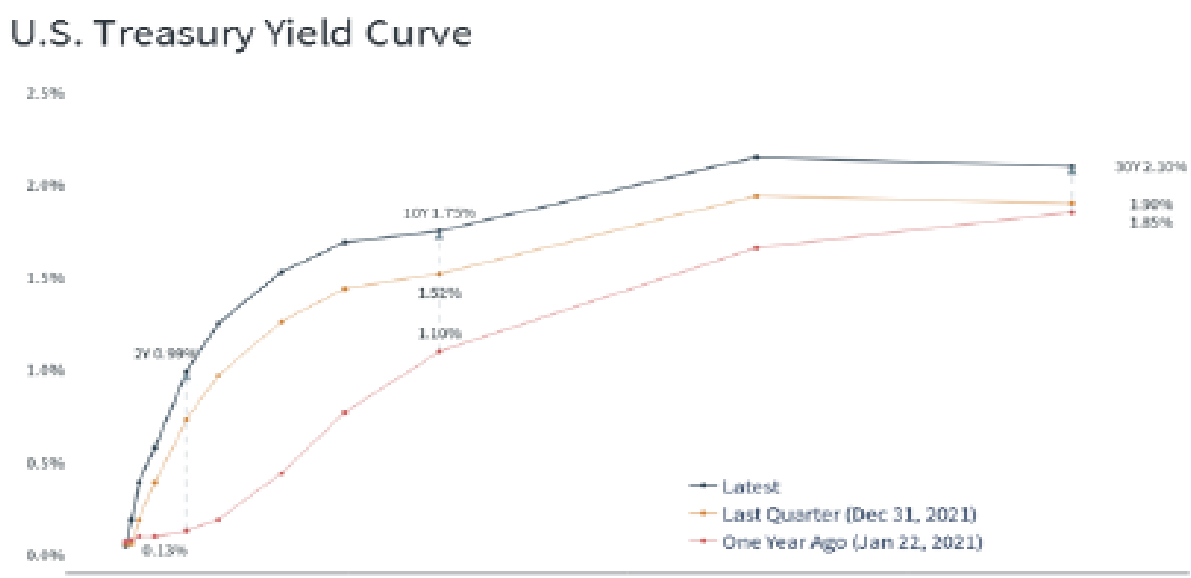
CWC ADVISORS

Fourth Quarter 2021 Investor Update

The final quarter of 2021 produced another period of excellent returns in the U.S. stock market. It also brought a rotation back to large cap stocks and growth stocks. The CWC Large Cap portfolio returned a healthy 7.44% for the quarter and a solid 23.67% for the year. The S&P 500 returned 11% in the fourth quarter and 28.4% for the year.

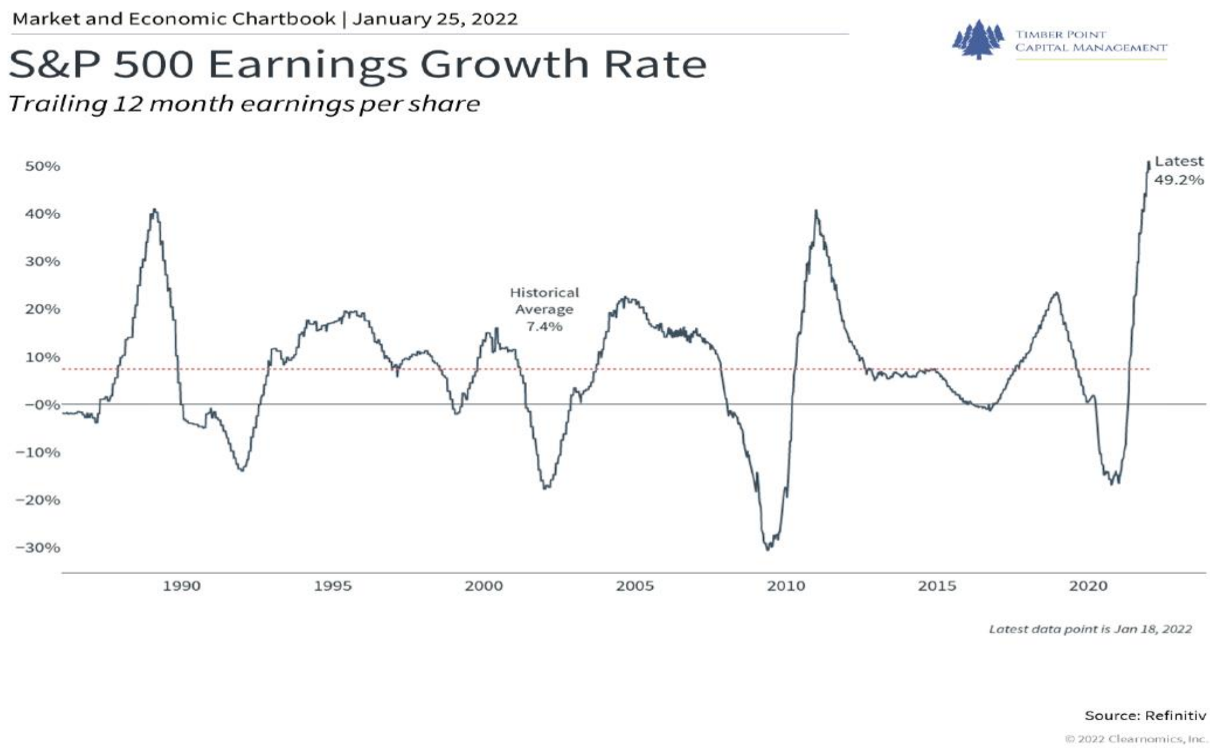
On the Small Cap side, the CWC portfolio returned 3.76% for the fourth quarter vs. 2.14% for the Russell 2000 and 27.90% for the year vs. 14.82% for the index.

The fourth quarter was dominated by headlines of the Omicron variant of Covid 19 sweeping across the globe and the continued acceleration of inflation in the U.S. economy. The high inflation numbers have stalled the movement of future proposed government spending programs and forced the Federal Reserve to accelerate the tapering of liquidity. In addition, interest rates hikes are now a virtual certainty, the only question remaining is how far and fast the rate hikes will be. The key 10-year treasury bond rate has risen substantially causing growth stocks to retreat in the early weeks of 2022.



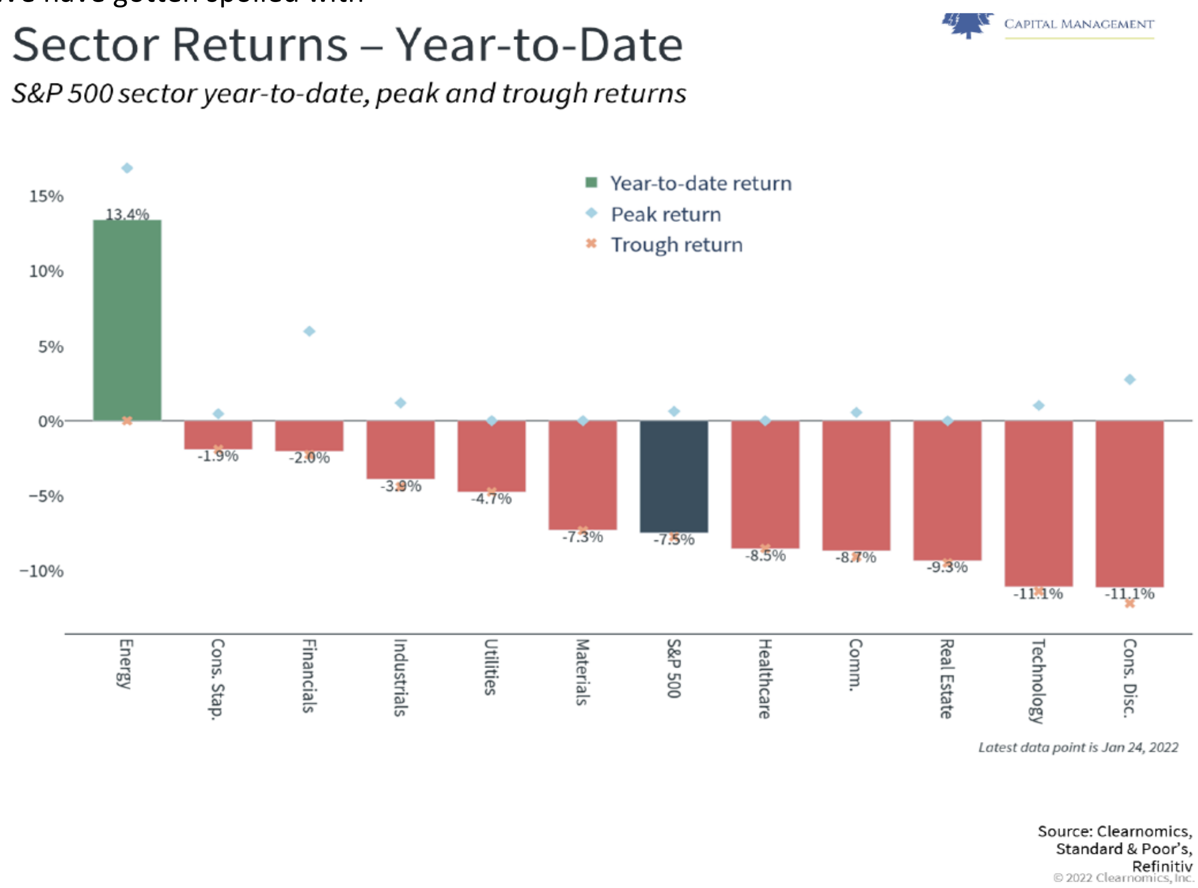
After a decade of underperformance to growth stocks, value stocks remain significantly undervalued compared to growth stocks. As shown in the following chart, from 2004-2018 value stocks traded at an average discount to growth stock valuations of about 32%. That valuation disparity ballooned to around 120% last year and even with the recent moderation remains near 100%. This makes us hopeful that value stocks will continue to outperform growth stocks.

As the U.S. economy continues to reopen post pandemic, GDP growth remains strong and importantly, S&P500 earnings remain strong. Supply chain issues and lack of available labor has caused disruptions in most businesses, but most company's ability to raise prices has more than made up cost overruns. This is one reason our inflation numbers have been high.



So far in 2022, markets have been extremely volatile and predominantly negative. As of January 24th, the only S&P sector with a positive return is energy. We expect continued volatility as this year will make some major changes in some long-term trends that have fueled the markets higher. First, Interest rates have been trending down for decades and 2022 will undoubtedly see rising interest rate for the entire year and rates hikes will likely continue into 2023 and 2024. Second, the avalanche of liquidity provided by the Federal Reserve and the U.S. government will slow dramatically. Third and most important, corporate earnings will likely remain strong in 2022, but after the economy is fully reopen, the rate of growth will likely return to a long-term trend of 2%-ish. Even though earnings will still be rising, the market doesn't particularly care for decelerating growth.

We have gotten spoiled with



We have gotten spoiled with double digit stock market returns over the past several years and while they may continue for a while (nobody knows what the markets will do in any given year) we feel single digit returns in the near future are much more likely.

As always, we thank you for trusting us with your portfolio.