0%	0%
BLK	11.5%	14.5%	10.1%	9.5%	45%	1.89%
BMY	2.5%	3.0%	8.9%	4.0%	51%	3.02%
BRKB	N/A	N/A	N/A	0.0%	0%	0%
CNI	12.0%	13.0%	5.1%	7.5%	39%	1.57%
CSCO	18.0%	N/A	5.6%	8.5%	47%	3.17%
DIS	17.5%	17.5%	0.0%	3.0%	N/A	N/A
GOOGL	N/A	N/A	N/A	0.0%	0%	0%
JNJ	6.5%	7.0%	7.6%	7.5%	48%	2.53%
JPM	14.5%	10.0%	0.0%	6.5%	45%	2.61%
LRLCY	7.8%	6.1%	10.0%	7.8%	54%	1.17%
MSFT	12.5%	14.0%	10.1%	11.0%	32%	1.03%
PEP	8.5%	8.0%	7.1%	4.0%	67%	2.88%
QCOM	14.0%	15.0%	5.5%	7.5%	38%	1.67%
RHHBY	2.7%	2.8%	2.7%	2.7%	58%	2.59%
RTX	5.0%	7.5%	5.3%	5.0%	53%	2.72%
SBUX	24.5%	N/A	9.8%	12.0%	64%	1.72%
SCHW	8.0%	6.5%	4.2%	13.0%	28%	1.20%
T	2.0%	2.5%	1.9%	4.5%	63%	7.20%
TXN	21.5%	21.5%	1.1%	6.5%	60%	2.38%
UNH	26.5%	61.0%	12.8%	12.0%	30%	1.39%
UPS	7.5%	7.5%	5.0%	8.5%	50%	2.50%
V	29.0%	N/A	9.8%	15.0%	23%	0.60%
WBA	8.0%	15.0%	2.19%	6.5%	35%	3.92%
Portfolio Averge	**11.5%**	**8.9%**	**5.4%**	**7.2%**	**38.2%**	**2.0%**
Avg Div Paying Stocks	**13.0%**	**12.9%**	**6.1%**	**8.1%**	**43.2%**	**2.2%**

Average dividend growth is expected to be 6.1% in 2021 and 8.1% over the next five years. These forward projections would be higher if not for Disney's pandemic decision to suspend its dividend and current Federal Reserve restrictions on dividend increases for banks. It is highly likely that these projections will surprise to the upside and more closely resemble historical dividend growth. In addition, we would not be surprised to see the likes of Amazon, Berkshire Hathaway and Alphabet initiate dividends in the coming years.

Growth of dividend income anchors our portfolios and provides a real store of value for investors, especially in this unprecedented low interest rate environment. If dividends continue to compound by 10% over the next ten years as we expect, income in your portfolio from equities would double in 7 years!