

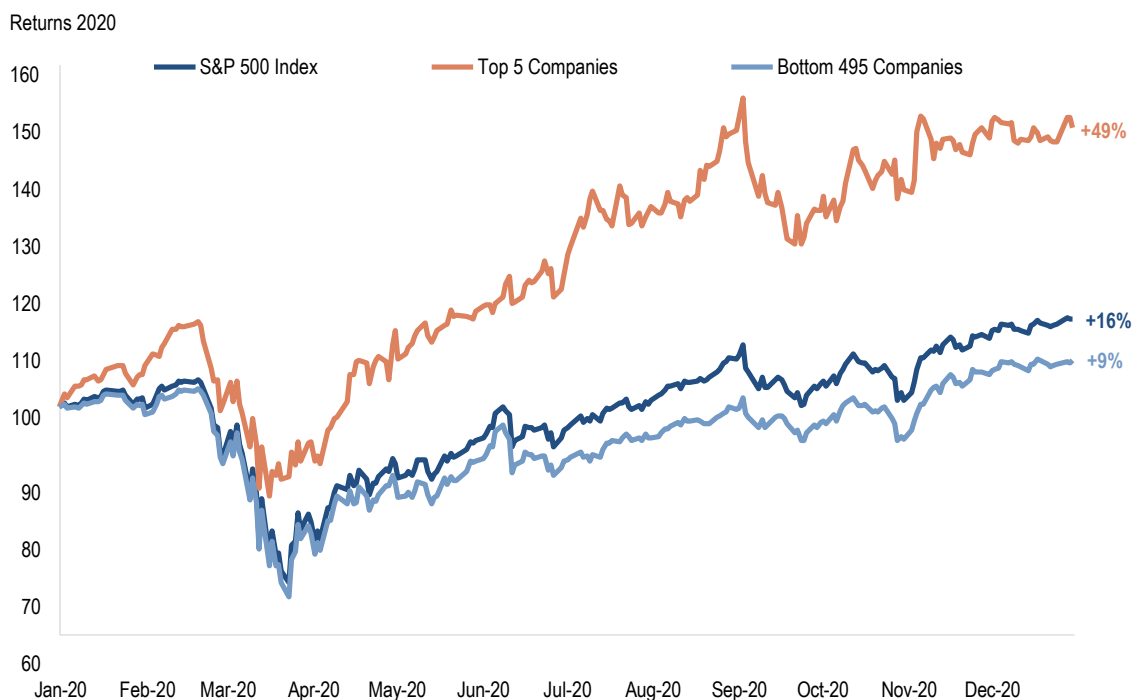
Where should one invest, when markets continue to hit new highs?

With the backdrop of expensive mega-cap technology stocks dominating the major indices, record monetary and fiscal stimulus, an economic recovery, and signs of inflation, where should one invest?

Since the 1950s, the cumulative return of many dividend paying stocks is double that of the S&P 500. The magnitude of the long-term outperformance of dividend payers shrunk last year as the 100 highest yielding stocks fell in value and the lowest yielding stocks surged 40%. Many low yielding stocks are now expensive. On the other hand, many sound, long-term growth companies paying healthy dividends were ignored or even sold off.

The technology mega caps led through the pandemic (+49% return, see below), but are now overvalued and have hard fundamental comparisons. Some will see their growth rates decelerate as laptop and tablet sales decline and consumers drive to stores rather than only shop online.

Unlike an index fund, we are not forced to buy overvalued stocks with decelerating growth rates.



Source: Bloomberg and GSAM as of December 31, 2020. Chart shows the 5 largest companies in the S&P 500 on a market capitalization weighted basis (Apple, Microsoft, Amazon, Facebook, and Alphabet), and the rest of the index.

There are positive multi-year themes. Many firms will benefit from the reopening of America. Some firms will benefit from rising prices while others will have their profits hurt. Innovation and expansion of 5G, OTT, automation, AI, battery technology, biotech treatments and cures should result in growth, productivity gains and improved quality of life.

Many attractively valued stocks overlooked during the pandemic should benefit from these long-term trends. We are finding several of these investments in the dividend growth, low valuation, and small & mid-capitalization spaces. Resulting portfolios are invested in various companies with strong long-term growth prospects for revenue, earnings and cash generation. Many already pay healthy dividends and have prospects of continued long-term dividend growth.

Portfolios of these stocks are diversified with various revenue streams, expansive geographic exposure, and broad sector and sub-industry exposure. They span market capitalizations.

We are finding numerous compelling investments with attractive valuations, sound fundamentals and profitable outlooks. We look forward to compounding results over many years as we closely monitor and interact with these firms.

We are excited by our early returns to start the year. Our outlook is positive for undervalued stocks of profitable, growing companies generating excess cash.

Thank you for being our client. We appreciate your confidence in our team, services and results. Due to clients like you, we are able to grow our organization and maintain a high level of service.

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