January 10, 2021

Quarterly Commentary and Opinion

Dear Clients of Kondracki Advisory,

Our composite total return for 2020 was **11.35%**, and our equity position total return was **15.61**%. The total returns on the S&P 500, DJIA, and Russell 1000 Value Index were 18.40%, 9.72%, and 2.8%, respectively. Importantly, our portfolios were **far less volatile** than the market in 2020 - and we significantly outperformed during the extremely challenging first quarter.

As 2020 progressed, markets responded very favorably to unprecedented Federal Reserve asset purchases, and its stated commitment to keep interest rates near zero for the foreseeable future in support of financial markets and the economy. The market response to this activity (and the expectation of continued Fed intervention and support) has been significant. Market returns can be misleading, however. Consider that nearly **50%** of the total return on the S&P 500 in 2020 came from the stock price performance of just **3** companies and that 30% of the entire value of the S&P 500 now resides in 10 companies in just 2 sectors, technology and communications services. At present, Apple, Microsoft, Google and Facebook together represent nearly 20% of the value of the stock market, and yet, they employ far less than 1% of the U.S. workforce, and less than one half of their U.S. employees are American citizens. **Concentrated markets of this magnitude, where certain industries are increasingly choosing to hire non-U.S. citizens for American jobs, presents increased risks to society, the U.S. economy, and for investors.**

The **35** industry-leading and time-tested companies in which we are invested offer us excellent **company** and **sector diversification**. Our portfolios have exposure to **20** of the most important, beneficial and resilient sectors of the U.S. and global economy and are huge contributors to U.S. GDP and to the employment of American citizens. All have excellent growth potential.

I believe that our more cautious and balanced approach to investing is the better way forward. Through careful company and sector selection, and the patience and discipline to maintain, at times, a considerable cash position (currently 20%), we have achieved much of the upside of the market, along with superior downside protection. Since the inception of our firm in 2012 we have achieved an average annualized composite total return of **10.20%***, and with nearly **one half the volatility** of the market.

Recently, there have been some positive indications regarding coronavirus vaccines, and some positive indications on the economic and employment fronts as the U.S. economy works to fully reopen. However, there does appear to be a major disconnect between the performance of the stock market when compared to that of the U.S. economy as measured by GDP and employment rates. This valuation disconnect has been increasing over the past 10 years - long before the virus hit. Certainly, a commitment to 0% interest rates and massive monthly asset purchases by the Federal Reserve lends some support to asset prices – to a point. However, this support has come at the cost of dramatically increased debt levels, with questionable effectiveness as it relates to support of the economy. These policies have also been extremely painful for savers. Twelve years ago, a retiree could purchase a 6-month CD paying **5%** interest. Today the rate is **.10%**. At this extremely low interest rate, it would take **720 years** for money to double. The Fed has stated that it has “unlimited tools” at its disposal. However, it is my belief that the lowering of interest rates has had the greatest impact on asset prices.

Our world is still full of many excellent investment opportunities and we have selected 35 of them for our portfolios. I believe that we are very well-positioned for growth, increasing dividend income, and the downside protection that we always seek should markets become more difficult.

Sincerely,
Chris Kondracki, Principal and Portfolio Manager

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