

Talbot Financial – 4Q 2020 Review

December 2020 marked the 10-year anniversary of the formation of Talbot Financial, LLC. We are grateful to have over 100 clients who have entrusted us with almost \$500 million in assets through their investment portfolios and investments in commercial real estate properties.

We remain optimistic about our investment strategy's value proposition over the next 10-years and look forward to putting the challenges of last year behind us as we serve you in the years ahead.

Please find attached your Talbot Financial fourth quarter 2020 portfolio review to supplement your monthly account statements from Schwab. The report provides a performance summary of your investment portfolio compared to the S&P 500 Total Return Index ("Index"), Talbot Financial's benchmark, and lists your investment portfolio holdings by industry sector.

In 2020, the stock market had its most rapid decline on record into a Bear Market with a correction of over 34%. This decline was followed by the quickest rebound out of a Bear Market in history, just one month later. For the full year, the Index posted a return of 18.4%. Performance was led by those sectors perceived to possess the best secular growth opportunities and lowest economic sensitivity. These sectors included Technology, Communications Services, and the e-commerce portion of Consumer Discretionary. Performance was most challenged in the more cyclical, or economically sensitive, sectors of the market, including the Energy and Financial industries.

For the year, the portfolios of Talbot Financials' clients performed well relative to the Index. The primary driver of the performance was staying the course and sticking to our investment principles during an extremely turbulent time. These disciplines were essential during 2020 as the market declined almost 34% over the period of a month, but then rebounded by over 60% through the end of the year.

The following chart portrays the stock market (S&P 500 Index) since the end of the Financial Crisis in 2010:



Source: CBOE, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Drawdowns are calculated as the prior peak to the lowest point.
Guide to the Markets – U.S. Data are as of December 31, 2020.

Over the 10-year period, there were 10 market corrections (greater than 5% decline). The key point is the market absorbed each correction and continued to move higher. Therefore, the most prudent strategy for long-term investors is to “stay the course” in the face of short-term market volatility.

Looking forward, we see numerous reasons for large U.S. based multinational companies to continue to offer superior risk-to-reward relative to other asset classes. The continued rollout of Covid-19 vaccines, a record amount of global stimulus, \$5 trillion of savings on the sidelines, and our view of underestimated earnings projections across many industries provide the underpinnings for this belief.

Most important, you do not simply own the market. Instead, you own about 45 individual companies that meet our disciplined criterion for investment. We know what the companies do, we know how they do it, and we believe their growth prospects are greater than the overall market over the long-term. Some examples of these standout companies include:

Apple: There are over 1.5 billion Apple devices in use worldwide. As the number of services increase per device, each device becomes a growing stream of cash flow. Apple returns much of this cash flow back to shareholders in the form of dividends and share repurchase (over \$70 billion in 2020.)

Amazon: The leading e-commerce and cloud services platform in the world. The pandemic accelerated the shift of both consumers and business to e-commerce and the cloud. Amazon’s competitive positioning surrounding these businesses continues to strengthen.

Applied Materials: Semiconductors are the backbone of the technological revolution in much the same way steel was the backbone of the industrial revolution. Applied Materials engineering solutions are used in one manner or another to produce almost every new chip produced in the world today.

Going forward, our investment strategy remains steadfast in identifying and owning these types of companies to drive long-term value creation.

We would welcome the opportunity to review your portfolio either by phone or on a Zoom conference. Please contact us for a review, or to answer any questions you may have about your portfolio.

Best Wishes,

Talbot Financial, LLC

www.talbotfinancial.com