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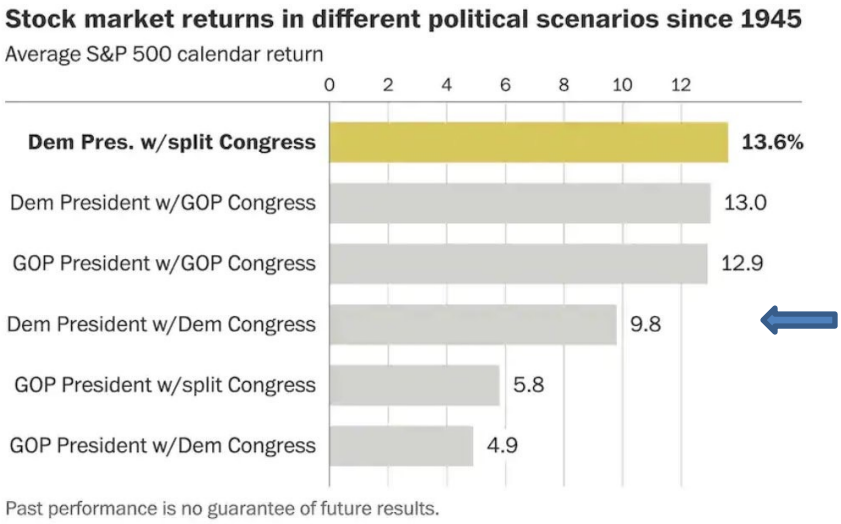
Archer 2021 Annual Outlook:

"Liberals have practiced tax and tax, spend and spend, elect and elect, but conservatives have perfected borrow and borrow, spend and spend, elect and elect." – George Will (American political journalist, b. 1941)

The election has been completed and will begin to move into the rearview mirror. It appears that we will have a new President and likely a Democratic Congress. This may be exciting for some and create a sense of dire worry for others. We would like to dispel some of the myths of stock market returns with a Democrat Executive office combined with a Democrat controlled Congress. Remember, nearly all of the members of Congress have money invested in the stock market and real assets such as homes, vacation homes, etc. Like most, they want their assets and wealth to increase. Some would argue that the average politician cares more about their own wealth even more than they care about the wellbeing of the taxpayers.

We would like to start with a chart that shows the average stock market returns in different political scenarios since 1945. This chart does not include all of 2020, so the 4.9% may be a bit higher, but overall, we may likely see subdued returns for the next two years. It is quite possible, as is often the case, in two years we will see another split Congress or a Democrat President and Republican Congress. Both latter scenarios have historically produced attractive stock market returns.



As we mentioned in the last election, regardless of who wins, all politicians pander to their base during the election cycle, but ultimately want to be reelected once their term is up. To do this, they say anything and everything and usually do very little to rock the boat except to push money supply into the hands of citizens to prop up the economy. There will be 34 seats up for grabs in the Senate as well as the entire House. If you look back no matter who was President, we have often seen a shift because usually the balance of power, needs to stay "balanced".

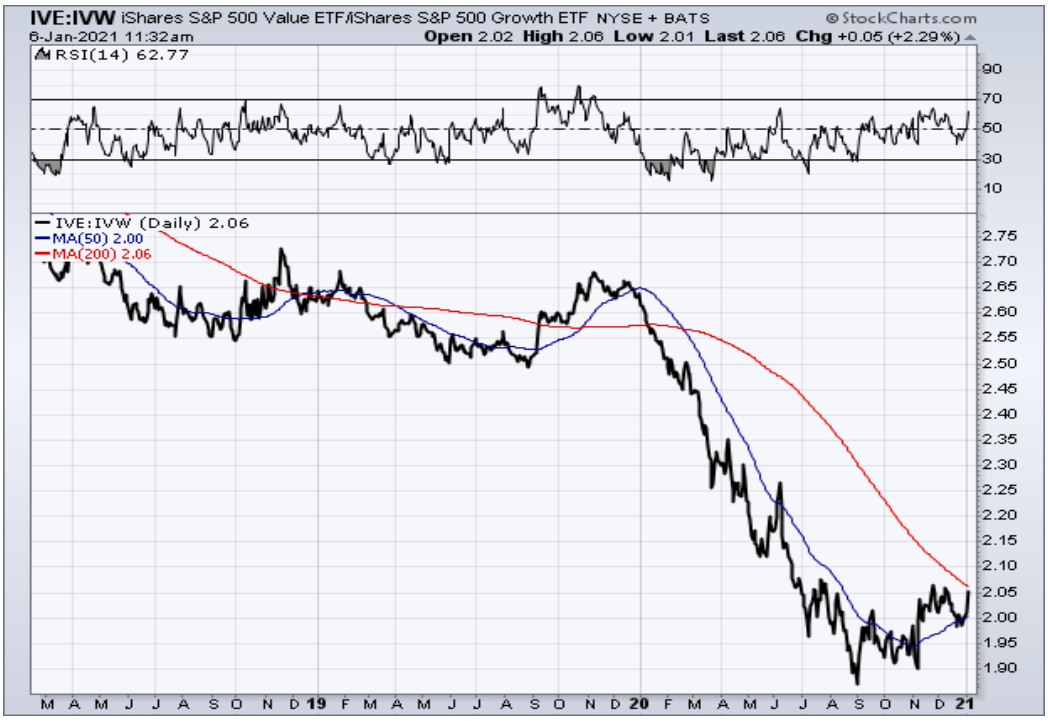
	Election Year	First Year After Election	Second Year After Election	Pre-Election Year
Number of Up Years	15	10	11	16
Number of Down Years	3	7	7	2
Average Return	7.5%	7.4%	6.3%	17.2%

Dates are 1/1/1950 through 12/31/2020

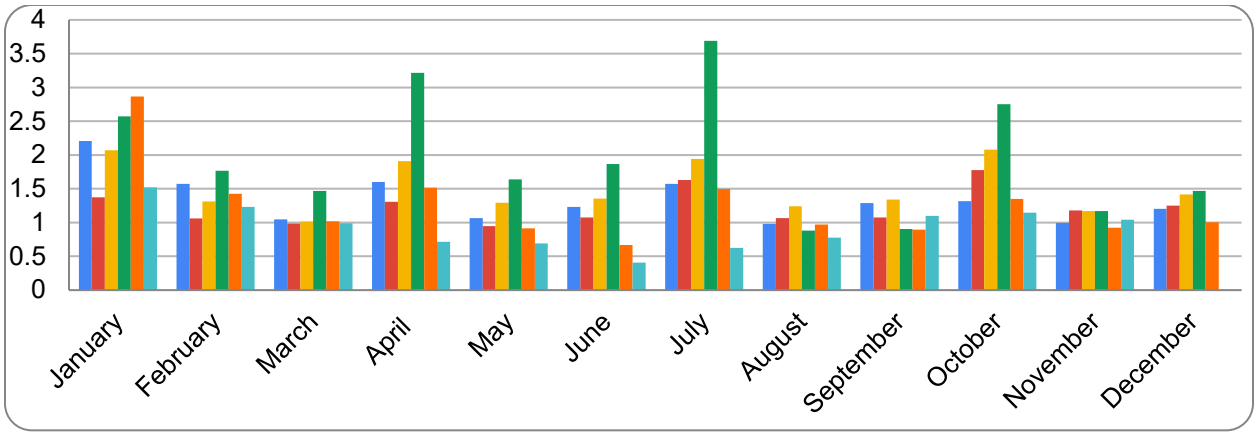
With a Democrat President and Congress, the additional stimulus of $2000 going out to all citizens under a certain threshold appears probable. This, combined with other potential stimulus measures, should cause inflation to ultimately rise. This is good for financial, insurance, and basic materials companies. Further, we would expect to see some kind of infrastructure bill which will increase spending for industrial and construction companies.

We also need to remind everyone of the first 5 trading days of a new year. 82.2% of the time, if the first 5 days are up, then the rest of year is up as well with an average return of 13.6% in the up years.

We have said the near-term driver behind the markets and the economy is the COVID outbreak and our ability as a nation to control it. Fortunately, it appears that we have created effective vaccines in record time. Improving the distribution and administration is the nest crucial step. The vaccines should ~~is~~ help knock down the virus and help our economy regain more stable footing. In rolling this out, it means improved business for different types of companies and an entirely new focus. The stocks of many of these companies are what we call value stocks. We have frquently noted that we have not seen a sustained value cycle in quite some time. We believe this may be the first inning of such cycle. As you can see in the next chart, September 2020 was a low point for the value to growth index comparison. However, with the election now heading to the rear view mirror, we should see a more pronounced rebound in many of the traditional value sectors. These are the stocks that have lagged for some time.



As always, we want to look at profits as the level of corporate profitability will ultimately drive the stock market higher or lower. The Teal blue bar is the year 2020. Ideally, we would like to see this bar above the 1.25 level in a low-rate environment and higher as rates move higher. Clearly 2020 has been a difficult year for many industries and it may not get much better for the next quarter. However, should the vaccines prove effective take hold and be widely accepted and administered, it will knock the virus down enough to resume profit growth in many industries that were damaged. We still think some of the leisure stocks will have difficulty to regain their footing (think cruise lines) for a period of time.



Be wary of trying to time the market. The market is used to gyrating up and down. The big question is, what will the stock market do in 2021? Of course, no one knows. However, our job is to manage assets in the climate we are given. Although we think returns may be muted, we do think the stock markets will climb higher. We believe interest rates will rise and those who are in long term bonds and many bond mutual funds may have negative returns or lower returns than they have been accustomed to seeing. We have taken a position in some of our less aggressive portfolios to manage this situation by purchasing alternative investments that would have similar bond returns, but take some of the risk out of investing in stocks and we have positioned our bond portfolios to protect against interest rate risk.

Looking Ahead (posted last 3 quarters, but still relevant):

We are looking for the three positive signs for our stock market to continue moving higher (and stay there):

1. *A defined outcome to the coronavirus – This means we need to see a vaccination or treatment to reduce the devastating effects of the most serious cases. (ALSO, we need to pay attention to any new strains of the virus the vaccines are not able to fight. We are starting to see some variants and these need to be addressed immediately.)*
2. *We need to see employment resume for those who were laid off during this outbreak. This will spur the economy as we have a more reliable source for GDP growth and consumer spending. (Government checks are sporadic and may not come through when needed most.)*
3. *We need to see companies open back up and consumers who are free to move about the country without limitation. Limitations on spending will continue and companies will be reluctant to spend for capital projects if they think another round of government limitations will be set.*

We know the spirit of America is much intact and everyone is focused on a positive outcome for this crisis. There are essentially four to five defining moments in the country during each of our lifetimes and some of us have now seen them all. World War, pandemic, attack on the USA, and financial crisis to name a few. They each made us smarter, more responsive, and better as a society, but not without some pain in the short-term.

Regards,

The Archer Team