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Even though it was a surprisingly good year for the markets and investment portfolios, it was not a very good year for the citizens of the country. There is no need to rehash this past year's general misery; the future is primarily our focus here.

Indeed, our specific focus here is the future of the investment markets and the economy. There were changes in 2020 economically and politically that will impact our markets and the economy going forward. The pandemic changed us in ways seen and unseen, we will learn more of the impact of that as we move forward. With President Biden taking over, we will likely see higher taxes (corporate, individual, and capital gains) and more regulations which over time will translate to lower valuations for stocks. To offset those negatives yet another round of additional government spending will likely inflate investment markets further-the Feds keep filling the "punch bowl."

To better explain that statement, consider the following: The widely accepted measure of U.S. domestic economic strength is GDP (Gross Domestic Product). It is a monetary measure of the market value of all the final goods and services produced in a specific time period. When money flows into the economy, GDP does not know whether it is from a vibrant, healthy economy or from profligate government spending.

Near term, government spending will flood more dollars into the economy and markets. This cash infusion will likely push the equity markets yet higher. Also, anticipated infrastructure spending should be a boon for many industries, but as we know there are a limited number of "shovel ready" jobs.

Further adding to likely strength for the markets is that the many economic policies put in place in recent years, which include energy independence, the much-improved manufacturing sector, improved trade deals, etc. will continue to bear fruit. By some measures, stocks are overvalued here, but they have continued to rise for the aforementioned reasons.

In regard to government spending, we have heard for forty years that soon the "check will come due." The economic consequences for all the profligate government spending seem obvious and yet we are still waiting with considerable fear for the check. Will the check be hyperinflation? Possibly, but if that is so, it certainly isn't here yet. Critically, with total debt near $28 trillion, and vast new spending programs projected for the future (on top of the Covid spending of 2020), means the government will print more dollars—a lot more. This increased government spending should lead to a weaker dollar.

In order to address the weak dollar, we have made or anticipate making several moves. Around the time of the election, for many accounts where appropriate, we purchased an international bond fund. The underlying assets are predominantly the "sovereign" debt of nations. The fund is unhedged and denominated in the currency of those nations. For example, the portfolio invests some of its assets in Australian government debt and is denominated in Australian dollars (among many other investments). While the yield is only around 3%, we feel the underlying foreign currencies as they strengthen relative to the weakening U.S. dollar will afford us significant growth opportunity for the asset. From March to December, the dollar fell 12% against a basket of foreign currencies.

There are also headwinds for the U.S. economy. One such headwind is the estimated permanent loss of 30% of small businesses in states hardest hit by Covid. Furthermore, many industries have been decimated, such as the airlines, travel and leisure, restaurant and hospitality, shopping malls and many others. Will they recover? Likely, but they may not get back to pre-Covid levels for many years.

Then there is the corporate tax rate that Biden wants to raise from 21% to 28%. Also, the prospect for higher capital gain and personal tax rates, increased regulations, and many other fundamental changes would likely impact corporate earnings and savings rates and cause an adjustment in market valuations.

Most certainly there are many underlying problems and we really haven't seen the long-term impact of this business loss and the consequent loss of purchasing power due to the inflationary effects of government injecting more than $5 trillion in freshly-minted dollars into the economy. But the government continues adding stimulus to help defer economic problems until the various vaccines are distributed and the economy gets back on its feet. This government support is why the stock market continues its upward move.

JP Morgan Chase analysts recently made public estimates that the S&P 500 could go up by 40% in 2021. A surprising prediction and extremely doubtful in our opinion. We are fairly certain this analysis is not based upon solid fundamental economic growth models so much as upon the massive infusions of government money we have experienced and will continue to experience. But, if the infusion of government funds works that well, we certainly plan to participate. We believe we will end up 2021 with a 10%-15% overall return from stocks, but the year will have its ups and downs. We hope we are not too optimistic.

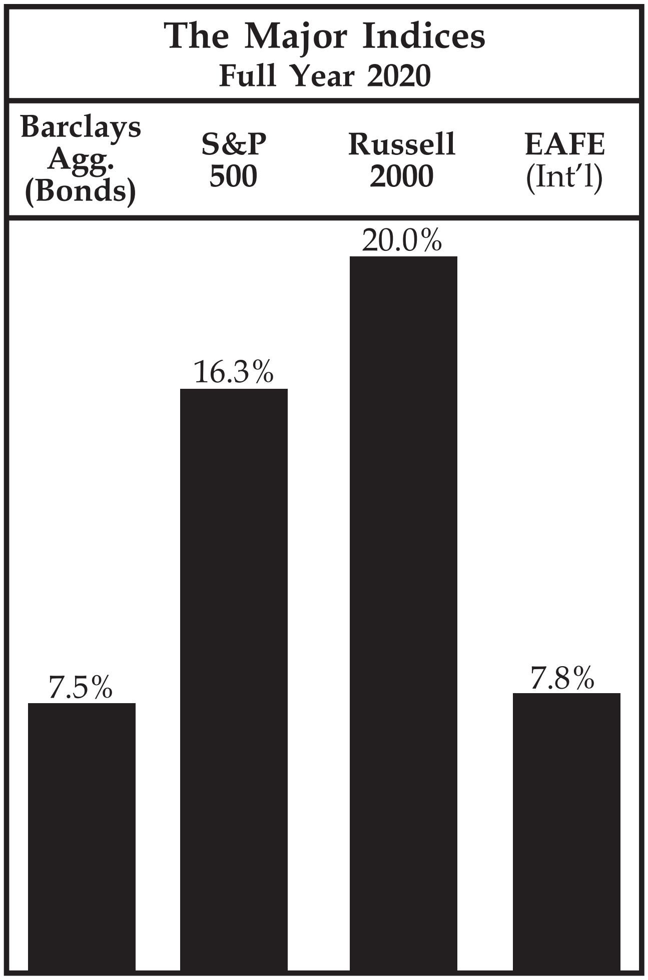
Lastly, our decision in late 2018 to move to a stricter S&P, and Modern Portfolio Theory-Efficient Frontier Theory discipline correlation benefitted your portfolio again in 2020. Last year was a good year for stocks and bonds and for our client portfolios. We will continue to endeavor to improve our methodologies and efforts on your behalf.

Market Review and Forecast. After suffering a 34% five-week decline from February 19 to March 23 last year, as COVID 19 ravaged our economy, the S&P 500 then rallied an incredible 70% by year-end to set an all-time high. Its 2020 yearly gain was a surprisingly solid 16.3%.

Trailing the S&P 500, the Dow only gained 7% last year—Boeing's 36% plunge kept a lid on its gains. The small-cap Russell 2000 that badly trailed the S&P 500 for last year's first three quarters, ended the year 20% higher after surging in the fourth quarter.

Investors are certainly pleased with their fourth-quarter reports: the S&P 500 was up 11%, and foreign stocks gained 14%. A terrific November was the key factor for the quarter's fine results. The S&P's monthly 11% increase was its third best month in the last 30 years and the Dow's 12% November gain was its best month since 1987. Surprisingly, small caps, up 18% (its highest monthly return ever), and international stocks, rising 14% in November, did even better.

How can one explain the terrific 2020 stock market returns when COVID 19 infected more



than 20 million Americans, caused so many deaths, and shut down or severely limited so much normal economic activity?

The answer is mostly three-fold. Stocks are primarily bought to acquire future gains. The good news about the two 95%-effective vaccines provides hope that the economy will be back to near normal by this summer. Estimated GDP growth this year is forecast to be 5%—twice the average 2.5% for the last decade. The market also seems to be betting that vaccine distribution will ramp up in the coming months.

A second reason is that corporate earnings have held up much better than expected. A remarkable 80% of companies beat third-quarter profit expectations, significantly better than the historic 70% average. Also, restaurants, travel-related businesses, and other hard-hit personal service companies that suffered the most are a very small part of the stock market.

However, by far the biggest reason for stock market gains is the unprecedented increase in the money supply and, of course record low interest rates. (The 30-year home mortgage rate set an all-time low in November when it averaged 2.8%. Existing home prices were up 7% year-over-year in October, the best 12-month gain since 2014.) There is 25% more money circulating in the economy now than there was a year ago and that doesn't include the new $900 billion relief bill that President Trump signed December 28. If your income is under $150,000 for a couple or $75,000 for a single, you receive $600 for each family member.

During the second quarter, when $1,200 checks were sent to most taxpayers as part of the $2.2 trillion Heroes Act, the Federal Reserve was purchasing more than 60% of the federal debt. It was estimated that $5 trillion was added to government debt from Fed purchases and stimulus legislation during the second quarter, yet the whole U.S. GDP for the quarter was slightly less at $4.87 trillion.

The personal savings rate hit 33.7% in April, nearly twice the previous 17% all-time high in 1975 and it was still 13.6% last October. For the first two decades of this century the average annual personal-savings rate was slightly more than 6%. (The government first began tracking that number in 1959.).

When the NY Fed asked respondents how they would allocate future direct government payments, they answered that they would save 45% of the amount they would receive. Given interest rates for money markets and CDs are mostly below 1%, it seems obvious that a significant percentage of that savings will flow into the stock market. (The Fed has made it clear that it is committed to the current low rates, even if the inflation rate climbs above its two-percent target for several months.)

Because interest rates are so low, servicing our huge government deficits has not been a major problem. The 2020 deficit (for fiscal 2020 that ended September 30) was a whopping $3.13 trillion—the Treasury collected $3.42 trillion but spent $6.55 trillion, nearly twice as much. (A trillion seconds is almost 32,000 years.) During the past 60 years, Uncle Sam has only brought in more than he spent five times.

The current national debt is about $27.8 trillion, with slightly more than 50% of it racked up during the past 10 years. In other words, we borrowed more dollars in the last 10 years than we did in the more than two centuries from 1789 to 2010. (Of course, this statistic ignores inflation.) There is no question that a higher percentage of the money our children and grandkids will pay in taxes will to go pay interest on the national debt.

Once again last year, tech stocks continued to lead the market higher. One interesting statistic reported by CNBC is that at the end of November, U.S. tech stocks were valued at $9.1 trillion, $200 billion more than all European stocks that were worth $8.9 trillion. Yet, in 2007, European stocks were four times more valuable than all U.S. tech stocks.

We believe that current stock prices are somewhat overvalued. However, given the continual increase in the money supply and near record-low interest rates, it is doubtful that the market can correct more than 10%.

As President Biden takes over, we know that statistically, dating back to 1936, the stock market during the first year of a president's term has returned a mediocre 6.7% annually. Last month 10 experts in *Barron's* predicted U.S. stock returns for 2021, ranging from 2% to 19% with the average at 9%. (The markets averaged 10% for both the last three decades and since 1926.)

We believe the market will likely make decent gains this year, notwithstanding the fact that a 13-14% 2021 return for the S&P 500 would result in nearly a 20% annual gain for the three years from 2019-2021. That number is twice as high as the long-term average. Perhaps we are too optimistic.

Interest Rates. After starting the year close to 1.8% the 10 Year Treasury went on a wild ride. Interest rates move inversely to bond prices and earlier this year during the stock market crash, investors seeking safety in bonds pushed the 10 Year Treasury down to .40%. It didn't stay there long and over the course of the year money flowed back out into the stock market seeing the 10-year yield close 2020 at approximately .95%. At the time of the writing of this newsletter, the 10 Year is at 1.18%. Consensus says the 10 Year closes 2021 back around 1.8%. As long as that climb is gradual, bond investors should be okay.

The Barclays Aggregate Bond Index (Broad Market) returned approximately 7.5% in 2020. High yield bonds returned approximately 4% while Treasuries were closer to 8%. Bonds performed nicely in 2020 and rewarded investors with solid returns.

One may recall last February and March when economic news outlets reported "dislocations in the fixed income arena," which were actually investors selling commercial paper backed money market funds in order to buy U.S. Treasury backed money market fund, it didn't take long for the Federal Reserve to respond and flood the market with liquidity, thus solving the problem. The Treasury printing press in Washington D.C seems to be running at full speed and will likely continue for some time.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.

Housekeeping—

Taxes—Taxable accounts (i.e., **<u>Non</u>-IRA**/retirement accounts) will receive a 1099 from Fidelity **which will show realized gains/losses** in your account. Since Fidelity may not have all cost basis information; they have what is termed "covered" and "not covered" assets, i.e., they may or may not have the entire number of shares purchased but may appear to report it as though they do. The 1099 should be provided to your tax preparer.

The following is your decision, however; we would recommend that you consider asking your tax preparer to wait until March 15th to file your return, on occasion there are revisions in the 1099's, they have become fewer as the years pass but they still do occur. Unfortunately, we have seen data corrections after March 15th but only very rarely has that happened. Please understand that all of the financial institutions involved do their best to provide accurate data, but the 1099's is generally sent by the end of January and unfortunately sometimes that data requires revision. Obviously, we wish there would never be errors by the entities providing the tax data but this is out of our control; we can only rely on the varied entities to provide accurate information in a timely manner.

If you have assets that transferred in from another custodian or firm, we may not have the cost basis. If during the year these assets were sold please make certain that the cost basis information is provided to your tax preparer. We are pleased to incorporate cost basis information on assets transferred into your account from other firms but we can make no assurance as to the accuracy of the information. We are pleased to incorporate your cost basis information into our reporting at your request as a convenience.

We are pleased to discuss your account tax information on your behalf with your tax preparer, we simply need your verbal authorization (if you have previously given this to us it is in your file).

1099's—As always in the past when 1099's are issued, they are coded by the issuing firm; even if the code is wrong the custodial financial institution (in our case Fidelity) will not change or reissue the 1099. It is our understanding that all financial institutions are now essentially the same as they have gone to a more generalized coding system and will not correct and/or reissue the 1099. The taxpayer or tax preparer in order to change 1099 code instructions must go to IRS.gov and to get the IRS form to make the change.

Required minimum distributions (RMD)—For those of you over 72 you are aware of the IRS **RMD** requirements for your Individual Retirement Account (IRA). The materials for this will go out to you this month in January, it will include a sheet that details your minimum distribution amount, it also enables you to detail to us the amount of tax withholding you wish us to implement on your behalf, and tell us when and it what manner it would be convenient for you to receive the distribution. The Federal penalty for not taking an RMD is 50% (that is in addition to the required taxes!), we will endeavor to get this money to you in the way you want it when you want it. If you have any questions or you would like a distribution before this material is available please give us a call.

Access your account—Our website is www.wcamg.com and is the best way to access your account online at Fidelity. You may go to the "Fidelity" tab and set up your password etc. to view your account online.

ADV Document—We are happy to provide you with a copy of our "ADV" which is our disclosure document that we file annually with the U.S. Securities and Exchange Commission (SEC), you can also view it on the SEC's website at WWW.SEC.GOV and there is a link to it on our website. We are also pleased to provide our confidentiality statement and code of ethics if you wish to receive a copy let us know and we will mail you one, it is also on our website at WWW.WCAMG.COM.

Security transactions—You may wish to do a stock trade or other securities transaction in your account which we are pleased to implement for you; please however do not leave these transactions on our voicemail or email, please speak with an individual otherwise they may not be implemented in a timely fashion if at all. Typically, these transactions will be done as a courtesy, at no charge to you.

Envelopes—If you would like some postage paid envelopes addressed to Woodard and Company please let Tonia, Marci, or Stan know (you can call us at 336-998-7000 to request them) and we will be pleased to send you an annual supply, same is true if you need a new binder, pen, or notepad.

Non-Managed Assets and Cost Basis—Please review your 1099 cost basis information and let us know if any is missing information or there is a problem. Some of the issues we can help fix but not necessarily all of them. Many clients have brought in stocks, bonds, funds, and other assets that were purchased previously which they either do not wish to sell due to the tax implications or other reasons. We have placed these assets in a "non-bill" category to take into consideration these facts. We are pleased to facilitate custodial services and furthermore we are pleased to consult on these assets when requested for the convenience of our clients. However, we do not assume responsibility for tracking these assets or responding to news, mergers, events or information regarding these unmanaged assets. As an example; during a merger there is typically a "default" option which will be automatically elected unless the client advises us otherwise. There may be bankruptcies, stock analyst downgrades, or other factors as well to which we will not respond unless requested by the client. We take responsibility for the assets we manage and track them closely but we can't track the many thousands of random securities requested to be held by clients, often these are obscure assets in the marketplace. We offer Fidelity's custodial services for these "non-bill" assets as a convenience to the client and we are pleased to in most cases where able to provide analysis of the assets and discuss the issues surrounding them.

Change in Objectives, Risk Tolerance, or Circumstances—Take a look at your current allocation; does it reflect your objectives, risk tolerance, and needs? Please let us know if your circumstances, needs, risk tolerance, or objectives shift which may have an impact on the way we manage your assets. We can and will respond to your needs by tailoring the allocation to meet your criteria. We look forward to hearing from you and discussing any issues that would relate to our management of your assets.