FAHNESTOCK ASSET MANAGEMENT

of Oppenheimer & Co. Inc.

Craig W. Hutchison
Managing Director
Senior Portfolio Manager
382 Springfield Avenue, Suite 400
Summit, NJ 07901
craig.hutchison@opco.com
Phone 908-273-2100
Fax 908-273-0788
Toll Free 800-522-7857

December 21, 2020

Dear Client,

2020. What a year.

Let's pretend it is exactly one year ago. You're celebrating the holidays with friends and family (remember them?!?) and you're exchanging gifts. You open one and out pops a crystal ball. This one is extra special; it shows you all of the events of the upcoming year but NOT the ups and downs of the markets. We hope this letter finds you healthy and in good spirits.

You take this new toy for a spin and you see massive fires in Australia and the West Coast, violent protests against police brutality and racial inequality, the erosion of democracy in Hong Kong, a brush at war with Iran, plagues of locusts in east Africa, a record breaking hurricane season, the most contentious election cycle in modern US history…and all this against the backdrop of a global pandemic. The economy is going to shutter, everyone is going to shelter in place, wear masks and bathe in hand sanitizer. Unemployment and GDP growth will reach Great Depression levels overnight. Small businesses will fail *en masse*.

Knowing this to be the future, how would an investor have positioned their investments going into 2020? Individual investors probably would have sold everything and buried cash in the backyard. Professional investors might have bet against the market by buying puts or "shorting". **Looking back a year later, markets are hitting new all-time highs**.

How then, does one invest in a world so unpredictable that even a crystal ball is worthless? To survive and thrive through normal market cycles as well as periodic shocks we rely on our proactive investment philosophy. To follow are key tenets that guide us through thick and thin:

- **Balance.** It is our job to understand your goals and design a portfolio that balances those goals with your tolerance for <u>financial risk</u> and <u>emotional risk</u>. Too much risk could lead to a permanent loss of capital and a diminished lifestyle and volatility could lead to sleepless nights. Too little risk and low returns might not keep up with inflation and might induce a fear of missing out on the returns your friends and family might be enjoying.
- **Diversification.** In general, over the long term more risk = more reward. But in the short term, especially during market dislocations, the opposite often holds true. We diversify across assets class, industry, size and geography. Diversification is not a cure-all but it is the best available financial inoculation against risk.
- **Maintain sufficient liquidity.** We never want to be in a position where we are forced to sell an investment in a downturn and we want to be able to take advantage of opportunities when prices are distressed. For those living off their portfolio, we maintain sufficient cash flow from dividends and interest as well as a ladder of near term high quality bonds maturing in next three to four years. Six to nine months of living expenses in reserve is appropriate in case of emergency.
- **Be a long term investor, not a trader.** We believe it is impossible to consistently time the market. We invest in long term secular trends with a medium (3-5 years) to long term (5-20) time horizon. The price

of an investment might decline in the near term, but we own themes that should remain intact through economic cycles.

- **Know what you own.** We view investments from the perspective of a business owner and do not get too distracted by near term trading volatility. "Stocks", "bonds", "mutual funds", "indices" are abstractions represented by a price on a screen. In times of volatility, we find solace in knowing we own companies that are managed professionally by experts in their field who are incented to compete and navigate their own particular set of obstacles.
- **Patience.** An investment's price can meaningfully diverge from intrinsic value. Deviations tend to be short term in nature and abate as market participants digest new facts. In the spring, virus uncertainty led to six weeks of panic selling followed by a sharp rebound fueled by stimulus and advances in preventative and therapeutic measures. It took time, but patient investors were rewarded. Unless the fundamental underpinnings of an investment have permanently changed, we believe that time heals all (most!) short term wounds. The key is to recognize the fine line that patience shares with stubbornness.

With the election results in, vaccines in production, subsequent rounds of stimulus on the docket, and interest rates at all-time lows, markets are smashing through record highs and signaling clear sailing ahead. Panic in the spring turned to euphoria in the fall. We are optimistic by nature but find many valuations to be fairly fully priced and are treading cautiously. We do not know the future, but we have faith that the global economic pie will continue to expand and we are positioned to prudently participate in that growth.

A year of widespread sorrow has reminded us to focus on what is truly important. We are grateful for our health and the love of our friends and family. We look forward to being able to see you in 2021. Until then, we wish you a happy holiday season and a **vaccine-filled new year**!

Sincerely,

Craig
Craig W. Hutchison
Managing Director
Senior Portfolio Manager

Drew
Andrew A. Westhuis, CFA, CFP
Executive Director
Portfolio Manager