Argent Capital Management LLC

RE: INVESTMENT COMMENTARY FOR PERIOD ENDING DECEMBER 31, 2020

FROM: ARGENT CAPITAL MANAGEMENT

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It is not how far you fall,
but how high you bounce that counts.
- ***Wall Street Wisdom***

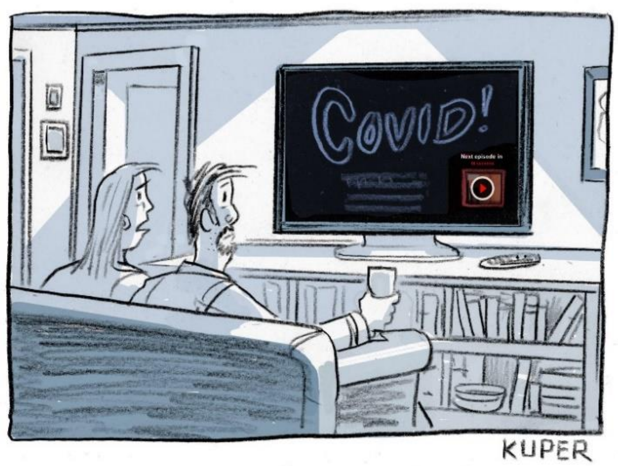
Never have investors seen the rise of a phoenix like that we witnessed in 2020. From the depths of despair in March, a healthy dose of fiscal and monetary stimulus (and perhaps a little FOMO - Fear of Missing Out) propelled stocks to stage a rally for the ages. Not coincidentally, the private sector, in cooperation with government agencies, worked together to create a COVID vaccine in just nine months, a remarkable achievement. To paraphrase Benjamin Franklin: *energy, persistence, money and brains conquer all things.*

By year-end, the S&P 500 Index, once down over 30 percent, was up over 18 percent. It was, however, a year of the haves and the have-nots. While anything tech-related had double-digit returns, and some had *triple-digit* returns, industrial, financial and real estate-related stocks struggled just to get back to where they started the year. Investors poured money into companies benefiting from trends which the pandemic accelerated, namely remote-working, online-shopping, telehealth, and the like.

At Argent we were very pleased with the overall performance of our U.S. stock market strategies, with three of the four outperforming their benchmarks, a percentage of success we will happily take in any year. How the year 2020 sets us up for 2021 is, however, unclear. Certainly the building blocks for a continuation of the good stock market are in place – vaccines are being distributed, more government stimulus is coming, interest rates remain low, corporate earnings are jumping and unemployment will be falling as people return to restaurants, hotels and airports. This is not just a U.S. phenomenon – these same building blocks are in place globally. Thus, there is strong consensus that stocks will move upward and onward, albeit with a rotation, Argent believes, into some of the underperforming sectors such as financial and industrial stocks.

With that said, it is important to remember Mark Twain's saying that whenever you find yourself on the side of the majority it is time to *pause and reflect.* Nathan Rothschild put it differently, encouraging investors to buy on the sound of cannons, but *sell* on the sound of trumpets. In other words, if you find too many people agreeing with you, perhaps it is time to reconsider. A contrarian, therefore, might note that given the run of the markets in 2020 it will take a solid year of earnings performance in 2021 simply to return stocks back to fair value. A contrarian might also consider that the vaccine roll-out will take months to allow the U.S. and other countries to reach herd immunity. Perhaps the economic bump expected in 2021 only comes in the second half of 2021, or even in 2022.

As we consider all these possibilities – both pros and cons – we nonetheless remain positive in the near term and will be surprised if U.S. stock markets are not higher over the next few years. Nevertheless, a *ho-hum* 2021 would not necessarily be a bad thing, letting the market consolidate its gains to position itself for more robust results in 2022 or 2023.



" Wait--how many seasons is this ?"

In the midst of all this, the case for investing in bonds is about as unattractive as at any time in history. Short-term interest rates are near zero and even long-term bonds provide exceptionally low single-digit returns. Should inflation average two percent over the next several years, on an inflation-adjusted basis bonds will be a *losing* proposition. Fortunately, stocks offer what bonds do not – significant potential for growth over longer periods of time from both growth of capital and from dividend income.

In summary, we at Argent continue to believe that stocks are still the place to be, but some patience may be necessary as we let valuations catch up. It also seems reasonable to expect a little more inflation and somewhat higher interest rates over the next few years. As to the election, we typically spend very little time worrying about changing administrations. History has shown that businesses quickly adapt to changing circumstances, as do individuals. Given the Georgia election results, the federal government will not be quite as divided, but the Democratic majority is a slim one, so we do not expect sweeping policy changes. So, out with the old and in with the new. And, while we cannot control what happens day-to-day in the markets or politics, we can control how we react and how we align our portfolios to achieve our goals.