



## A Truly Bizarre Year Is Behind Us

In 2021 we saw Meme stocks, companies with no sales issuing IPO's at massive valuations, and large increases in the value of already large companies. Few expected to see any of these things in 2021, let alone all of them. Many investors did well and many did not. My focus has always been to invest carefully and away from "hot" stocks. In the weird market of 2021 this approach could have been the wrong one. Fortunately, things worked out fairly well with the Value Strategy trailing the S&P 500 (SPY) by a few points and beating small stocks by a wide margin. The Select 25 Strategy did slightly better and essentially the same as the S&P 500. Lastly, the Foreign Value Strategy trailed it's benchmark slightly in a year that saw good returns in foreign markets but not nearly as good as US markets.

In 2021, bonds did what they're supposed to do, essentially nothing. However, my suggested allocation of 50/50 short term bonds and Treasury Inflation Protected Securities performed significantly better than the benchmark (AGG). The 50/50 mix gained about 2% during the year while the benchmark lost about 2%.

Just how long this weird market can continue is a matter of much debate. My perspective is that interest rates have the potential to change the dynamic fairly quickly. Once investors find bonds and bank CD's attractive they might think twice about investing in highly valued companies with uncertain prospects. Further, higher interest payments will weigh on the profits of many companies. Higher interest rates will also weigh on many consumers that rely on home equity and lines of credit to maintain their spending. Last, but certainly not least, a higher interest burden on the national debt will limit the governments ability (both economically and politically) to continue to borrow vast sums.

My approach in 2022 will be largely the same. I'll continue to focus on stocks that I believe have the potential to outperform because they appear to be undervalued. And although I've always taken a company's debt load into consideration, I will put more emphasis on how rising interest rates might affect future profits.

Please note that higher than normal cash balances this quarter are partially the result of the cash buy out of UFS in the Value Strategy. These funds will be mostly reinvested during the first quarter of 2022.

### Full Year 2021 Returns

<u>Market Sector</u>	<u>Return</u>	<u>Benchmark</u>
Total U.S. Stocks	28.7%	SPY (S&P 500)
Small U.S. Stocks	14.5%	IWM
U.S. Value Stocks	30.5%	IJJ
Foreign Stocks	8.3%	VEU
Bonds	-1.8%	AGG

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