

January 2021

Market Summary and Outlook:

Stocks all seemed to rise together in the 4th quarter of 2020. Technology continued to lead the way, but sectors that had been left behind for most of the year, manufacturing, and energy, bounced higher, as well. Small and mid-cap stocks also surged, outperforming the large cap names that dominate the headlines. In retrospect, the pull-back I have been wary of since March never happened. There was a 10 percent correction in September, but the market quickly recovered and continued higher. International markets have also appreciated, especially in the back half of the year.

Maintaining an investment discipline in this environment is difficult, to say the least. Those claiming a market bubble, I am one of those, appear to have been wrong. I maintain, however, that the bubble is still there. It is just bigger now and hasn't burst, yet. Some areas are frothier than others. Apple, for example, is expensive historically, currently priced at 40 times earnings. Compare that to Tesla's 1637 price to earnings ratio! The historical price to earnings average for the S&P is around 15. It currently trades at a 27 multiple.

In the words of one of my favorite value investors, Jeremy Grantham, "positioning a portfolio to avoid the worst pain of a major bubble breaking is likely the most difficult part." Psychologically, the allure to buy stocks is greater than rationalizing about price. The fear of missing out is too great for many. Inevitably, positioning a portfolio to protect capital usually means underperforming until the bubble finally pops. The Fed checks may keep rolling out and that may keep the markets rolling higher for a while longer, but I am seeing dynamics that remind me too much of 1999 to ignore. Fear is not a healthy emotion for investing. Caution, however, is vital.

We welcome your responses to this newsletter. Please feel free to call anytime to review your portfolio or to address other financial issues, 800-969-8939. Custodians will be mailing out gain/loss reports for taxable accounts around the end of January. If you need more information or need it sooner, please call our office and we can assist with that.

Thank you for your business.

Sincerely,

Joe Tomkiewicz MS, CFP[®]

President

Sierra Financial Advisory