

MARKET COMMENTARY – JANUARY 1, 2021

Little strokes fell great oaks. ~ Benjamin Franklin

The wit and wisdom of Benjamin Franklin made him among the most famous men in his day. They, along with his other accomplishments, assured that he would be a target for scholarship and a source for prudence for generations of American school children. As a young lad, this writer heard from his father many times another of Franklin's pithy tidbits, *Early to bed, early to rise, makes a man healthy, wealthy, and wise*. With such solid advice, it is proper that we look again to Franklin as we enter a new year.

Most of Franklin's instruction centered on the simple virtues of thrift and hard work. And while our Federal government has forgotten about the value of the former, those of you reading this, certainly have not. You spend economically over your working lives so that you may have monies for later days. Likewise, the clients and readers we hold so dear, exhibit the virtue of work by tilling in their particular fields, rain or shine.

But from, *Little strokes fell great oaks*, let us tease out the exact wisdom that might be most germane to our investing world today.

In summer, we wrote about how the economic situation was becoming a winner-take-all environment. The reasons listed then: low inflation, lack of regulatory power, technological innovation, and passive investing continue today and justify some of the premium prices investors pay for sexy growth companies.

The paradigm has shifted so much from the days of valuing a company based upon its projected earnings growth and risk, that we have an acronym for it. TAM stands for Total Addressable Market. That means a company growing revenues AND operating in a market that might one day have a trillion dollars in sales is worth more than one growing faster but in a market that might one day only be worth a billion dollars. The bigger the TAM, the more investors pay.

The TAM concept is not necessarily new or entirely wrong. But it does have a major flaw if it is not tempered with more rational concepts. The most glaring problem is that a big TAM also means loads of competition flooding the market, each hoping they are the ONE company left standing. Think Ford versus Toyota versus Tesla versus Nikola versus Workhorse versus a dozen other fiery competitors. So far, investors have said

that Tesla will win big, making its valuation larger than ALL the others combined. Even though Tesla's sales are a tiny fraction of any ONE of its entrenched peers!

This focus on TAM means some individual investors have caught the bug. They understand that technology, especially software seems destined to rule the world. And so, they want to own the companies they hear about on the news. And we agree.

However, it would be most un-Franklin of us to pour our clients' hard-won money into stocks selling at 200 times earnings just because everyone else is doing it. We are not scared of growth and will pay-up for it. We just require more proof than conjecture.

Which brings us to our ultimate point. Not all retirement dreams or college educations need to be built on the latest, most newsworthy company names. Very fine, long term returns that achieve client goals with lower volatility can be had by making little bits along the way. Earning interest and dividends and reinvesting them has historically been THE SINGLE biggest factor in producing compounding growth for client portfolios. Capital gains, by themselves, are a distant second – even in the modern era.

At last, the final stretch of our metaphor might be that our fear for a successful retirement is itself a great oak. Few of us will ever be fortunate enough to own a D11 Caterpillar bulldozer to knock over an oak tree in one swoop. But almost all of us could fell an oak with one little swipe of an axe every day. Likewise, with patience we may judiciously accumulate portfolio gains one little bit at a time until our fears have been felled like a mighty oak.

Therefore, in 2021 we aim to follow this wisdom, and others, offered by our esteemed forefathers. Such prudent strategies have brought us this far. We fully expect them to carry us well into the future.

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

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