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The U.S. markets continued their upward march during the fourth quarter, tacking on another 12.12% for the S&P 500 ETF. That propelled the gain to 18.47% for the year, after plunging more than 34% from its highs when the COVID-19 pandemic hit in the spring. Fueling the rally were aggressive efforts by the Federal Reserve and other major central banks to prop up the global economy in the wake of the related economic collapse, and an eye toward an eventual end to the pandemic and an anticipated return to normalcy.

Our Kirwan Capital Strategy portfolios gained 13.21% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 12.12%. The quarter's performance leaves our average compound annual return after fees since Jan 1, 2013 at 14.32%, which would have turned a $10,000 investment into $29,174 in 8 years. Our performance was boosted by recoveries in banking stocks as Discover, Wells Fargo, and JP Morgan gained 56%, 28%, and 32% respectively. Anheuser-Busch and Molson Coors also bounced back nicely from their lows, gaining 29% and 34%. We were hurt by Microsoft, Amazon, and Hanesbrands, which all had big moves higher earlier in the year, leaving less gas in the tank for this period.

While most of you may well wish to stop reading now and get on with your day, for those of you that may be intrigued by the field of Psychology, I'm going to discuss a bit of the field that I think applies to investing today. Having been intensely focused on the markets for several decades, I feel like I have previously seen an atmosphere much like the one we presently are in. It is now hard to remember any time when buying a two week dip would not have made quick money, or how it feels to have lost over 25% in your 401k with no optimism for a recovery. It is equally hard to remember losing money when buying the latest and greatest technology stocks. The record number of new individual accounts being opened up on brokerage sites such as Robinhood indicate that tens of thousands of new investors now think they can pick stocks successfully. This is exactly the way my peers and I erroneously felt in the late 1990's. You may be aware that study in the field of psychology has identified many tendencies for misjudgement that humans (and other mammals in some instances) innately possess. Charlie Munger identified 25 specific tendencies many years ago, and those are my primary focus. I think there are several of these tendencies at work for many market participants currently:

- Reward and Punishment Superresponse - When you drink an ice cold soda of your favorite brand, you are rewarded with a good feeling that creates in you the tendency to desire the same soda the next time you are hot and thirsty. As investors have made profitable trades over the last several years, this response kicks in and they tend to make the same kind of trades in the future.
- Liking/Loving - humans who love each other tend to not see the other's faults. This is what is happening with stocks that people have held as they watched them double or triple over the last several years. Once you are in love with a stock, it is hard to see its faults, and even harder to sell.
- Inconsistency Avoidance - the brain of humans conserves programming space by being reluctant to change. That is the reason it is so hard to change bad habits. This leads to a "status quo bias" that is another tendency that keeps people from selling the stock from the previous bullet point.
- Envy/Jealousy - These 2 emotions tend to make people act foolishly...like buying a stock because your neighbor already tripled his money on it.
- Influence from mere association - this one is working subtly as people fall in love with Tesla or Zoom, and all electric vehicle and videoconferencing stocks skyrocket.
- Excessive Self Regard Tendency - in one study, 90% of Swedish drivers appraised their own driving skills as above average. Most studies are not this lopsided, but generally are above 50% no matter what

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skill is appraised. Another tendency within this category known as the "endowment effect" causes us to over-appraise our own possessions (think how cute our own babies or how smart our own children are.) This is having effects on two levels: investors are judging their own performance as better than reality, and judging companies that they currently own as better than average.

- Over-optimism tendency leads people to overestimate the chance of low probability events, and is especially active when we already feel good. People buy more lottery tickets and play more slot machines when they are happy, and are thus likely overestimating earnings prospects for the future.
- Social Proof - man's behavior is much simplified when he automatically does what he sees or perceives others around him to be doing. We evolved with this trait because those who lived in groups were more successful at survival (and thus passing on DNA) than those who didn't. If many are opening a Robinhood account and making tons of money on tech stocks, many more will automatically follow.
- Contrast Misreaction Tendency - Ever pay for an $500 upgrade on a car because that amount seems trivial compared to the $35,000 cost of the vehicle? Realtors take advantage of this by showing a buyer a few overpriced or low quality homes first and then showing them target house. This is working now when an investor buys the lowest priced electric vehicle, cloud, or vaccine stock.
- Availability Misweighting - we tend to overweight the probability of recent events occurring again because they are foremost in our mind. People's estimate of the odds of a major airline crash increase for a time after each airline disaster is in the news. The recent years where every fall in the market has been met with a strong, speedy rebound is creating this effect.
- Reason Respecting Tendency - people learn and comprehend instructions better when a reason for the instruction is given. Unfortunately, we tend to believe the reason even if it is wrong. I fear many are rationalizing when they read a story in the financial press describing the reasons a stock will continue to increase after it has already recently quadrupled.
- And finally, the Lollapalooza Tendency is the tendency to get extreme results when multiple misjudgement tendencies are at work.

I obviously think that several misjudgement tendencies are at play in the current environment, which, combined with the increased money supply from the CARES Act and the accommodative stance of the Federal Reserve, are working to hold the market at high levels in comparison with economic performance. Since these numerous tendencies are working together, it is very possible that a Lollapalooza effect will continue to produce extreme results. I guess what this means in layman's terms is that while the market may seem high, it's anyone's guess how high it can go or how long it can stay there. I wish you all a successful 2021.

Patrick J. Kirwan
President and Portfolio Manager
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* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.

** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.