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Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending December 31, 2020, a summary of your investment objectives and target asset allocation as per our records, and an investment advisory fee statement for the first quarter of 2021. It is important that you review your investment objectives and target asset allocation and let us know if any of it is incorrect or if there are any changes to your overall financial profile. For a full report of the holdings in your accounts we encourage you to refer to your statements generated by the custodian.

Fiscal and Monetary Actions

The Fed continues its interest rate and securities purchase programs in support of its long-run 2% inflation target, which, as discussed in our last quarterly letter, is based on very low economic growth projections and assumptions. We will get to a more in-depth discussion about inflation later in this letter, but the bottom line is that we believe that the interest rate policies and yield curve control measures being implemented by the Fed are controversial at the very least. On the fiscal action side, the Federal stimulus payments which were issued on several occasions throughout the past year are serving as effective tax cuts, and we expect these to be mildly stimulative, even though they are temporary and one-time in nature. Needless to say, given the new makeup of the presidency and congress further fiscal stimulus in the next several years is highly likely.

Equity, Fixed Income and Commodity Markets

We have seen the treasury yield curve steepen significantly in the fourth quarter of 2020, with the 10 year-2 year treasury spread now at 95 bps as of the writing of this letter. This is the steepest we have seen this portion of the yield curve since the second quarter of 2017. A comparison of the 10-5 spread for the TIPS (Treasury Inflation Protected Securities) with 10-5 spread for nominal treasuries indicates that the yield curve spread is almost entirely the result of real interest rate differentials, which implies stable, consistent inflation expectations and reasonable real economic growth in the future. We believe the rise in real interest rates at the long end of the curve to be primarily a result of the expectations for fiscal stimulus and concomittantly reasonable economic growth in the years ahead. We will discuss shortly one of the new positions which we took in bank stocks in 2020. A significant portion of this decision was driven by the favorable current and expected interest rate environment – specifically low funding costs via the short end of the curve, along with higher rates at the longer end of the curve, which are resulting in relatively attractive net interest margins for

the banking sector overall. For 2020 the S&P 500 index was up about 18%, the MSCI EAFE (Europe, Australasia and Far East) index was up about 8%, and the S&P 1000 index was up about 13% on a total return basis.

Economic Review and Outlook

As of the writing of this letter the Federal Reserve Bank of Atlanta estimates GDP growth of 7.5% annualized for the fourth quarter[1], which would imply annualized output of just under $21.56T, a number which slightly exceeds the annualized output in the third quarter of 2019. From a productivity standpoint the U.S. economy is proving to be resilient, despite the fact that unemployment still remains high at 6.7%.

Portfolio Management

U.S. equity markets continued their ascent in the fourth quarter, fueled by low interest rates and an increase in the money supply. S&P 500 valuations are extremely high with the Shiller Cyclically-Adjusted Price-to-earnings ratio (CAPE) reaching a level of 33.74 as of the writing of this letter. This exceeds the recent high from the first quarter of 2018, as well as the 1920s peak of 32.56 which was reached in the third quarter of 1929. As we stated in our previous quarterly update some sectors of the U.S. equity markets are significantly more richly valued than others, but overall S&P 500 earnings growth has not kept pace with the market's rapid rise in the past few years.

We believe that a significant portion of the recent rally can viewed as inflationary in nature. Inflation, according to its traditional definition, and indeed how it is defined by many, including the U.S. Federal reserve, is an increase in the price of basic goods and services, commonly expressed as the PCEPI (personal consumption expenditures index) or the CPI (consumer price index). We, however, prefer to define inflation at its more fundamental level, which we define as an increase in the money supply. We emphasize that we are not economists, however as market practitioners we have strong views and opinions surrounding this issue, and we believe the increase in the money supply to be a critical factor driving the current high equity market valuations which we are currently witnessing. An increase in the money supply will result in more dollars in the economy, and this increased number of dollars does not necessarily chase all goods, services or asset classes in equal amounts or intensity. The recent increase in the money supply has been exacerbated by the increasing amount of debt, with margin debt being but one example. In the current environment, the extra, leveraged dollars appear to be chasing certain asset classes more than others. Indeed, almost all capital asset classes (real estate, equities, bonds, and others[2]) have experienced substantial price increases since the pandemic-induced Fed intervention began, and this has been occuring across the backdrop of lower real economic growth and concommitantly lower real earnings growth. As far as portfolio positioning goes, our strategy has been to overweight those sectors and companies which we expect to continue to grow faster than the economy as a whole and also those sectors and companies which are reasonably priced and have a factor of safety in some measure, usually in the form of tangible assets.

As far as economic sectors go, we believe that, in a broad sense, when compared with the high valuation levels of the S&P 500 overall, the banking sector and the property and casualty insurance sector have both been

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[1] As of the writing of this letter the Bureau of Economic Analysis estimates fourth quarter of 2020 GDP growth at a 6.0% annualized rate. This number, as well as the Federal Reserve Bank of Atlanta estimate discussed above, are current dollar, or nominal GDP numbers. This is in contrast with the headline GDP numbers frequently quoted in the press, which are typically stated in real (inflation-adjusted) terms

[2] Cryptocurrencies are an example of an asset class which has risen in tandem with the money supply, with the bitcoin price increasing 100-fold since the fourth quarter of 2015. We believe this rally to be inflationary in that the extra dollars in the economy seem to be chasing this asset class, among many others. We have a similar opinion of certain mega cap stocks, whose increasing valuation multiples seem to imply higher and higher projected earnings growth rates, which we believe to be unsustainable. There are also countless examples of equity securities of smaller U.S. companies, whose names we will not mention here, which have experienced absurdly irrational price movements over the past quarter

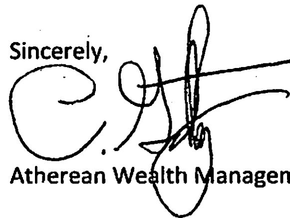
trading at reasonable valuation levels throughout much of 2020. The property and casualty insurance industry was trading at a price to book value of just over 1.1 as the beginning of the fourth quarter of 2020. The banking sector has recently been adapting to accounting changes which have made valuation of bank assets simpler and easier to understand and evaluate, and the property and casualty insurance industry is currently at what we believe to be favorable point in the underwriting cycle. As such we made the recent additions of Synchrony Financial (SYF) and Safety Insurance Group (SAFT) to our client portfolios in the fourth quarter of 2020[3]. We have been following these companies closely throughout the past few quarters and initiated positions in client accounts in mid October. Synchrony Financial (SYF) is the largest provider of private label credit cards in the U.S. and has grown its assets at an impressive 7% annualized rate since it was spun out of General Electric in 2014. Synchrony's retail card business has shown remarkable resilience amidst the pandemic with purchase volumes up 7% year over year for the month of September, and net chargeoffs for Q3 of 2020 lower than they were for Q3 of 2019. As discussed previously in this letter, low short-term interest rates have reduced Synchrony's cost of funding which has been favorable for the bank's net interest margins. Perhaps most importantly, during the early fourth quarter of 2020, the shares were currently trading at a multiple of less than two times tangible book value, well below its long-term average of roughly 2.5. The company meets our criteria for shareholder-friendly policies with a share repurchase program initiated in mid 2016 which has reduced the company's share count by over 30%, and a dividend initiated in 2017 which has been increasing consistently since then.

Safety Insurance Group (SAFT) is a provider of automobile, homeowner, fire, umbrella, and commercial insurance in Massachusetts. As of the beginning of the fourth quarter of 2020, when we took the position, the company had a dividend yield of over 5%, and has been increasing its dividend consistently since 2004. In a year when many of its peers posted underwriting losses, SAFT has been an leader in its peer group, posting solid underwriting profits with a combined ratio of just under 90% for the first half of 2020. By having the majority of its policies written in the Northeastern United States, Safety benefits from having minimal exposure to hurricane-related catastrophe events.

As stated in previous letters, we seek overweighting of the value factor in the portfolios that we manage via bottom-up security selection, and each of these last two securities meets the relevant criteria. We will not go into depth here, but as a brief example each of these last two securities is attractively priced on a relative-value basis – each, for example, has a relatively low price-to-earnings ratio (just below 13 for both SYF and SAFT when we took these positions in the fourth quarter versus just over 31 for the S&P 500). In the current era of sky-high valuations for the S&P 500 overall we believe that taking positions in stocks with reasonable valuations to be prudent, conservative, and relatively safe.

As always, feel free to reach out via phone or email if you would like to review your portfolio, discuss your financial plan, or have any other questions or concerns.

Sincerely,



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[3] The securities which we discuss in this letter are not necessarily allocated to all of our client accounts. Whether or not we choose to allocate a particular security to your account will depend on your risk tolerance, investment objectives and liquidity needs. Nothing printed in this letter should be construed as a solicitation or an attempt to effect transactions in securities.