



**STONEBRIDGE**  
Capital Advisors

# **Annual President's Letter**

*February 11, 2021*

By Robert Kincade  
President & Portfolio Manager



Dear Clients, Advisor Partners, Shareholders and Friends:

Happy New Year! I am sure that most of us are happy to say goodbye to 2020. It was a challenging year to say the least. Beyond the challenge of battling the Coronavirus and a pandemic led recession many of us suffered painful losses and our hearts and prayers go out to you.

At Stonebridge we dealt with our own pains as we lost our dear colleague and friend, Raymond Hirsch. Ray passed away last year due to complications with his battle with cancer. Ray was a kind man, loving husband, father and grandfather and a great friend to all of us. Ray had a long career as an outstanding Portfolio Manager and Equity Analyst. Prior to joining Stonebridge in 2004 Ray served as Portfolio Manager and Analyst with IDS/Ameriprise where he managed some of their top performing mutual funds. He joined Stonebridge after retiring, bringing so many brilliant ideas to our team and was always enthusiastic about serving our clients. Ray will be greatly missed.

Even with the challenges of this past year we believe it is important to reflect upon the present blessings in our lives: our Stonebridge Family, our clients, partnerships, and the communities we serve. We appreciate our relationships and value the honest feedback we receive from you, allowing us to become a better company.

## **Economy and Markets**

2020 started off in a promising way. The equity markets were reaching new highs and interest rates were at manageable yields, although rising. It had been our expectation that we would experience a more normalized business cycle recession mid 2020 should rates continue to rise. At that time, we were preparing portfolios for a recessionary situation but could not have prepared for what was ahead of us in February. In February we realized the Coronavirus or Covid-19 was rapidly spreading with very high death rates. By March Federal, State, and local governmental agencies determined to protect us from the spread by closing sectors of the

economy that involve large gatherings of people. Eventually closing the entire economy. Only essential service businesses could operate. Unemployment skyrocketed, the stock market experienced one of the fastest and steepest downturns in history and the bond market dropped in value as well, with investor concerns of a credit crisis. The Federal Reserve (The Fed) and U.S. Treasury Department took quick action to stabilize the bond market acquiring bonds in the open market and lowering interest rates. The Fed would eventually commit to keeping rates low for an extended period of time. Congress passed a stimulus package to support the unemployed, and the Paycheck Protection Program (PPP) offered loans to businesses who would maintain their staffing during the Coronavirus crisis. The Administration introduced Operation Warp Speed, a public/private program to accelerate the development and distribution of vaccine and therapeutics for the virus before year end and did. As the economy very slowly opened, the stock market started a V-shaped recovery. This recovery in the stock market was led by roughly 35 companies of the S&P 500. The companies that outperformed were perfectly designed for a closure of the economy including Facebook, Amazon, Apple, Google, Netflix, etc. or "Growth" stocks. Interest rates dropped and the 10-Year U.S. Treasury dropped to a yield of 0.52% on August 4<sup>th</sup> 2020, down from 1.92% at the beginning of the year. Low interest rates on mortgages spurred on a housing boom that helped most businesses around the housing industry. The sectors of the market that did not correct as fast were the sectors that remain closed or partially closed. These are often referred to as "Value" stocks and include restaurants, hospitality, entertainment, office building Real Estate Investment Trusts (REITS), retail stores, energy, transportation, etc. The spread in returns between Growth and Value reached all-time highs and ended the year with the Russell 1000 Growth Index up 38.49% and the Russell 1000 Value Index up 2.78%. Throw in an election year that was tumultuous, to say the least, and ended very close in numbers followed by a runoff for two Senate seats in Georgia, you have a very volatile and challenging year. Of course, there are more details about 2020 that could



be reviewed along with substantial debate about issues, however, it is time to move on to 2021.

2021 finds us working hard to get people vaccinated particularly as flu season is upon us. We have re-entered a phase of closures to protect from the spread of Covid-19. The closures have caused unemployment to rise. Congress is considering adding another stimulus package, the second impeachment process has begun, regulations are changing with the strike of a pen and we anticipate legislation that will impact taxes. It should also be noted the stock market is reaching all new highs. There are sectors and companies that are trading at multiples not seen since the "tech wreck" of 2000. Investors are chasing new issues, Bitcoin, SPAC's, Gold, Game Stop, you name it. Very quietly the 10-Year U.S. Treasury yield has crept up from yield of 0.52% to 1.13% as of the end of January 2021. Why is the market acting this way? In the face of all these challenges there is yet a whiff of positive sentiment in the air. Through all this the "Consumer" which is 68% of GDP in the U.S. has remained financially healthy despite all these challenges. A majority of consumers have kept their debt in check or lowered it, saved, invested, spent responsibly, focused on their families, and followed most of the virus protocols. In general, you, me, all of us "consumers" out there do not like to be held back very long. It has been a year of pent-up desire. We want to get back to work, back to being with friends and family, back to life.

We believe there are key factors that will move our economy and markets forward:

**1. COVID-19** – This is the primary roadblock we must get past. As our population receives vaccinations, we can get back to work and re-open our businesses, schools, healthcare organizations, industrial production, and non-profit organizations.

**2. Federal Reserve** – The Fed has committed to keep interest rates low for an extended period of time. This will continue to fuel the economy and markets.

**3. Additional Stimulus** – This is a short-term positive but is needed for many people and organizations. Long-term it increases the debt of our nation however the economy needs to start growing to generate the tax revenues to pay that debt...and yes, our representatives in Washington will have to eventually face the challenge of our debt level.

**4. Action-** There is legislative action that could help move our economy forward such as an infrastructure bill. There is also legislative action that could hurt our economy particularly excessive tax increases.

## **Preparing for a New Year**

Our recommended strategy is to review your financial position with Stonebridge or your advisor to assess your assets and liabilities (debt) to assure you are properly structured to meet your goals and adjust your strategy as needed. When you review your assets (investment portfolios, home, real estate, business, commodities, insurance, etc.) assure it is properly structured/titled and is focused on meeting your long-term goals. Also, make sure you review any estate planning documents and adjust accordingly.

This is also good time to review your investment portfolios to make sure they align with your goals and the time frames to reach those goals. You should consider the following:

**Asset Allocation:** The balance between equities (stocks), fixed income (bonds) and cash may need to be adjusted. If your equity allocation has run above the top limit, it should be trimmed back to your objective. If your goal is to achieve income returns, because interest rate yields have dropped significantly, you may want to consider other alternatives to bonds to achieve your income objectives.

**Equity:** The upward trend of growth stocks and even speculative stocks can continue their run for a while. If you have a portfolio of growth stocks that are priced at historically high multiples it is wise to take some of those



gains by trimming positions back to more reasonable allocations. If you believe you need more exposure to growth companies that have run up in value, we advise you enter those investments slowly and at moderate levels. That way if the market corrects you can buy additional shares and lower your average cost basis. Value and dividend income stocks still provide for upside opportunities as many have not fully recovered from the downturn in 2020. The selection of value and dividend income stocks must focus on companies with strong financials and are positioned with the leadership products and services in their industries. Be careful not to chase a dividend stock simply due to a high dividend yield. You want to confirm a company's ability to earn income and pay their dividend, preferably companies that have a history of consistent and growing dividend payments.

**Fixed Income:** Interest income yields have fallen to historical lows and there is little yield increase in low quality or junk bonds. We recommend investing in bonds with 1 to 5-year maximum maturities and focus on investment grade securities. Short-term/high grade bonds can be a good defensive position if the equity markets are volatile.

## **Stonebridge's New Year's Resolutions**

New Year's resolutions traditionally give us the opportunity to reflect, continue good practices that have been established, and create changes to improve. Since our inception in 1997, the foundation and development of our services, reporting and styles of management have been driven by client needs and requests. This year we will take a big step in the direction you have led us to. 2021 will be a year of refreshing at Stonebridge Capital Advisors. Our goal is to enhance our services already provided by deepening our relationship with you.

**Client Relationship Management:** Our focus has always been "client first." We want to emphasize that with a clear process and broader, dedicated team of Stonebridge professionals for each of our clients. We

will be contacting you to introduce you to your dedicated team which will consist of specific portfolio managers and client relationship team suited for you, your family or organization. You will receive detailed information about their responsibilities as your service team, and a personalized communication calendar will be established.

**Asset & Wealth Management:** The foundation of our services has focused on achieving your investment goals through building your wealth, protecting your assets, and planning for wealth transfer. Our wealth management services will include retirement and estate planning provided in conjunction with your financial, legal and tax advisors.

**Communications:** Safety provisions due to Covid-19 have made it difficult if not impossible to meet face-to-face with you so we utilized technological tools during the interim. As John Adams quoted, "Obstacles are opportunities in disguise." We continue to use and develop other means to stay connected including written communications via e-mail, letters via mail, and phone calls. To provide industry insights, we developed a series called, "Stonebridge Soundbites," which are brief audio recordings centered around specific investment topics. Additionally, we will offer videos with discussions by Stonebridge team members on issues that impact your goals, wealth management and investing. Lastly, at least for the first half of the year, events will be provided via Zoom.

**Website:** Our website will be refreshed this year with a new look and designed to provide easier access to information on your portfolio, communications, educational information and more. We want our website to be your one stop shop to access portfolios and educational material.



Please continue to contact us, comment on our services, and offer your recommendations. Our goal has always been to provide superior service to our clients and partners.

2021 is upon us, we embrace the challenges and opportunities the New Year offers. On behalf of the entire team at Stonebridge, we greatly value our relationship with you and serving your needs. We look forward to a safe and prosperous 2021.

Respectfully,  
Robert Kincade

*Sources: Data sourced through Bloomberg*

*Disclosure: The views expressed here reflect those of the writer as of the date noted however completeness cannot be guaranteed. They may change as economic fundamentals and market conditions change. This commentary is provided as a general source of information only and is not intended to provide investment advice for individual investor circumstances. Past performance does not guarantee future results. Please seek the advice of professionals regarding the evaluation of any specific information, opinion, advice or other content.*

