January 1, 2021

It is finally over. With apologies to President Lincoln's War Secretary Edwin Stanton, now 2020 belongs to the ages. Who would have predicted during the dark days of spring that stocks and bonds would end the year at near-record levels, having endured one of history's shortest bear markets? What prognosticator, knowing that at year-end the world would still be battling the global pandemic and that a surge in Covid-19 cases would have states shutting down their economies again, would have predicted above-average investment returns for the year? The presidential election, often a major market catalyst, was merely a fourth-quarter footnote despite an intensity that generated record voter turnout.

In sharp contrast to the currently weak economic environment and high unemployment levels, financial markets ended the year on an up-note because they look to the future. As we enter the new year, it appears highly likely that multiple Covid-19 vaccines will be manufactured and distributed sufficiently enough to allow the economy to begin returning to something resembling its pre-pandemic state. When the economy does recover, the growth rate will be strong due to immense pent-up demand, a low starting point, and the easy comparison with last year.

A second powerful and ebullient force buoying the market is the Federal Reserve Board's determination to support the economy. Fed Chairman Powell has clearly signaled an intent to keep interest rates low for the foreseeable future. Low interest rates will help the economy get back on its feet after battling the pandemic. Additional fiscal stimulus from the government was approved at year-end. Fiscal stimulus will add to economic growth and could drive markets higher, though higher tax rates, which are also a possibility, could set financial markets back.

Where do all these possibilities and crosscurrents leave investors? From a historical perspective, stock valuation levels are high. The Federal Reserve's low interest rate policy, which is designed to help the economy recover, also has the side effect of helping to boost stock prices. As noted above, this underpinning is expected to remain in place for the foreseeable future. Valuation ratios also appear rich because metrics used as the denominators (corporate sales, earnings, and cash flows) are depressed by the pandemic. As the economy recovers, improved business conditions will reduce valuations by raising the denominator even if the numerator (share price) stays stable.

We draw attention to valuation levels because they play a significant role in determining future investment returns. Valuation levels and future investment returns are inversely corelated: the higher the current valuation levels, the lower future returns are likely to be. As such, it is important to temper expectations for future years' investment returns. The investment gains generated during the last two years are not likely to be soon repeated.

Given the uncertainty inherent in an endeavor predicated on the future such as investing, we at Gamble Jones rely on our proven and long-standing investment philosophy. We invest in reasonably priced, well-run companies that have favorable economics, strong balance sheets, and the ability to grow. We believe that partnering this investment approach with comprehensive financial planning will help our clients achieve their financial goals.

On a personal note, I would like to thank Dennis Slattery, who retired from Gamble Jones at the end of 2020, for thirty years of service to our clients. Please join me in wishing him a well-earned, happy retirement.

All of us at Gamble Jones wish you and your family a happy, healthy, and prosperous new year.

Sincerely,

Gamble Jones Capital Management

PS The Securities and Exchange Commission requires that we annually offer to our clients our Form ADV, Part II. Please contact us should you desire a copy of the document.

PPS If you are in a broker-directed relationship, the SEC requires us to advise you that other brokerage firms may charge lower commissions.

PPPS Attached is a copy of our Privacy Policy.
Also, in order to comply with a section of the Investment Advisers Act of 1940, we are required to state the following: should any change occur in the future with respect to the organization of this firm, now a corporation, we shall advise all clients whom we are then serving of such change either prior to its effective date, or within a reasonable time thereafter; and no agreement with any client will ever be assigned to others without the full knowledge and consent of all parties thereto. Please be assured that the foregoing is a bureaucratic requirement. We do not anticipate nor are we contemplating the sale of Gamble Jones Investment Counsel.