1st Qtr. 2021 Investment Counsel Report

Market Summary

What a difference a year can make! Even after considering the multitude of events political and pandemic, the meteoric recovery in stock prices over the past 12 months has been breathtaking.

In the most recent 3 months most stocks did well, though at uneven paces. The large stocks of the S&P 500 Index rose a healthy 6.2% YTD, yet that pales in comparison to the small stocks of the Russell 2000 Index which climbed 12.6% in the same period. International stock markets were likewise positive, with the EAFE Index rising 3.6%.

Such beginnings for the year 2021 are welcome, and stand in stark contrast to the Covid induced swoon at the start of last year. Stocks globally plunged last year with the uncertainty and onset of the pandemic- and most had fallen greater than 35%. Despite further angst in headlines and troubling media stories, the economy and business profit recovery led to the meteoric recovery point that we stand on today. As noted in prior reports, we see some wide dispersion between different classes of stocks- including the gaps between large and small stocks. Consider the S&P 500 has risen 56% from 3/31/20 to 3/31/21, one of the best 12 month periods on record. While this sounds impressive, the Russell 2000 Index in the same timeframe has exploded 95% higher. (*Not* a misprint!)

Aurora Perspective

On the one hand, managing through the past year of kerfuffle has been straightforward at Aurora. We remain focused on our Growth At a Reasonable Price (GARP) approach, and have diligently monitored the quarterly reports from the managements of the companies we invest in. While there has been some judgement required to discriminate temporal Covid influences from longer term effects, adherence to our discipline has allowed for satisfactory performance overall.

As noted in other communications, there are wide disparities between stocks and areas of concentration that remind us of "bubble" like patterns. During the Internet Bubble in the year 2000, there was a obsession with the potential for newly minted tech stocks to grow to the moon. A few "Internet darling" stocks supported by novice new investors flew to absurd valuations before delivering the first dollars of profit. Today, we can see similar dynamics in areas from Bitcoin to tech (cloud and SAAS stocks in particular) to genomic stocks. While the opportunities in these areas is undeniable, the valuations that such stocks presently command likely foreshadow a painful unwinding.

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Consider that there are dozens of billion dollar capitalized companies with stocks priced at over 35 times *sales*, and most of these companies are nowhere near delivering any owner *profits*. Aurora gets uneasy when stocks are priced at 25 times earnings, and our holdings typically sell for 2-3 times sales. We perceive the risk in these overvalued areas to be very high, and when concerns arise, they are prone to sudden and severe correction. Alternatively, adhering to our price conscious investment discipline has historically sheltered client portfolios with lower volatility.

Aurora Outlook

During unbalanced times, economic and political and otherwise, it becomes even more important to have a defined and disciplined investment approach. Equity investors of course accept short term volatility for opportunity to participate in corporate earnings growth. While using techniques from diversification to investment discipline, the very best way to achieve investment goals is to allow time and discipline to work in our favor.

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