

*“The world is certainly currently going through ‘a period of turbulent change’ and great structural adjustments, but usually when that happens, what matters in the long run is not how stable a system seems but rather how successfully political, economic and social institutions adjust to the new conditions. In the past these adjustments have almost always been messy, chaotic, and disheartening to most, but ultimately, they were necessary even if we were unable to judge them so at the time.”* **Michael Pettis**

*Another quarter has passed in what can only be described as the most extraordinary year in my now thirty-year investment career. While I will leave the ultimate narrative with historians far more qualified than me, it is difficult to write an interpretation of the current market environment without acknowledging the building level of angst present in our society. While this is easily the most challenging commentary that I have written, it seems disingenuous to gloss over the challenges we face and simply report on the markets. In fact, I find our challenges to be materially relevant to any outlook with respect to the economy and ultimately financial markets...* **Heritage Wealth Advisors Fourth Quarter 2020 Investment Perspectives**

At the time of last quarter’s writing, my hope (and expectation) was that the tone of this letter would reflect building optimism associated with progress on the virus front, a concurrent pickup in economic activity and increasing policy visibility associated with election results. Instead, as we all observed the events of Wednesday, January 6, we watched the ugly culmination of the growing level of polarization and disenfranchisement across our society and political system. Regardless of political affiliation, one must recognize the destabilizing impact associated with any attempt to disrupt our electoral process and the peaceful transition of power that are fundamental to our democracy. A quarter ago, I wrote, “We face these extreme challenges both economically and societally while our trust in individuals and institutions alike has seemingly reached a nadir. These challenges will affect society, the economy and markets in ways that cannot be known. While I am ultimately an optimist when it comes to the future of our country, I fear the current transitory period will result in volatility and uncertainty creating a potentially more challenging set up for the economy and financial markets.” I still hold to that view with the hope that our leaders can find common ground to address the many and varied challenges we face as a society.

*“When all the experts and forecasts agree - something else is going to happen.”* Bob Farrell

As we pivot to financial markets, the consensus narrative remains uniformly positive for equity markets on the backs of the triple stimulus of continued aggressive monetary policy, fiscal policy and an accelerating vaccine rollout. The likelihood that the Federal Reserve will keep rates lower for longer has created a seeming nirvana for equity prices with low rates justifying higher valuations while reflationary policies drive stronger earnings. While we will subscribe to the view that the case for a reflationary environment is strong, a healthy dose of skepticism remains warranted with respect to equity markets. Mark Twain once said, “History doesn’t repeat itself but it often rhymes.” The current market environment certainly has analogies to prior periods of speculation. Euphoric investor sentiment, extreme valuations for “new economy” stocks, an explosive IPO market and heightened retail activity speak to a market with pockets of speculative excess driven by the TINA (“there is no alternative”) effect of low interest rates. To quote John Hussman, “The problem is that investors don’t seem to understand what

## Heritage Wealth Advisors

# First Quarter 2021 Investment Perspectives

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they have done by responding to zero interest rates as if there is no alternative but to embrace market risk, regardless of the price.” It is during these periods of increasing speculation that maintaining discipline is critical for investment portfolios. Excess always exceeds and I have no reason to believe that we will necessarily identify the specific cause of a change in leadership in this market. The likelihood of a more reflationary environment associated with the triple stimulus referenced earlier should, however, benefit businesses and markets that have not experienced the same degree of speculative activity. We will continue to follow our discipline of identifying high quality investments selling at prices that suggest an acceptable rate of return for our clients. While we seek to identify attractive opportunities in the market, we will lean against areas of the market where valuations and exceedingly optimistic expectations suggest heightened risk. This emphasis on risk management can look out of step with the markets at points in time through the cycle but we remain resolute that it will ultimately be rewarded. We will remain committed to emphasizing quality businesses through diligent research to take advantage of opportunities provided by the market. As always, we thank you for the confidence you place in our team and look forward to helping you achieve your goals and objectives.

For a more in-depth discussion of our current views, we would encourage you to watch our First Quarter 2021 Market Outlook webinar available on our website, [www.heritagewealth.net](http://www.heritagewealth.net).

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