D|A|DAVIDSON

CROWELL WEEDON ASSET MANAGEMENT
MONTECITO INVESTMENT PORTFOLIOS

January 1, 2021

Dear Fellow Investors,

We've outlined the major topics & takeaways of our annual letter below – details follow!

MAIN MESSAGE HIGHLIGHTS:

- THE PAST AND PRESENT: Despite 2020, we're not backing away from our call that we're entering a substantial "Up" move for the market
- THERE'S A NEW MINDSET AND TALENT PULSING THROUGH THE MARKET
- THE FUTURE: Welcome to the Roaring 2.0s. Similar to the 1920s, we believe the 2020s will be led by innovation and a renewed sense of optimism
- OUR SOLUTION: It will be in an investor's best interest to adopt a "Stage of Life" investment approach to combat the challenges faced today

FORECASTS

- **Economy:** by the end of Q3 the economy will surpass the output of 2019
- **S&P 500:** more index turnover, more growth companies, 4,200 target by year-end
- **Short-term rates**: unchanged throughout the year
- **Long-term rates**: slight steepening of the yield curve, 10 year near 1.5% by year-end
- **Oil prices**: range-bound, no longer a core, long-term investment asset
- **Inflation**: remains benign but growth of the money supply provides potential fuel
- **Commercial real estate**: a continuation of trends we saw for 2020 only further accelerated by COVID
- **Residential real estate**: overall gains with low-cost areas outpacing high-cost areas

Three more forecasts not entirely investment related:

- **2021 sees the launch of an autonomous rideshare service**
- **Advancement in healthcare is led by gene editing, mRNA, and AI**
- **Space exploration starts to be seen as a reality for mankind**

CONCLUSION

- We are well aware that it is a rather bold proclamation in calling this decade the Roaring 2.0's. We believe we've provided the data to justify our outlook.

THE PAST & PRESENT

Last year, we highlighted the long-term movements in the stock market in our main message titled "Muck and Up". When looking beyond the short-term, a consistent pattern emerged. The US stock market has gone through decade-long periods of what we refer to as "Muck", followed by decade-long periods of "Up". The "Muck" is nasty, characterized by extreme volatility with some of the worst market declines ever witnessed. Not only are the declines severe but they take a long time to recover from. "Up" periods are good – really good. The market has increased anywhere from 5 to 14 times in value. Last year we predicted that we were exiting a period of "Muck" and entering a new period of "Up". With the awfulness of 2020, you might think we would backtrack on this prediction that we're entering a period where the market could potentially increase in value by many multiples. However, we are sticking to our call for several reasons:

- An entire generation has endured numerous, horrendously bad markets highlighted by the dot-com crash, Great Recession, and now 2020. That's right – this recent period of "Muck" has been historically bad, being the only other period along with the Great Depression to have 2 greater than 50% peak to trough declines in market history. Remember, in March of 2020 the market was only 40% higher than where it was 20 years ago – this works out to an annualized growth rate of under 2% which is woefully bad.
- The past 20 years of "Muck" has engrained worry, fear, and doubt towards investing in stocks. Many investors are now conditioned to expect the worst. This has filled the market with doubters saddled with a short-term mindset focused on profit-taking and crash avoidance as opposed to long-term wealth-building.
- The final, missing ingredient to our "Up" call is now in place. The general public is once again coming around to viewing the stock market as a great way to build wealth. This has largely been missing over the past 20 years. As a matter of fact, for much of the past 2 decades we believe the stock market was viewed in a negative light, too scary for most, and lacking significant enough returns to justify the risk.

The negative recency bias built over the past 2 decades was gradually eroding as we moved further and further away from the dot-com crash and Great Recession. 2020 jeopardized this progress as the world was slammed by COVID and the largest economic decline in history. At the beginning of COVID lockdowns, it looked like more of the same. A huge market drop, millions unemployed, and rampant panic and fear. Hedge fund manager Bill Ackman famously went on CNBC and proclaimed "HELL IS COMING." We saw negative yields on US treasury debt and people more than willing to lock in that known loss for fear the future held much worse in store. But then, something happened. The world pivoted like very few expected. A vast majority of businesses transitioned to a remote environment as did education. The majority of consumption shifted online. People accepted our new, temporary, way of life and largely made it work. It may sound outlandish, but we don't think it's too crazy to say that the technology of today saved a lot of lives. Certainly, the ability to work from anywhere had to have an impact on the spread of COVID. The ability for this pivot to take place would not have been possible just a few decades ago – heck, we would have been lucky to be able to pull this off just 10 years ago. **The bright spot of 2020 might just be how quickly human ingenuity gave us an option during COVID.**

Our historic economic decline was quickly met with a historic economic recovery. In the depths of March, virtually every financial journalist and market pro on CNBC was painting a picture of doom, gloom, and advice to not act too quickly and exercise patience. Only the rare contrarian was calling this one of the great buying opportunities of a lifetime. Unfortunately, those that hunkered down, acted defensively, or worse yet panicked and sold, largely missed the fastest recovery from a bear market in history and the subsequent gains the market produced as the year progressed. 2020 was another example of why it's next-to-impossible to time the market.

WE'RE WITNESSING A NEW MINDSET AND NEW TALENT PULSE THROUGH THE MARKET

In our opinion, 2020 ignited two significant themes that will drive our "Up" forecast for market returns over this next decade:

The return of the retail investor is proof of a new mindset towards stocks - empowered with tools such as Robinhood, individual investors stepped into the market during the March sell-off and bought stocks. They bought companies they know, believe in, enjoy, and do better for the world at large. The retail investor acted with a level of interest for stocks never displayed by this younger generation until now. The exceptionally entertaining Jim Cramer said it best just this past month:

"I think it's time to stop disrespecting the younger investors who've nailed 2020 every step of the way and start taking them seriously. We've got a massive group of individual investors who've become in many ways a more powerful collective force than the professionals, and they simply don't care about the same things as the experts. The return of individual investors has changed the entire character of the market. They only care about who's doing what's right and who's doing what's wrong. If they buy a stock that turns out wrong, they can always trade out of it for free because there are no commissions. This pandemic has become the ultimate changing of the guard, but you might have missed it if you're not as plugged in to what's happening with the younger generation."

These market newcomers are displaying some key characteristics that differ from recent memory:

- They prefer to own individual stocks versus index funds
- They make independent investment choices
- They have a willingness to take on risk in a bear market
- A strong belief in environmental, social and corporate governance, or ESG, investing

This new group of investors will make plenty of mistakes. However, we remind our readers that anyone proclaiming to have never made a bad investment decision is lying to you. Not even the legends of investing bat one thousand. The perspective that it's a good thing to invest in stocks is finally back. The belief that you can make significant amounts of money in the stock market is back. **THIS IS WONDERFUL!**

A new mindset about coming public has opened the floodgates for new companies to invest in – We wrote in our 2019 annual letter about the problem with short-termism dominating the market. We cited evidence from the likes of Jamie Dimon, Warren Buffet, Elon Musk, and a study showing how the public markets have become unfriendly to younger, smaller companies. The US market had actually become a vehicle that on a net basis was returning capital to shareholders as opposed to raising capital for companies. This structural problem with the workings of our public market was a true long-term fear of ours giving us much greater cause for concern than any temporary market crash. We feared this would lead the US market to turn into the land of boring, predictable, and slow growth. We believe our fears were justified when you consider that the 1990s saw [5,724 companies come public](), which was 34% higher than the decades of the 2000s and 2010s combined! Fortunately, this is starting to reverse. We're not sure if there's an exact inflection point, but we do believe Tesla achieving consistent profitability served as a catalyst for many companies to no longer live in fear from the scrutiny of the public markets. There is now a wave of new companies opting to come public, taking advantage of our robust capital markets, and fueling their vision for the future with significant capital raises. Not all of these companies will thrive. There will be some failures. However, we do not anticipate another dot-com bust anytime soon based on the following:

- **Dot-com boom was rather narrow in scope** - It was led by the buildout of physical infrastructure allowing the internet to blossom. In the 5 years after the Telecommunications Act of 1996 passed, companies invested more than $500 billion, mostly financed with debt, in laying fiber optic cable, adding switches, and building wireless networks. The growth in capacity vastly outstripped the growth in demand. Today, we're not led by just one technological advancement and we're not building out any type of excess capacity. We're seeing massive technological advancement from investment cycles that have been happening for a decade. This is leading to rapid innovation in everything from healthcare to plant-based meats, from battery technology to the reusability of rockets, from predicting fashion styles to the shape of various proteins found in nature. The dot-com era was just that – an era. It largely marked the birth of the internet. We do not believe you will be able to mark this as an era – we believe it will be a revolution. Like the agricultural revolution and industrial revolutions, this digital revolution will change our lives like never before. The difference is, it's just getting started – not ending.
- **We have private markets acting as a buffer against the really bad companies** – The dot-com era was not one where companies were afforded the luxury of raising significant amounts of private capital, work out their kinks away from the scrutiny of the public market, and come public when they chose to. The dot-com era lacked significant institutional investor allocations to "alternative" asset classes such as venture capital, private equity, real estate, & hedge funds as we had not yet experienced the two crashes of the 2000's and fixed income still offered a decent yield. [Today's robust private markets]() are filtering out a lot of the lower quality companies before they even get the opportunity to come public. The result has been far more developed and higher quality companies entering the public market today. While this does take away some of the big wealth creation potential from finding these exciting companies early, it has also resulted in the public markets consisting of a lot more quality businesses than you might expect.
- **Interest rate environment** - In the late 1990's you had the 10 year US treasury yield 6% - there was a viable alternative. This does not exist today.

- **Dot-com bust marked the end of an "Up" move, not the beginning -** After nearly 2 decades of the market appreciating by almost 14 times in value, investors had been through the strongest "Up" period in market history. The top was marked by massive signs of excess including outright frauds from major companies like WorldCom, Enron, Adelphia, C-suite execs like the team at Tyco taking out multi-million dollar interest-free loans they never repaid, analysts trashing their own recommendations behind the scenes at major investment firms, and hundreds of dot-com companies imploding as they had no viable business plans. Investor sentiment had peaked after this monumental, two-decade run. We believe it is going to take a lot longer than 9 months to get to a point where we can say investor sentiment has tired, markets have peaked, and behavior has become euphoric.

We are not saying this market is without speculative pockets – it certainly is. Anytime you see several companies post triple-digit percentage gains for one day, let alone one year, you can be assured there is some speculation taking place. However, these euphoric moves are not taking place across the entire market. They are limited to certain areas or companies that the market is really excited about. The key to success will be sorting through the companies that merely possess potential versus those with the ability to turn potential into reality. The ability to analyze competitive advantages will be key.

A new generation of investing gurus are being crowned today – Today, we're seeing bright investment minds in numerous areas of the market. Some leading SPACs, some in venture capital world, but all with a platform to promote like no other time in history. Millions of twitter followers, millions of podcast subscribers, all about how they found great ideas, what they look to identify in phenomenal companies, and what characteristics great business leaders of today possess. This is a changing of the guard. For much of the past two decades, hedge fund managers ruled supreme. They were viewed as investment gods, betting against the status quo, and making a fortune when something fell apart. If you're a believer in mean reversion then we believe this will be one of the biggest mean reversions from market pessimism to market optimism in history. This generation's Warren Buffett, Carl Icahn, & Peter Lynch are going to be heralded for their early investments in leading companies of this next generation, not for calling the next great collapse.

What does it all mean? - All of this points to a future for stocks that we believe will differ dramatically from the past. A generational shift, led by a great reset of thought in regards to where we work, what is truly important in life, and what we can accomplish going forward. This is not a comparatively minor change to tax rates, health care, or social security benefits. This is far, far more lasting change that will reshape beliefs about the employee-employer relationship, big city life, customer experiences, and our work-life balance as connectivity enables us to be productive from anywhere in the world. This has sparked a renewed sense of optimism that we see growing throughout this decade into what we're calling THE ROARING 2.0'S.

THE FUTURE – WELCOME TO THE ROARING 2.0'S

Making comparisons to a period from a century ago will not necessarily be apples to apples but there are certainly similarities. Let's take a look at some of the characteristics that drove the 1920s, which was a decade of massive change, and illustrate why we believe a similar decade could be in store.

Innovation flourished. The 1920s saw Americans owning cars, radios, and telephones for the first time ever. While Americans still own cars, radios, and telephones the devices of today mine as well be considered a new invention.

CARS

"It is only a question of a short time when the carriages and trucks of every large city will be run by motors. The expense of keeping and feeding horses in a great city like New York is very heavy, and all this will be done away with. You must remember that every invention of this kind which is made adds to the general wealth by introducing a new system of greater economy of force. A great invention which facilitates commerce, enriches a country just as much as the discovery of vast hoards of gold." **– Thomas Edison - New York World interview - November 17, 1895**

Transportation is on the cusp of a revolution. In the Roaring 2.0's we will see vehicles that are powered by electricity, have the ability to handle the majority of driving themselves, and become the ultimate mobile device. They can act as a large, distributed, mobile data center, capturing real-time information from across the globe. As they become a far simpler machine to manufacture, the entire sales process and dealership model will become unnecessary. Car owners may be presented with the intriguing proposition of allowing their vehicle to operate in a ride-sharing fleet, allowing the owner to earn an income to help offset the cost of the vehicle. Should this happen, we could witness the entire equation of car ownership flipped upside down. As vehicles become assets, producing a net positive value for their owner, the thought of owning a "dumb" car will be like owning a horse and buggy just over a century ago. With costs plummeting, battery life improving, impeccable performance, and minimal maintenance, you can see why we believe the experience of owning a car will be dramatically improved. The days of cars being a huge liability, depreciating throughout their useful life, and costing owners thousands of dollars in maintenance and numerous hours in lost time are numbered. The Roaring 2.0s will see Transportation as a Service (TaaS) fully blossom. This is revolutionary.

PHONES

Phones of today are no longer tethered to a physical location, instead, they reside in the hand of virtually everyone on the planet. They have become the remote controls for life. Their powerful processing power (current smartphones have about 100,000 times the processing power as the computers that helped mankind reach the moon), stunning visual displays, and immense capabilities have made them nearly essential for all generations. The creation of the smartphone allowed for an entirely new segment of the economy to form. Developers were free to use the capabilities of the device to put movies, games, friends and family, communication, work, banking, investments, news, memories, and much more right in the palm of our hand. Oddly enough, the phone app on most smartphones is probably the least used app on the device. The Roaring 2.0s will see the rollout of the 5G network across our country and much of the world. This will bring an increase in speed of about 10 times what we're currently used to. The first generation network brought us voice, the second was data, the third was basic mobile computing, and the current, fourth generation, has speeds that allow for the app-based economy to flourish. 5G speed will allow augmented reality, advanced robotics, and connected devices to boom. Imagine being able to see that new couch right in your living room, see how that shirt would look on you before you buy it, track biometric data as your work out, or check out advanced statistics about your favorite sporting event as you watch it live. With 5G's higher throughput and lower latency we will see the rise of advanced robotics that can become a valuable input in advanced manufacturing operations. 5G will see a boom in connected devices as virtually all aspects of an operation can be made smart, communicate with one another, and make adjustments accordingly.

RADIO / TELEVISION

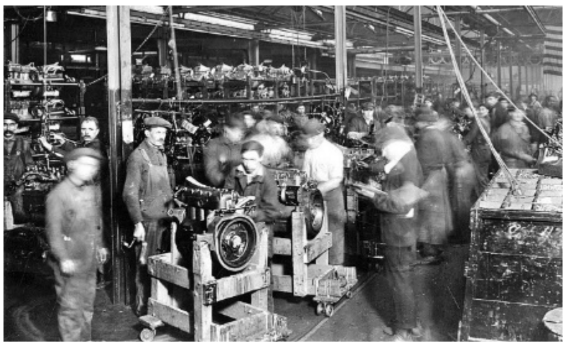
The days of waiting for the Sunday paper to grab the weekly TV Guide are long gone. Television and Radio have both moved to on-demand. It's no longer tune in when you can, it's tune in when you want. Netflix pioneered streaming and has forced the entire industry to adapt, finally breaking the shackles of the channel packages. This has given consumers the choice to pay for content they actually want to watch. Radio has also migrated to streaming plans giving you access to virtually any song ever created. Further, podcasts have created an entirely new genre of information and entertainment. As of this year, Apple now hosts 1.68 million podcasts with nearly 42 million episodes on their platform. Over 55% of the US population has now listened to at least one podcast. On-demand, streaming channels like podcasts and YouTube, have given the entire world a voice and provided a means to monetize their content. It is truly amazing from both a creator and consumer standpoint. We are witnessing a massive democratization of knowledge spread across the world on a scale never witnessed before in human history.

FLIGHT

Up until the 1920s only a handful of daredevils had flown. In 1924 eight US Army Air Service pilots circumnavigated the world for the first time, just 21 years after the Wright Bros. first flight. By 1925 the US Postal Service had delivered 14 million letters and packages via airplanes and were maintaining regular flight schedules. In 2019, US airlines carried 925.5 million passengers illustrating just how common commercial flight has become. This decade, the public will be introduced to space flight. The reusability of rockets has dramatically cut the cost of a launch (could you imagine the cost of flying in an airplane if they were all single-use machines) and will eventually make it affordable for all. Space X continues to cut their own launch cost estimates and believes they can reach a price below $30 million, whereas the United Launch Alliance (consisting of Boeing and Lockheed-Martin) have charged nearly $150 million in recent history. This will have a profound impact on all of humanity. Mankind has known one home for all of our existence. The Roaring 2.0s will most likely see this change. We envision many firsts this decade when it comes to space. The first civilians taking a trip around the moon, the first lunar base established, and the first humans to set foot on Mars. We believe this could be one of the most unifying events in human history as the world comes together to celebrate mankind's accomplishment and spark an entirely new space economy.

MANPOWER TO MACHINE POWER



The 1920s saw mass manufacturing excel. Innovation, led by the likes of Henry Ford, dramatically cut manufacturing time and cost. In 1910, the Model T cost approximately $900 and Ford produced 19,000 of them. By 1923 the cost had plummeted to $360 and they produced over 2 million of them. Blending manpower with innovation led to a boom in producing standardized goods, with new offerings of sizes and styles, all at affordable prices. While this boom was indeed revolutionary, it will look exceptionally crude compared to the advancement that will take place throughout this decade. The Roaring 2.0s will see two technologies evolve to become primary labor inputs – advanced robotics and artificial intelligence. We believe they will lead to productivity enhancements like never before. While robotics have been utilized for decades, they were limited to performing repetitive tasks that their engineers programmed them for. AI will bring advancements in:

- Machine Vision - will vastly improve depth and image recognition
- Scalability – machine learning will allow robots to handle new parts of a manufacturing process without needing to be reprogrammed, as these programs are typically cloud- based, learnings of one robot can be applied to an entire army of robots
- Intelligent Placement – the ability to carefully and neatly handle delicate items

Machines will continue to be able to handle more and more tasks previously only thought possible to be done by humans. We think the Roaring 2.0s will not only see this in industrial settings, but also see more and more consumer-focused solutions become common in households throughout the country.

Optimism grew. The 1920s was a decade of optimism for many reasons, not least of which was the end of World War I. While we've been fortunate to be living through one of the longest peace times in global history we do believe COVID-19 has taught us many lessons about what is truly valuable in life – similar to perspectives gained from previous conflicts. We are definitely not comparing what we've experienced with COVID to the horrendousness of actual war. Merely the appreciation we've recognized when certain freedoms are impacted. Time with family and friends, work-life balance, and a deeper sense of appreciation are being recognized across the world right now. As extraordinary work has been done on the vaccine front we believe there is a pent-up global demand wave about to be unleashed throughout this decade as the world now has a deeper value for what is truly important in life.

We believe 2020 will mark a peak in pessimism for the foreseeable future. A major driver of renewed optimism will be led by a refreshed sense of what capitalism can accomplish. Overlooked amongst the chaos of 2020 was the fact that America largely voted against a meaningful shift towards socialism. However, this does not mean that the voices in favor of a more socialist agenda were not heard. Issues related to homelessness, affordability of housing, rampant drug use, significant wage gaps, student debt, and high unemployment are real. In some respects, you can't blame those that feel the American Dream is not achievable for them after having witnessed their parents' retirement savings decimated in the Great Recession and their inability to find a job after borrowing thousands of dollars for an "education". However, as we referenced in our Q3 commentary, we are a country that airs our dirty laundry. While this can cause discomfort, in the end, our issues tend to get dealt with. Business leaders are listening and recognize something needs to be done. They are using their position of influence as a platform to deliver change. Interestingly enough, we believe an innovation of capitalism will be what solves the problems some have raised with capitalism.

A NEW ERA FOR THE PURPOSE OF A CORPORATION, FOCUSED ON THE LONG-TERM, WILL DRIVE THE ROARING 2.0'S - What might have gone largely unnoticed and probably didn't receive the media attention it deserved was the August 2019 Business Roundtable meeting in which 181 CEO's signed on to a refreshed vision for what the purpose of a corporation is:

Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all. Businesses play a vital role in the economy by creating jobs, fostering innovation and providing essential goods and services. Businesses make and sell consumer products; manufacture equipment and vehicles; support the national defense; grow and produce food; provide health care; generate and deliver energy; and offer financial, communications and other services that underpin economic growth. While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:

- *Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.*
- *Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.*

- *Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.*
- *Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.*
- *Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.*

Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.

This new perspective, that a corporation is responsible to not just their shareholders, but to their customers, employees, suppliers, and their communities, is a far broader scope of what the future of capitalism will aim to achieve. Business leaders are now taking an active role in not just bettering the lives of their employees, but also the lives of those they work with, and members of the communities in which they operate. They've had enough with inefficient government programs that are big on promises but small on results. Having some of our brightest minds engaged in solving complex, societal problems will be a good thing over the long-run.

EMBRACING THE LONG-TERM – Another event that did not receive much attention or media coverage was the recent launch of the Long Term Stock Exchange. The new exchange has a set of differentiated listing standards designed to create lasting value for modern, public companies and their like-minded investors. The standards were developed through years of discussion with founders, executives, investors, policymakers, regulators, academics, trade organizations, and others with valuable perspectives on the public markets. The standards are part of a broader ecosystem designed to promote sustainability, resilience, long-term value creation, and systemic change. These standards require companies listed on the Long-Term Stock Exchange to adopt and publish five policies regarding the following topics:

- Long-Term Stakeholders - should consider a broader group of stakeholders and the critical role they play in one another's success just like the Business Roundtable espoused
- Strategy – companies should commit to measuring success in years and decades and prioritize long-term decision-making
- Board of Directors - should be engaged in and have explicit oversight of long-term strategy
- Compensation - should align executive compensation and board compensation with long-term performance
- Investors - should engage with their long-term shareholders

Adopting these policies means embracing obligations to do right by all key stakeholders (employees, customers, suppliers, communities, and long-term shareholders). Companies might ask why they would want to hold themselves to these higher standards. Fortunately, there's broad empirical evidence linking stakeholder-focused behavior to superior financial and operational performance across multiple dimensions:

- Companies accrue important intangible resources such as legitimacy, reputation, and trust, which can lead to a sustainable competitive advantage

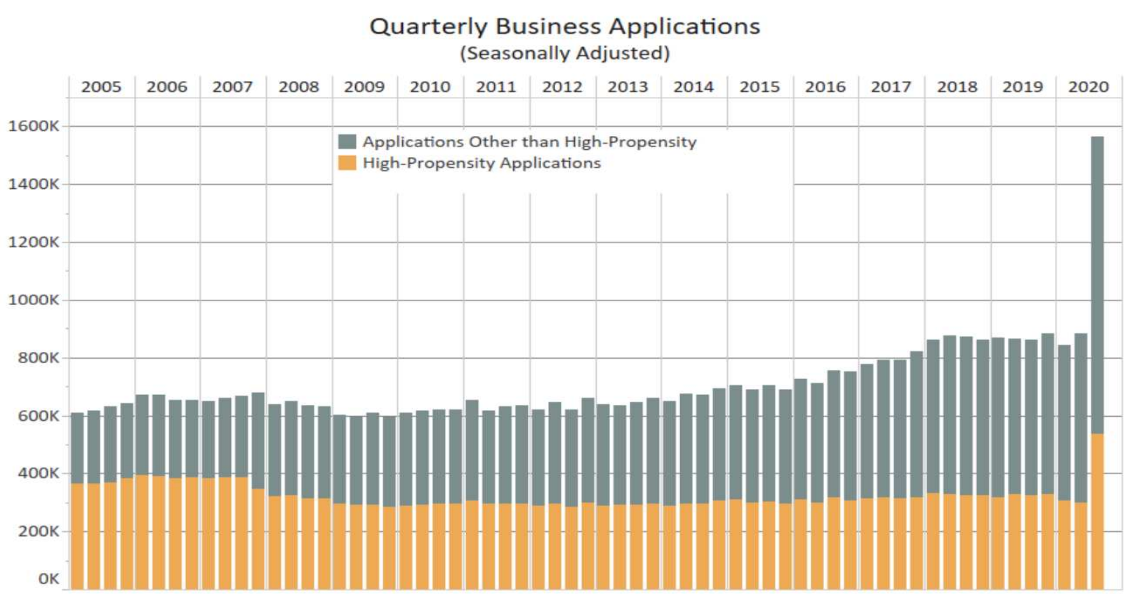
- Companies attract a higher-quality workforce, foster employee commitment to organizational values and practices, and retain talented employees
- Companies attract and retain customers, build brand loyalty, and stronger brand recognition
- Increased innovation
- Increasingly, customers are taking into account a company's impact on society, the environment, and their community when they make purchasing decisions. Brands can be severely damaged by actions that consumers view as unacceptable
- Improved environmental performance and risk management led to reductions in firms' costs of capital

We're intrigued by the ability to directly measure returns of companies that will commit to the standards of the Long-Term Stock Exchange. They should be companies that care far more about investing in the future than in cutting corners or engaging in financial gymnastics to meet quarterly targets. They will support boards and executives in making the hard choices that are right for the long-term, even if they are harder in the short-term.

CAPITALISM 2.0 IS HERE AND IT WILL ALLOW MORE PEOPLE THAN EVER TO CONTROL THEIR OWN DESTINY

"Prior to capitalism, the way people amassed great wealth was by looting, plundering, and enslaving their fellow man. Capitalism made it possible to become wealthy by serving your fellow man." - Walter Williams – American Economist

COVID-19 has led to many surprises. One we find astonishing is the generational surge in new business applications.



Business Applications - At a Glance

		US	Northeast	Midwest	South	West
Total	2020 Q3	1,566,373	230,127	283,336	737,622	315,288
	2020 Q3 / 2020 Q2	+77.4%	+86.0%	+88.0%	+79.4%	+59.7%
High-Propensity	2020 Q3	537,355	84,634	96,473	236,232	120,016
	2020 Q3 / 2020 Q2	+79.0%	+97.5%	+92.0%	+79.2%	+59.4%
With Planned Wages	2020 Q3	178,662	24,635	34,793	77,984	41,250
	2020 Q3 / 2020 Q2	+70.1%	+89.6%	+83.4%	+69.3%	+52.7%
From Corporations	2020 Q3	184,822	38,769	24,983	68,032	53,038
	2020 Q3 / 2020 Q2	+67.1%	+101.9%	+74.5%	+59.0%	+54.8%

Details may not equal totals due to rounding. Regions defined by Census Bureau Geography Program. Statistical significance is not applicable or not measureable.
Data adjusted for seasonality. Green Percentage changes are greater than zero (+). Red Percentage changes are less than zero (-). Z = absolute value < 0.05.

It is possible, some of the surge was from people trying to claim stimulus funds and a backlog of built-up, unprocessed applications. Nonetheless, we believe it reflects a genuine rise in American entrepreneurship. By contrast, the Great Recession saw a sharp decline in the number of business applications. Further, over the past four decades the rate of new-business creation had been drifting downwards (researchers pointed to declining population growth as one cause, as well as the growing power of large firms, which may have dissuaded new ones from entering the market). The fact that America has suddenly recovered its entrepreneurial spirit is particularly intriguing, since nothing comparable seems to be happening elsewhere in the developed world.

In Berkshire Hathaway's 2018 shareholder letter Warren Buffet wrote about the "American Tailwind". He imagined life in America in 1788 when there wasn't much here *except* for a small band of ambitious people and an embryonic governing framework aimed at turning their dreams into reality. He notes, from that date forward, America endured a Civil War, Great Depression, growing budget deficits, bipartisan politics, viral inflation, paralyzing financial panic, and a host of other problems. Despite this, investing in the mettle of American business had no peer. We believe this Tailwind is setting the stage for its next wave of acceleration. Just over 10 years ago, in the depths of the Great Recession, entrepreneurs created Airbnb, Groupon, WhatsApp, Uber, Slack, Venmo, Square, & Bitcoin. Today's entrepreneurs have access to an unprecedented entrepreneurial toolbox full of financial and human capital, subscription-based productivity tools, the ability to outsource non-core functions of their business, and an archive of human knowledge. We have no doubt that numerous, leading companies of the future, will mark 2020 as their birth year.

WHILE EASY TO GET CAUGHT UP IN WORRIES OF TODAY, WE MUST LOOK FORWARD

The American Tailwind is alive and well. The world is going through a great reset. We are asking questions like never before about how we want life to look going forward. While it's easy to get caught up in doom and gloom, perspective is very important to keep in mind. Much of the world still recognizes what can be accomplished in America. Chamath Palihapitiya, a rising star in today's investing landscape, was recently asked about a New York Times article titled "The Rich Kids That Want To Tear Down Capitalism". His response provides a perspective that we should all keep in mind. Before he immigrated from Sri Lanka he told of not having access to toilet paper, brushing his teeth with coal, and walking to a well for water. He merely wanted the chance to run the race and was constantly told by those born into power that he couldn't.

Despite political division, social injustice, a wealth gap, and numerous other concerns, it's important to remember that mankind has never been in such an amazing place. Life expectancy and literacy rates are at all-time highs, infant mortality has plummeted, famine has largely been eradicated, and billions of people have risen from poverty. People are aware of their impact on the environment like never before and are creating new, better solutions to tackle climate change, pollution, and the preservation of our natural resources.

INVESTING IN DISRUPTIVE INNOVATION WILL BE ESSENTIAL

The Roaring 2.0s will see old replaced by new, slow replaced by fast, and inefficient replaced by efficient. Companies will be forced to examine every aspect of customer interaction to ensure their experience is enjoyable. What happens if you're on the wrong side of this disruption and fail to adapt? Not only do you potentially miss out on tremendous gains as the world evolves, you might also destroy wealth by hanging onto those stuck in the status-quo, failing to innovate. Let's take a look at some recent industry leaders that ignored signs of where the future was headed and fell behind, thus relinquishing market share to younger, faster, more efficient competitors.

Company	Symbol	3 year return	5 year return	10 year return
Macy's Inc	M	-54	-70	-52
International Business Machines Corporation	IBM	-23	-5	-15
Ford Motor Company	F	-33	-31	-52
General Electric Company	GE	-39	-61	-39
Exxon Mobil Corporation	XOM	-52	-46	-45
ViacomCBS Inc. Class B	VIAC	-35	-18	94
Nokia Oyj Sponsored ADR	NOK	-21	-45	-63
AVERAGE		**-37**	**-39**	**-25**
VALUE OF $1,000,000 INVESTMENT		**631,877**	**606,074**	**753,890**
VALUE DESTROYED		**368,123**	**393,926**	**246,110**
Amazon.com, Inc.	AMZN	165	436	1,656
Tesla Inc	TSLA	1015	1,536	12,394
Netflix, Inc.	NFLX	158	372	2,011
Apple Inc.	AAPL	203	450	1,005
AVERAGE		**385**	**699**	**4,267**
VALUE OF $1,000,000 INVESTMENT		**4,850,728**	**7,985,450**	**43,666,029**
VALUE CREATED		**3,850,728**	**6,985,450**	**42,666,029**
THE POTENTIAL COST OF BEING ON THE WRONG SIDE OF CHANGE		**4,218,851**	**7,379,376**	**42,912,139**

SOURCE: FACTSET – TRAILING PRICE RETURNS FOR 3, 5, AND 10 YEARS ENDING 12/31/2020

In our example above, each of the young, disruptive companies has impacted and continues to impact the business of the older, slower-to-adapt, leading companies of yesterday. Amazon affecting Macy's and IBM, Tesla affecting Ford, General Electric, and Exxon Mobil, Netflix affecting Viacom, and Apple affecting Nokia. These younger companies have not just taken market share, but have created and defined new markets allowing them to grow even more than initially thought. Of course these are four of the absolute best-performing stocks in the market over this time frame but certainly highlights the point that investors can't afford to miss monumental change.

Looking forward, we envision these disruptors taking tremendous market share, defining new markets, and creating great wealth for true long-term investors with the ability to exercise patience. We believe Investors are going to have to become more comfortable with broad indexes being valued above historic averages. If S&P does their job correctly they will identify these companies changing the world and include them as early as possible while maintaining their index investment guidelines. In the early stages of this monumental index turnover, valuation metrics are going to shift wildly. We believe it will be in an investor's best interest to tune out the talking heads that will call for drastic mean reversion from a price to earnings standpoint. Instead, we believe index valuations will gradually approach normalcy as these younger companies mature and maximize profits.

OUR SOLUTION – ADOPT A MINDSET BASED ON INVESTING FOR A LIFETIME, WHERE YOUR STAGE OF LIFE HELPS GUIDE ALLOCATION DECISIONS

Investors face numerous challenges today. There is little to no interest being earned on savings. Investors have been conditioned to expect the worst when it comes to investing in stocks. People have access to tools that make it easier than ever to be a trader and attempt to time the market. The days of pulling money out of "risky" assets like stocks and shifting to "safe" assets like bonds are over when interest rates are around 1%. Not even tried-and-true dividend-paying stocks can be viewed as a perfect solution when business models that fail to adapt are getting left behind in a hurry. Investors need a solution that takes all this into consideration.

Fortunately, our Stage of Life investment approach is anchored in empirical evidence that shows investors will be best served by:

- Acting like business owners
- Abide by a disciplined research process and make decisions like an investment committee
- Embrace those companies with potential to change the world
- Carve out a peace of mind bucket to weather the eventual market drops they will certainly have to endure

As investors journey through life, they will make their way through an accumulation phase, a transition phase, and eventually, a distribution phase. They will go from savings assets to living off their assets. The concerns associated with no longer receiving a steady paycheck are valid. The fears over market crashes are almost constant. It takes patience to achieve success. We believe our approach will help temper these fears, keep investors on course with the long-term in mind, and in the process maximize returns. There has been a great deal of thought that went into this concept. There continues to be a great deal of work in regards to structuring the portfolios. We look forward to touching base soon to review our *Stage of Life* approach and help determine which strategy may be right for you.

FORECASTS

This is the section of the annual letter where we discuss forecasts made in the past and discuss the bullets on the opening page of this annual letter. As we do every year, we remind ourselves it's a foolish section where we think we can actually make forecasts for the future! While we had six of our eleven possible forecasts correct last year (yes we score favorably for ourselves), score isn't what this is about. We enjoy using "What If" in our thought process as it allows for outside-the-box thinking and challenges our (and your) assumptions. As a reminder, these forecasts are our thoughts as of the writing of this annual letter in mid-December. Markets are dynamic and ever-changing. When change occurs, so too must our thoughts to adapt to the then current investment environment. This is similar to our health. We get check-ups on a regular basis and develop a plan to maintain or improve ourselves. However, should we get sick we must be flexible enough to alter our plan to adapt to the new diagnosis we have been dealt.

We received good feedback on the new format last year so we will continue it again. Each major area is discussed as a continuum of thought, the past and the future. And yes, we will have a few forecasts outside of conventional thinking – just to keep us all on our toes! We reiterate, our portfolios are managed substantially from the bottom up. This means we look at individual investments themselves and the long-term value they represent, knowing that quality companies at the right price represent value. With this reminder out of the way let us review our forecasts from 2020's annual letter and make some new and bold (and perhaps foolish given our long-term perspective) forecasts for 2021.

The Economy:

Last year we thought the economy would have no negative GDP quarters and the full year would come in at 3% growth. Boy, did that one come off the rails with COVID. There was definitely some negative GDP quarters and the full year is going to be a negative full year (for purposes of this letter we always mark this from the third-quarter to the third-quarter because we don't get the statistics of the year-end until the end of the first quarter). In 2020, we had quarters with declines of 5% and 31% followed by a rebound of 33%! These were historic economic changes due to COVID. GDP in dollar format was $19.254 trillion back in 2019 and $18.597 trillion by the end of the third quarter 2020. Certainly a substantial decline, down $657 billion or 3.5%. **No Point**

As percentages can sometimes be misleading, going forward, we prefer to look at the actual dollar amount the economy produces to get a better sense of how we're doing and how we compare to years past. **For 2021, we forecast that by the end of the 3rd quarter, the economy will be producing at least $19.4 trillion in output. This will be the first quarter in which we will surpass the economic output of 2019.** For all you percentage lovers, that equates to a 4.3% increase in GDP from the end of 3rd quarter 2020. Remember, the US is largely driven by services. With our country and much of the world turning the corner when it comes to the COVID pandemic, we believe demand for services will recover sharply and drive a much better growth rate than many anticipate.

Stock Market:

Our second most popular forecast is always about the stock market and where we see it going. **For 2020 we forecast a positive total return in line with historic averages.** While this wound up being correct, we certainly did not foresee the greater than 30% drop in the market followed by one of the fastest bear market recoveries in history. 2020 will serve as a perfect illustration of why market timing is next to impossible. For those that panicked, they once again missed out on solid returns and are now faced with the difficult decision of when to buy back in. This is not a recipe for long-term investment success. **Full Point**

We believe the beginning of 2021 could see some rotation back to more traditional "value" type companies versus the growth companies that led us through 2020. With growth valuations appearing stretched and a broader economic reopening taking place, we believe 2021 could see more traditional businesses get restarted and once again garner some popular opinions. However, market leadership will always come back to the economic leadership of the country. Hence, as Standard & Poor's adapts to the economic reality that young, innovative, disruptive companies are reshaping our economy, more and more of these high growth companies will find their way into the S&P 500 index. In the long-run, this will lead to a higher growth representation and higher traditional market valuation metrics (such as P/E ratio) than investors are accustomed to. With numerous growth companies creating newer, faster, more efficient way of doing things they are not going to be paying out earnings as dividends but rather reinvesting all of their capital for future growth.

As we exit 2021, we could the S&P 500 go through substantial index turnover and display valuation metrics better reflective of a higher growth profile. The intensely followed P/E ratio of the market could be reshaped a bit, and move from the 15ish range to a low to mid 20's range and still not be overvalued in our opinion. With this in mind, if we multiply our earnings expectations of $175 by a P/E multiple of 24, **we arrive at a year-end target of 4,200 for the S&P 500 index.** This would imply a return of approximately 12%, which we would consider a very solid year. There will always be items that could temper these predictions such as corporate tax rates moving significantly higher or vaccines not having the intended outcome on COVID. Please stay tuned to our quarterly updates as we refresh our thoughts throughout the year.

Short-term rates:
For 2020 we predicted the Federal Reserve would do nothing. We thought they would stay on the sidelines for the whole year. This was obviously not the case. **No Point** With stay-at-home orders and COVID lockdowns causing massive economic destruction, the Federal Reserve had to act. Act they did by lowering interest rates to zero. They also provided some guidance on future rates saying in numerous interviews they intend to keep rates at zero for the foreseeable future and also do not want to go below zero. Going forward, they will rely on statistical evidence and be data dependent when making short-term rate decisions. **Because of this, we see no reason to believe they will raise rates at any time during 2021.** While the Fed's transparency helps with market expectations it does not come without possible consequences. We want to go on record and note the longer we stay at zero percent interest rates the more painful the cheap money hangover will be.

Long-term rates:
For 2020 we thought long-term rates would trend up ever-so-slightly and reach as high as 2.4% on the 10 year US Treasury. COVID once again made our forecast look foolish. **No Point** The immense economic strength we started 2020 with came to a crashing halt. As a result, with short-term interest

rates cut to zero and demand for loans drying up, long-term rates bottomed at .54% and ended 2020 below 1%.

The idea of a steepening yield curve is normally associated with good economic times. As we emerge from COVID we see business recovery being greater. Normally, this would increase demand for long-term capital and thereby raise long-term rates. If this trend starts to occur we believe it will be slight, as short-term rates remain at zero and the trillions of dollars added to money supply are not currently experiencing much velocity. Therefore, we have huge lending capacity in the system. **For 2021, we forecast a slight steepening of the yield curve with the 10 year US Treasury reaching 1.5% by year-end.** Our words of caution here - if the inflation genie gets out of the bottle then interest rates are the tool that brings it back in. We will go over our inflation forecast in a bit, but for the first time in a long time, the idea of meaningful inflation or currency devaluation is real. While we don't see much of this happening in 2021, it is certainly something to be mindful of as we navigate through this decade. History has shown monetary policy as reactionary to runaway inflation rather than heading it off at the pass.

Oil:

We normally touch on inflation right after interest rates because they tend to move in lockstep. However, this year we want to touch on oil first. **Recall, for 2020 we forecast oil would be range bound with WTI fluctuating between $54 - $69/barrel.** Once again, COVID wrecked this forecast with WTI prices hitting single digits and briefly turning negative intraday! **No Point** 2020 did start off with Saudi Arabia, Russia, and OPEC in general trying to gain control of the industry. In an attempt to take back market share they flooded the industry with supply driving down prices. Talk about poor timing. Within weeks demand evaporated as COVID restrictions took hold. Oil supply was everywhere with full tankers idling off shore for weeks on end. It wasn't until the second half of 2020 where a gradual recovery took hold and prices moved closer to the $45 range which we view as a comfortable spot given the cost of development, cost of capital, and demand.

For this year, rather than focusing on the price range of oil, we're predicting something different. **For 2021, we're forecasting the end to the belief that oil and gas should be viewed as a core, long-term investment asset in a portfolio.** The macro case for this call is one of flat-line world consumption as growth in energy demand is met by alternatives. There will still be a need for traditional oil and gas assets but it is no longer the macro growth driver for an industry and even entire countries. In 2021 we continue to see limited upside to prices with range-bound trading activity in the $45 - $65/barrel area. The possible exception will come in the form of some radical, politically motivated supply cuts causing temporary price spikes.

Inflation:

For 2020 we saw inflation staying under 3% but starting to trend higher. This one was pretty easy. **Full Point** Without the impact of COVID, we believe 2020 would have seen limited inflation. With COVID's economic destruction there was reduced demand, impaired supply, massive job losses, and no one creating any velocity of money resulting in very little inflation.

For 2021 there are some potential causes and detractors to our view on inflation. On one side, you have disruptive technology allowing the world to do far more with far less, drastically increasing productivity, increasing efficiencies, and driving down costs. We also have the rise of alternative energy capturing and storing sustainable resources via advancements in solar, wind, and battery technology. As stated previously, oil and gas prices no longer have the same impact on the consumer or the global economy as it once did. Further, we also have a rather muted velocity of money in spite of the trillions of dollars in new money supply. All of this results in lower inflation.

On the flip side we are seeing a rise in the minimum wage whether it be federally mandated, state mandated, or specific companies setting their own standard. Further, we've seen population growth continue to take place. Interestingly, one would think there would be a substantial decrease in the US population due to COVID, but fortunately, preliminary statistics show overall deaths in 2020 are not significantly greater than 2019. Growth in money supply is normally the fuel to drive inflation and this has increased dramatically with the CARES act and other stimulus measures recently passed.   All of this results in upward pressure on inflation.

At the end of the day, money supply is the fuel and velocity of money is the fire. Right now, we have conditions in place that could certainly lead to meaningful inflation but it would take a rather extensive shift in perspective from consumers and businesses alike. When you have a universal embrace of excess and rampant risk-taking, that is when we believe inflation will run rampant. Fortunately, we're exiting a period of massive uncertainty and fear that has resulted in rather prudent risk taking by consumers and businesses alike. Further, even before COVID, governments around the world already proved that merely creating more money does not lead to economic prosperity. **With all this said, we believe these various forces will largely offset each other resulting in rather benign, sub 2% inflation for 2021.** With the ballooning money supply there is certainly a case to be made for higher inflation but we just don't see the shift in perspective taking place yet.

Commercial Real Estate:
For 2020 we forecast the FTSE NAREIT All Equity REIT index to be up 1 – 5% on a total return basis. Once again, COVID created an exceptionally challenging environment for the real estate industry as it is difficult to collect lease payments on a property when your tenant isn't allowed to open their doors. Fortunately, many solid real estate companies operating in industries that were not as affected by COVID made very nice recoveries towards the end of 2020. Further, most of the REITs held in our portfolios continued to pay their dividends with only a few exceptions. Nonetheless, it was a down year with the index declining by about 9% for 2020. **No Point**

For 2021 we see a continuation of trends in commercial real estate accelerated by COVID.

- Retail is going online and landlords are repurposing retail space wherever possible. This isn't all that surprising as the United States has more retail space per capita than any other country in the world by a significant margin. We have overbuilt retail capacity. With many realizing they never enjoyed the in-store shopping experience all that much to begin with, you can see why we're continuing to recommend minimal to no exposure to the retail space.

- Office space should also remain challenged as employers reexamine their business model, cost structure, and how much office space is actually needed. Some Industries will still find the need to work in person, in a centralized location, in order to maximize their productivity and creativity. However, many other businesses are finding the transition to remote work very enjoyable as clients and customers remain well-served and business continues to effectively operate. We believe desirable employers of the future are going to have to offer flexible work arrangements in order to remain competitive for top talent. The result will most likely be far more home offices coupled with far less dedicated office space.
- Warehouse and industrial properties should remain in high demand as e-commerce continues its robust growth. This increase in demand has attracted an awful lot of new building with real estate developers focused on the hot industry of today. In areas where space is constrained, those properties should continue to see very solid price appreciation. We also wouldn't be surprised to see an acceleration of repurposing retail space to industrial/warehouse or other experiential uses. According to a recent CBRE report, there have been over 50 major retail to industrial/warehouse projects take place in the country in just the past 4 years.
- Data centers are specialized real estate. The world continues to generate significantly more data. This long-term growth driver should allow data center stocks to keep receiving nice market sponsorship.
- Affordable housing developments located in desirable parts of the country should also remain in solid demand. Manufactured housing communities remain an attractive offering for those seeking affordable home ownership.

Overall, we believe 2021 will see commercial real estate largely increase in value. There is one caveat to this outlook and that is related to today's low cap rates. Should the 10 year US Treasury yield increase dramatically, cap rates on real estate would also increase resulting in declining valuations. As noted in our interest rate forecasts, we do not believe this will happen in a meaningful way in 2021. Most likely, we believe 2021 will see a rather traditional overall rate of return consisting of rents plus a small appreciation by inflation. Although 2020 was a tough year in real estate, we continue to believe it provides necessary diversification for an investor's portfolio and should remain part of every investor's total financial picture.

Residential Real Estate:
For 2020 we forecast residential real estate prices would continue to move higher as measured by the Case-Shiller index. However, we warned of certain trends that were emerging:

- Major metropolitan areas lack affordable housing
- Baby-boomers looking to downsize and Millennials looking to buy will create strong demand for the smaller, entry-level homes
- Weakness in the high-end properties
- Tax-friendly and retiree-friendly areas to see continued strength
- As more and more companies recognize the problem with affordable housing, we saw areas with a young vibe in tax-friendly areas as major beneficiaries

Full Point These trends were already taking place, COVID supercharged them. People have adapted to changing work environments with remote set-ups quickly embraced. Many now recognize the benefits of spending more time at home with family while still being productive. This has led to a renewed appreciation of our work/life balance driving demand for rural as well as suburban locations. The belief that being tethered to expensive cities for employment opportunities has been severed. High-wage earners with newfound employment flexibility are questioning why they're paying so much in state income taxes. Migration to low income tax states is real with an estimated 130,000 leaving California in 2020. Expensive, restrictive, high-tax states like New York and California are seeing an exodus to places like Texas and Florida. We believe 2021 will see a continuation of these trends as the affordability index continues to push people out of major metropolitan areas in favor of lower-cost parts of the country. Work from anywhere has made this all possible and is a wonderful thing in our opinion. **Overall, residential real estate prices should continue to increase in 2021 with the lower-cost, desirable areas of the country appreciating faster than the high-cost areas.**

Special Fun Forecasts:
We touch on a few non-investment forecasts every year to broaden our thought process. **Last year we made a bit of a controversial call by predicting Trump would be a one-term President – Full Point.** Today's political landscape is certainly not lacking for controversy, but we did get this one right. Our reasons were most likely part of the rationale but not trumpeted by the media as COVID dominated headlines for nearly the entire year. We believe population trends and left-leaning preferences by younger voters did play a role in Trump's decline and could spell trouble for the Republican Party if they fail to adapt. We do believe this election showed a desire for a new political party by a great deal of our country. One that is largely moderate, supportive of term limits on members of congress, not run by career politicians but by ***We the People***, not supportive of today's biased media / propaganda machines, and focused on empowering citizens to be successful. A great deal of the country has had it with the childish behavior of our elected officials, the outright corruption of the special deals they enjoy, bills stuffed with "pork" supposedly created for hurting Americans but with funds going to special interests and countries around the world, and the feeling that we should do as they say but not as they do. There are a lot of smart, successful people talking about this right now, all in agreement that something needs to be done. While premature to include a forecast this year, we do believe this could make its way into 2024's annual letter in regards to our next Presidential election – stay tuned.

For 2020, we also predicted exceptional returns from investing in Disruptive Technology – Full Point. We cautioned, If you don't think that technology will disrupt your business, then you're probably next to be disrupted. We are in the midst of a "Disruptive Technology Revolution". We believed the concept of vertical farming was set to significantly ramp in 2020. While COVID obviously impacted everything last year, we absolutely saw more and more commitment to vertical farming. Singapore, Switzerland, and numerous ventures in the United States all invested in new vertical farming projects recognizing the benefits of this technology. COVID accelerated trends we saw taking place over several years into several months. Numerous young, innovative, disruptive companies were huge beneficiaries of this acceleration. A vast majority of these companies will not give back market share gains.

For 2020, we believed our new acronym for market leadership TADAA (Tesla, Apple, Disney, Alphabet, Amazon) would continue to gather investor interest and outperform FAANG (Facebook, Apple,

Amazon, Netflix, Google) – Full Point. Virtually all of the issues that led to this call were on full display in 2020 with COVID restrictions for Disney being the only wildcard we did not foresee. In spite of this, TADAA outperformed FAANG by 133% in 2020 – not too shabby!

TADAA	SYMBOL	2020 BEGINNING PRICE	2020 ENDING PRICE	PRICE CHANGE	% GAIN / LOSS
Tesla Inc	TSLA	84	706	622	743%
Apple Inc.	AAPL	73	133	59	81%
Walt Disney Company	DIS	145	181	37	25%
Amazon.com, Inc.	AMZN	1,848	3,257	1,409	76%
Alphabet Inc. Class A	GOOGL	1,339	1,753	413	31%
EQUAL WEIGHTED RETURN					**191%**
FAANG	**SYMBOL**	**2020 BEGINNING PRICE**	**2020 ENDING PRICE**	**PRICE CHANGE**	**% GAIN / LOSS**
Facebook, Inc. Class A	FB	205	273	68	33%
Apple Inc.	AAPL	73	133	59	81%
Amazon.com, Inc.	AMZN	1,848	3,257	1,409	76%
Netflix, Inc.	NFLX	324	541	217	67%
Alphabet Inc. Class A	GOOGL	1,339	1,753	413	31%
EQUAL WEIGHTED RETURN					**58%**

SOURCE: FACTSET

For 2021 we could all use some much needed fun. **This year we predict the launch of the first autonomous rideshare service somewhere in the United States.** These vehicles will meet the standards of Level 5 autonomy. At first, they will most likely require a human driver to sit in the seat. In the near future, we believe they will operate completely autonomous as regulators become more comfortable and enough data has been collected to prove they are better at driving than humans. This may sound outlandish but really isn't when you consider how bad humans are at driving. According to the NHTSA and only looking at the United States:

- American drive more than 3 trillion miles per year
- One accident occurs every 479,000 miles driven
- There are approximately 6 million accidents per year
- More than 36,000 people lost their lives in automobile accidents in 2019
- Human error is cited as the cause 95% of the time

Collectively, we are not good at driving. Several companies are vying to create this with different technologies and approaches. While some will fail we believe at least one company will make this reality in 2021. When this happens it will completely change the face of transportation forever.

Our second fun forecast is that gene editing will actually "cure" certain diseases: These various treatments will not only be approved for humans, but for animals as well. A recent MIT Technology Review article highlighted a virus known as PRRS that can decimate an entire population of pigs. They've identified the gene that allows certain pigs to become infected by the virus, are turning that gene off, and breeding the pigs. The results have been astonishing as they've tried numerous times to infect the pigs unsuccessfully. They have basically created pigs that are immune to PRRS. We believe advancements like this show where the future of medicine is headed. The ability to work at the genetic level has sped up the discovery of treatments immensely. We are seeing that now with the mRNA work done on the COVID vaccine. Rather than working with a weakened or dead strain of the virus, scientists can identify genetic markers and create software for the cell. DeepMind's AlphaFold model showcased stellar results when it comes to predicting the shapes of proteins consisting of various amino acids. Existing technology currently costs a fortune and takes a long time to accurately predict. DeepMind is using AI to make this happen. When it comes to healthcare, we are on the cusp of some revolutionary technology that will dramatically increase speeds, reduce costs, and actually cure certain diseases.

Our third fun forecast is that humanity needs excitement. We can become very rote in our lives. In years past (and pre-COVID) experiences like trips, concerts, and a ball game helped break up the daily monotony. As 2021 progresses and COVID moves to the rearview mirror we do believe these entertainment experiences will boom. While exciting, we believe 2021 will see even more excitement as access to a largely unexplored world begins to open. **Our belief is that 2021 will see regular space exploration become one of the most talked about human experiences possible.** Exploring, traveling to, and experiencing space will become a major theme in 2021.

CONCLUSION

We apologize for the length of this year's letter. However, we want investors to be fully aware of our thoughts and rationale that go into making long-term investment decisions. We are well aware of our rather bold proclamation in calling this decade the Roaring 2.0's. If you're going to make bold predictions then you better have quality information to back them up. We believe we've provided that to our readers this year.

We will always strive to cull through information, ferret out the important from the unimportant, and take short-term emotions out of the long-term investment process. Our goal is to help our investors achieve their financial independence and the freedom to focus on what they want to do in life and not what they have to do. As always, we welcome your feedback and would love to talk about these and other topics that may be important to you. We thank you for your continued confidence and the opportunity to manage your investments. We take very seriously our responsibility. ***Montecito Investment Portfolio's Mission: To provide diversified, disciplined long term investment solutions, service and guidance to help our clients achieve, and maintain, their "Financial Independence".***

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There are risks inherent in any investment and there is no assurance that any money manager, asset class, style or index will provide positive performance over time. The investment return and principal value of an investment will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including but not limited to declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The Standard & Poor's 500 Index is a capitalization weighted index comprised of 500 widely-held stocks on US stock exchanges. Companies included in the index are selected by the S&P Index Committee, a team of analysts & economists at Standard & Poor's.

S&P 500 Total Return Index is a measure of the price movement of The Standard & Poor's 500 index and including the dividends paid by the companies in the index.

S&P Case Shiller Index – a group of indexes that tracks changes in home prices throughout the United States. Case-Shiller produces indexes representing certain metropolitan statistical areas as well as a national index.

GDP – the monetary value of all the finished goods & services produced within a country's borders in a specific time period.

The MSCI US REIT Total Return Index is an index that broadly represents the price and income movement of the equity REIT universe in the United States. The Index represents approximately 85% of the US REIT universe.

The Barclay's Aggregate Bond Index – includes government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year.

P/E Ratio is a valuation ratio of the company's current share price compared to its per-share earnings.

Past Annual letters are available by request. 2016, 2017, 2018, 2019, and 2020 Letters are available on our website at: http://www.cwam.dadavidsonfa.com/Our-Commentary.4.htm