Happier New Year

Few will be sorry to see 2020 go. It was a year of intense loss and extreme chaos. And it was a year marked by impeachment hearings, a raging pandemic, a stock market crash, the deepest and quickest recession since the Great Depression, high unemployment, supply shortages, a rising death toll, catastrophic fires, floods and hurricanes, extreme civil unrest and a divided electorate. Few would have predicted the outcome delivered by asset markets, which discounted all the negativity and delivered solid, albeit disparate returns. This positive response continued into the final quarter of the year. For the quarterly period ended 12/31/2020 (Q4, 2020), Avalon client portfolios were positive as gains from holdings in International and US stocks and other risk assets led portfolios higher.

Q4's performance extended the strong returns from the prior quarters and helped client portfolios finish the year at or near their all-time high valuations.

There was wide dispersion between the best and worst performing of our six major asset classes that resulted in flattish performance of an equal-weighted portfolio of those six major asset classes. Our portfolios did far better. We attribute client portfolio performance to a combination of asset allocation (higher defensive positions and hedges heading into the COVID-19 crash, for example), a bias toward growth and COVID winners in the first half and a shift toward value and recovery plays in the final quarter.

SIXMIX (My Portfolios - PRT | Analyze List | Settings | Member Ranked Returns

View: Members / Groups | Period -1Y | 12/31/19 - 12/31/20 | Total Return | Currency LCL

Movers | All

Negative Total Return	Members (6)	Return	Positive Total Return
	SIXMIX (My Portfolios - PRTU)	0.37%	
	All Members		
	1) SPDR S&P 500 ETF TRUST	18.37%	
	2) ISHARES MSCI EAFE ETF	7.59%	
	3) ISHARES CORE U.S. AGGREGATE	7.48%	
	4) SCHWAB SHORT-TERM US TREAS	3.11%	
	5) SCHWAB US REIT ETF	-14.79%	
	6) ISHARES NORTH AMERICAN NATUR	-19.56%	

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> The larger question for 2021 is likely to be which equity asset classes will lead.

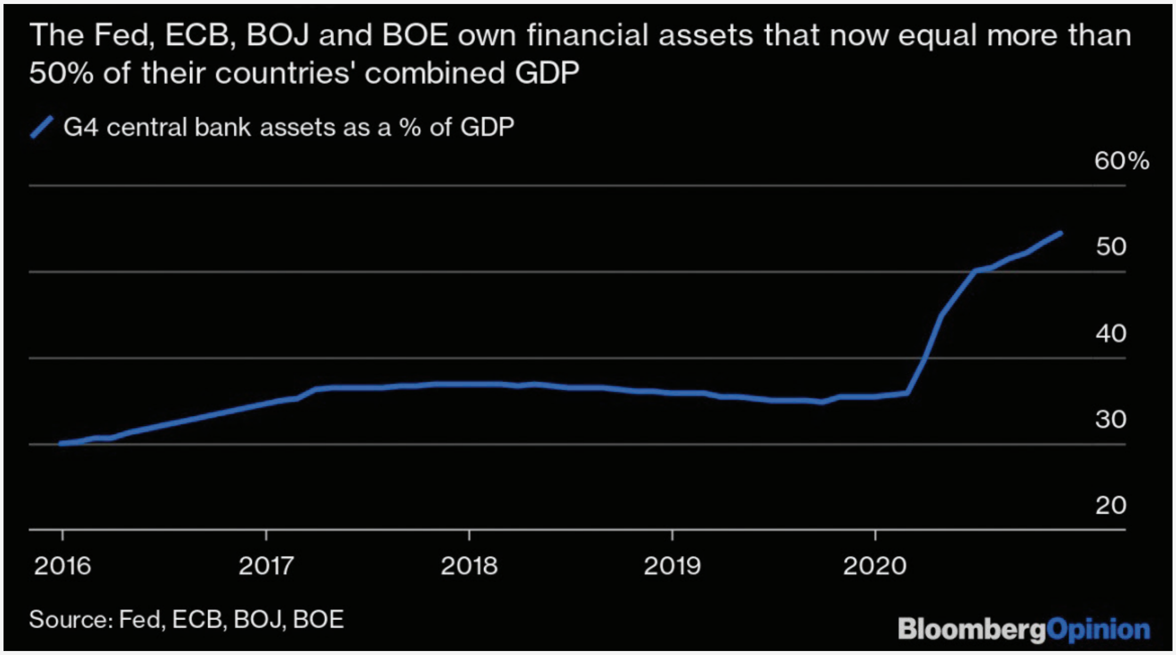
Easy would not be a word we'd use to describe 2020. From the pandemic to the lockdowns to the election mayhem, the year was difficult. However, easy is a word we would use to describe global monetary policy in 2020. With the Federal Reserve adding $3 Trillion to its balance sheet and other central banks adding over $10 Trillion to their own, monetary policy came to the rescue of markets that, in March, appeared to be headed for steep losses.

The Fed's aggressiveness helped the S&P 500, after a 35% drop in February and March, return 18.4% for the year. Most of these gains were driven by large capitalization technology stocks. As has been the case for the last decade, value and International stocks underperformed large cap US growth for the year. What was interesting in the 4th quarter was the apparent shift in leadership. Q4 saw the Russell 2000 index (US Small cap) rally over 30% while Emerging Market (18.4%) and International Developed market indices (15.7%) outpaced the S&P (up 12.1% for Q4).

As we begin 2021, the outlook appears to be favorable for most equities. From International equities (both Emerging and Developed markets) to US equities (to include both growth and value), the respective risk-return profile of these asset classes appears much more favorable in comparison to bonds, specifically US Treasury bonds which appear to be moving lower as economic growth starts to ramp-up post lockdown. While the risks to this positive view on equities are driven by what could be negative earnings surprises in Q1, the fundamental and macroeconomic backdrop favors equities.

The larger question for 2021 is likely to be which equity asset classes will lead. Q4 might have been the inflection point for equity asset classes that have underperformed US large cap growth for a decade (International stocks, US value and small cap stocks). In the US, the reflation trade (predicated on some combination of a successful roll-out of the COVID-19 vaccine and fiscal stimulus from DC) favors US value stocks and broader market participation. Internationally, a weak US Dollar, a more muted pandemic experience and a potential change in investor behavior favors both Emerging Market and International Developed markets which, despite massive Q4 rallies, still trade below their highs from 2007.

The Biggest Buyers



One note regarding natural resources. The larger natural resources index was down almost 20% in 2020. Materially, WTI Crude lost 20% for the year and even traded below $0 during April. For 2020, Avalon client portfolios maintained minimal exposure to what we'd consider traditional / industrial commodities. Instead, we favored hard assets such as gold (up 24.8% in 2020) and gold stocks as well as alternative energy holdings which behaved like growth stocks and handily outpaced more traditional holdings. November and January's election results should improve what were already bright prospects for renewable energy, a faster COVD recovery and support for infrastructure spending.

Happy New Year

We hope this new year brings a return to in-person visits with each of you and a return to some normalcy for us all. As much as Zoom makes it easy to connect, we know that many are fatigued by virtual communication. While nothing beats seeing each of you in person, we are grateful that there are tools that allow us to connect with you. As there is pent up demand in the real economy and in human relations, we anticipate a happier experience with both in 2021.

Our business achieved a milestone late last year as we are now managing over $300 million in client assets. We are all working hard to make 2021 (our 29th!) our best year yet.

VISIT OUR NEW WEBSITE

Seeing All of You

While we are not completely Zoomed out, we do prefer seeing all of you in person! We have enjoyed our socially distanced meetings with many of our clients and look forward to seeing more of you under clear blue skies.

Our business remains healthy. We brought on five new clients this quarter all of whom our existing clients referred. We are thankful to work with each and every one of you and take pride in our client's recommending their friends to us. Thank you.

Clara Basile   David Rahn   Bill Oberman   Ross Revenaugh

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