NorthLanding Financial Partners, LLC

QUARTERLY MODEL PORTFOLIO UPDATE • January 15, 2021

U.S. Economy & Financial Market Observations

Recent events in Washington represent extraordinary national challenges. The weaponization of free speech the country has beheld is an attack on facts and self-evident truths. Why should business people and capitalists care to comment in a format such as this? Because, regardless of our personal political preferences, free markets only function properly when facts cannot be invented. In the opening days of 2021 financial markets have remained (so far) unrattled in the face of violence in our capital and an unprecedented 2nd impeachment of a sitting President.

That dichotomy between alarming world events and strong market performance was a keystone theme for 2020. The S&P 500 closed the year at record levels with an **18.4%** total return. For the calendar year, growth style stocks dominated performance across all major market segments with the Nasdaq Composite rising **44.9%**. The tech-heavy Nasdaq is now up **94%** since 2019, its best two-year performance since 1998 – 1999. Yet the 4th quarter of the year also showed a significant rotation in investor preferences with value style stocks outpacing growth (+16.3% to +11.4%). Similarly, marked changes in investor preferences propelled smaller companies represented by the Russell 2000 Index to a stunning **31.4%** gain during the 4th quarter, leading all market segments. International and emerging markets indexes also outperformed U.S. larger companies, notching **17.0%** and **17.6%** gains respectively[1].

In fixed income markets, the Barclays Aggregate Bond Index gained **7.5%** for the year, but just **0.7%** in Q4. After President-elect Biden's victory, municipal bonds also performed relatively firmly, gaining **1.8%** for the quarter on hopes of Federal aid to states with flagging tax revenues. With interest rates at historic lows (the yield on the 10-year Treasury sits near 1.1% as of this writing) the most meaningful gains in quarter four were had by riskier bonds with the Barclays High Yield index gaining **6.5%**[1].

As we head hopefully into 2021, downward pressure created by Covid-19 continues to present near-term risks, as seasonal factors may continue to exacerbate infection rates. We would fully expect more contagious strains of the disease to emerge, and the rollout of vaccinations to hit logistical speedbumps. These events may create temporary panics, but such disruptions would be unlikely to alter the fundamental drivers we believe are supportive of a longer-term bull market and continued economic expansion.

Bullish drivers include an aggressively supportive Government monetary policy, low yielding bond alternatives, and resurgent economic prospects. All bolster our confidence that – particularly dividend paying value stocks - will continue to offer investors the best chance for reasonable risk-adjusted returns. While these factors may support markets, they also have the potential side effect of inflating investment bubbles in trendy assets like Bitcoin and certain pockets of technology stocks that can entice younger, novice investors. However, behavioral economics teaches us that, despite the fear of missing out, investors suffer more emotionally from losses than benefit from gains. Particularly in 2021, beware fast moving, shiny new objects when it comes to investing your serious capital.

Index Total Returns	2020	Q4, 2020
Russell 1000 Growth	38.49	11.39
Russell 1000 Value	2.80	16.25
S&P 500 Composite	18.40	12.15
DJ Industrial Average	9.72	10.73
NASDAQ Composite	44.92	15.63
S&P MidCap 400	13.66	24.37
Russell 2000	19.96	31.37
MSCI All Country Ex USA	10.65	17.01
FTSE Emerging Markets	15.12	17.58
MSCI U.S. Real Estate	-8.70	11.16
Barclays U.S. Aggregate Bond	7.51	0.67
Barclays U.S. High Yield	7.11	6.45
Barclays Municipal New York Exempt	4.56	2.46
Bloomberg Commodity Index	-3.50	10.17

Current Portfolio Stance & Outlook

NLFP Core Model Portfolios ended 2020 with results ranging from **+7.92** to **+14.8%** with the remarkable fourth quarter rally producing the majority of positive results. Three months ago, these year-end results would have seemed implausible. With Covid infection rates ramping up in most states and no traction in Congress toward providing relief to strapped U.S. families the news headlines were mostly dour. Though its bad aftertaste isn't gone yet, we were also just weeks away from the most charged and volatile election, arguably, in history. It's a reminder to any investor to be wary of falling prey to the temptation to time, dollar-cost-average into or guess on the directionality of markets[1].

After October's rebalancing activity which harvested some frothy gains from our holdings in **Fidelity MSCI Information Technology Index** (FTEC; +45.9%, 2020) and **Vanguard Growth Index** (VUG; +40.2%, 2020) our stance in equity exposure remains balanced, with our largest holding, V**anguard Value Index** (VTV; +2.3%, 2020), well positioned to build on its stellar **14.6%** Q4 return. Top holdings such as Johnson & Johnson, Berkshire Hathaway, and JP Morgan Chase are prime example of companies with fortress-like balance sheets who's share prices have only now begun to attain pre-pandemic levels. The math clearly indicates they can continue to shine on relative valuation as investors continue to rotate away from expensive growth-style companies[1].

We also feel markets will continue to be supported by the goldilocks political environment created by the 'light blue wave' allowing the prospect for larger fiscal stimulus and associated spending programs, with more polarizing agenda items struggling to pass. The pace of the economic recovery will be driven by what Vanguard has termed the immunity gap (the percentage of the population lacking immunity to the virus) and the reluctance gap (the reluctance by a percentage of the population to engage in economic activity). Greater immunity and reduced reluctance may continue to drive a sharper recovery as 2021 unfolds.

With the last quarter's extended recovery and unusually low downside volatility, we remain committed to our portfolio monitoring discipline to identify rebalancing opportunities.

More than ever, we believe our model portfolios should remain broadly diversified and fully invested. In particular, 2020 was a year that demonstrated the fallacies of market timing games, with sharp unpredictability among asset class movements allowing our rebalancing methodology to produce solid, risk-adjusted returns. We encourage you to contact your advisor for information regarding your current portfolio holdings, performance or this most recent update.

NorthLanding Financial Partners, Investment Direction Committee

1. Investment index and NLFP portfolio performance data through 12/31/2020 is provided by Morningstar and believed to be accurate as of the date of this publication, gross of any advisory fees. Other sources include the Wall St. Journal, FactSet Research, Federal Reserve Economic Data (FRED) and the Vanguard Group. All investment strategies including diversified asset allocation have risk. Past performance of our investment approach, and component holdings does not guarantee future results. Advisory services are offered through NorthLanding Financial Partners, LLC, ("NLFP") Registered Investment Advisor. While all data is believed to be from reliable sources, accuracy and completeness are not guaranteed.