

MARKET COMMENTARY – FEBRUARY 1, 2021

*A Sunny Disposition*

We've spoken to many of you in the previous weeks about ever-shifting sets of opportunities available in the marketplace. Prices go up. Or down. Administrations come. Or go. Tax policy is favorable, or not. Yet through it all, one thing remains true. For a patient, well-diversified investor, opportunity is always lurking nearby. Sometimes he waves flags and flashes lights. Other times, he is obscured.

As a result, there are just two requirements of us. One – to be ever searching. And two – to seize the opportunities when our light has shined upon them. In fact, so critical is the second requirement that John D. Rockefeller, Jr. once said that every opportunity is itself an obligation.

Of late we've been asked where our best opportunities lie in light of the ongoing global upheaval. In short, we believe that prospects are solid in familiar areas. Stocks ought to perform well. Surely, they rocketed up from the bottom last March. However, market fundamentals still line up to produce further potential gains. Monetary stimulus (the Fed) is robust and ongoing. Fiscal stimulus (Congress) is, too. Furthermore, with notable exceptions, publicly traded companies on the whole are poised to expand sales and bottom-line earnings in 2021. Earnings are projected to climb by about 22%.

Other commentators have turned sour on bonds, saying that the bottom has been reached in rates and the next leg will bring higher long-term rates. And they add that since bond prices move inversely with rates, bond returns will suffer.

Our take is more nuanced. We'll not argue whether or not rates are set to climb. Such information is only modestly important to our philosophy of fixed income investing. We layer in bonds to provide safety and stability to investors' portfolios. We buy high quality bonds individually or via mutual funds to provide a more certain cash flow for clients. History has shown that such a cash flow continues from the portfolio in tough or rosy times, allowing for reinvestment or spending. So, a sharp rise in rates would certainly make for bumpy returns over shorter time periods. However, history also confirms that as bonds mature and proceeds are reinvested at higher rates, bond investors overall returns eventually catch back up.

Returning to stocks. Where do specific opportunities lie? At the margin, we like international a little more than we have in the recent past. But note we say only at the

margin. Any benefit from the new administration's favorable view of foreign markets and their plans for a weaker dollar, might be offset by higher domestic rates (which would potentially strengthen the dollar versus other currencies).

Regarding other initiatives, we take the Biden administration at its word. They will favor and spend on alternative energy sources. They will encourage policies at the Federal and state level that push the same thing. It is for these reasons that while we believe fossil fuels still provide the cheapest, most reliable source for energy, we now view traditional energy stocks as mere trading vehicles to be used at various times rather than for ultra-long holding periods.

How will we take advantage of alternative energy? For most folks, the surest method is to use a well-diversified fund to reduce the risk of extreme negative outcomes. For example, because of growth, Tesla now makes up about 5% of your average index fund. For other investors, it is appropriate to include high growth individual alternative energy or solar names. In our estimation, some of these stocks roared to outlandish heights over the last year. When buying individuals, we would likely seek to avoid those names. But we have found a select few solar-related companies that are still worth looking into – at admittedly dear prices.

So, take heart. Amidst pain and volatility, opportunities remain. We are searching for and seizing upon them. In the meantime, remember some wise words penned by an American poet named John Vance Cheney:

*The happiest heart that ever beat  
Was in some quiet breast.  
That found the common daylight sweet,  
And left to Heaven the rest.*

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

Jason Born, CFA  
President