WIMMER ASSOCIATES

QUARTERLY REPORT

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LETTER FROM KATHY

Dear Friends:

The stock market had an excellent year in 2020, with the broad-based S&P 500 Index and the technology laden Nasdaq Composite Index rising 16% and 43%, respectively. The US economy, however, faced headwinds as lockdowns were imposed haphazardly and vaccines were not made available until late 2020. The March, April, May "recession" was the worst economic (and shortest) downturn since 1945.

We continue to be bullish on the stock market in the short run as the Fed remains fully supportive of easy monetary policy while the new majority in Congress is committed to provide additional relief/stimulus to American workers along with new infrastructure funding. In fact, the total sum of the projected fiscal stimulus from the CARES Act and the American Recovery Act will approximate nearly $5 billion, which is nearly 25% of projected 2021 gross domestic product.

Consequently, we foresee continued buoyancy in the equity markets and suppressed interest rates in fixed income markets.~

Cordially,

Kathy Wimmer, CFA, CIC
President

KEY FACTS FOR 2021

- *Annual gift exclusion $15,000*
- *Estate, gift and generation-skipping tax exemption $11,580,000 per individual*
- *Highest marginal estate tax rate 40%*
- *IRA contribution limits $6,000, plus another $1,000 for those over fifty*
- *SIMPLE IRA and 401(k) contribution limits $13,500, plus another $3,000 for those over fifty*
- *401(k) contribution limits $19,500, plus another $6,500 for those over fifty*
- *SEP IRA contribution limits 25% of compensation, max of $58,000*
- *Top Federal tax rate is 37% on income over $523,600 (single filers)*
- *Top Federal tax rate is 37% on income over $628,200 (married filers)*

INSIDE THIS ISSUE:

2020 A Look Back

The past calendar year was extraordinary in many respects. Not only did the world suffer the worst major flu pandemic since 1918, but the developed world proved itself incapable of providing minimal policy prescriptions that could have mitigated the gravity of the ongoing pandemic. The Center for Disease Control had only 12 million respirators and 30 million surgical masks available in stock in early March of 2020 when 100 million would have been an appropriate complement. The nation's strategic national stockpile's emergency supplies of personal protection equipment (PPE) were badly depleted by the H1/N1 outbreak in 2009 and not replenished. The inadequate supply left health care workers in 2020 woefully unprotected while treating Covid-19 patients. The personal losses in terms of life and employment caused by this pandemic are staggering and are a wake-up call for governments to better prepare for the next pandemic.

Did anyone notice that 2020 was an election year in the US? We generally steer away from the rocky shoals of politics as we have found that election outcomes seldom have significant impacts on the market. We might expect higher spending and taxes, along with loose monetary policy, with the Democratic Party controlling Congress and the Executive Branch. Of course, the Biden Administration may want to forestall tax increases until vaccinations are widely distributed, and the economic recovery stands on firmer ground. Apart from potentially higher taxes going forward, the scenario may be similar to the previous Administration's loose monetary policy and deficit spending, which continues to be reflected in asset appreciation.

The S&P 500 Index had a terrific year in 2020; it climbed 16% in the calendar year, only to be outdone by the technology laden Nasdaq Composite Index, which soared 43%, fueled by the FANG (Facebook, Amazon, Netflix, and Google (now known as Alphabet) stocks. One should add Microsoft to the mix, as its shares returned 40% in 2020, because the company greatly expanded its market share in the burgeoning "cloud" market.

It is a bit perplexing to see the stock market do so well when ten million people have lost their jobs since the pandemic took hold in March of 2020. As we have noted before, the stock market is not the economy. The stock market is anticipatory and usually recovers well before the economy when there is a shock to the financial system. After the Great Financial Crisis of 2009, the stock market recovered to previous market highs in less than four years from its lows, but unemployment took seven years to return to pre-crisis levels. Sadly, it may be a few more years before employment figures recover to pre-pandemic levels. There also remains a disconnect between Wall Street and Main Street. While large corporations have entry to liquid capital markets that afford access to the issuance of equity and debt, Main Street is lucky if it can get PPP loans from the Small Business Administration to tide over employees during state mandated shutdowns. A portion of PPP loans may, or may not, be forgivable pending government approval and recommendation from the small vendor's banker.

Corporate earnings are surprisingly strong, which may reflect less competition from Main street, as well as the continuing shift to the digitalization of the economy. According to FactSet: "if 2.7% is the actual growth rate for the 4th quarter, it will mark the first time the index has reported year-over-year

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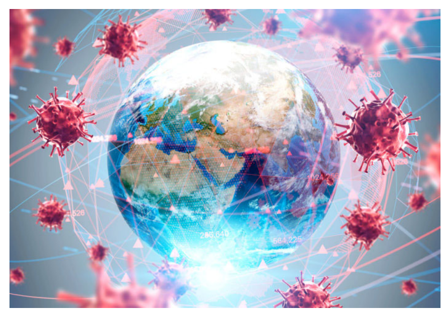

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2020 A Look Back (continued from page two)

revenue growth since Q1 2020 (0.8%), and it will mark the highest year-over-year revenue growth reported by the index since Q4 2019 (3.4%). Eight sectors are reporting year-over-year growth in revenues, led by the Healthcare, Information Technology, Consumer Discretionary, and Communication Services sectors. Three sectors are reporting a year-over-year decline in revenues, led by the Energy and Industrials sectors. Looking at future quarters, analysts project double-digit earnings growth for all four quarters of 2021."

The pandemic levelled a harsh blow in 2020. Unemployment soared to15% in April of 2020 in the US but has since settled down to 6.3% as of January 2021. Still, 6.3% is well above the 3.6% January 2020 unemployment rate. It is believed that 10 million workers are still without employment because of the pandemic. Some economists argue that the US is sustaining a V-shaped recovery, as reflected in a strong stock market and growing payrolls. Others liken the recovery to a K-shaped recovery, with the digitally savvy able to work from home while the travel, leisure and hospitality workers languish in unemployment or underemployment.

The housing market is booming as workers seek to escape high-cost urban centers to escape crowds in the pandemic and to capitalize on rock bottom interest rates supplied courtesy of the Federal Reserve's quantitative easing policies. The Fed has expanded its balance sheet to over $7.3 trillion by buying up US Treasury bonds and mortgage-backed securities (MBSs). These purchases have the effect of suppressing interest rates. Former Treasury Secretary Larry Summers recently warned that the Fed's easy monetary policy and Congress's extravagant spending are a recipe for future inflation. To date, there is no evidence that inflation is nascent as the annual inflation rate for the United States was 1.4% for the 12 months ended December 2020, as measured by the consumer price index (CPI).~

2021 Outlook

Monetary Policy - Federal Reserve Chairman Jerome Powell reiterated the Fed's confirmed stance that inflation is not a concern of the central bank for the foreseeable future. The Financial Times (FT) reports that the Fed Chair conveyed to the markets that the Federal Reserve has no intention of reducing its support for lower interest rates and has every intention of continuing its policy of buying up medium and long-term fixed income instruments as part of the quantitative easing policy begun during the Fed term of Chairman Ben Bernanke. The FT further reports that Powell said the Fed "would not overreact to a sudden but temporary jump in consumer prices this year as the economy rebounds from the pandemic."

Interest Rates - The yield on the US ten-year Treasury bond rose precipitously in December as some Fed members hinted that the economy might overheat and lead to inflation as the pandemic subsides with the rollout of vaccines and workers regain employment. Chairman Powell has laid to rest that sentiment and December unemployment reports indicate that there is still a tremendous slack in the labor market that needs to be overcome before any monetary tightening might occur.

Unemployment - As noted above, unemployment remains high and the Labor Department (DOL) reports that US payrolls dropped by a seasonally adjusted 140,000 in December. The jobs decline is further confirmed by the January 9th, 2021 report of weekly initial unemployment claims of 965,000 compounding the 18.4 million total number of continued weeks claimed for benefits in all programs as reported for the week ending December 26, 2020. These are grim numbers and hearken back to March, April, and May of last year. We do believe that the botched rollout of vaccines will be remedied shortly, and more Americans will get shots in their arms as federal and various state governments realize that bureaucratic restrictions on vaccines are leading to spoiled medicines and unnecessary infections.

Manufacturing - On a positive note, the manufacturing sector of the US economy is rebounding strongly, with the December PMI manufacturing index registering at a robust 60.7 percent, up 3.2 percentage points from the November reading of 57.5 percent. This figure indicates expansion in the overall economy for the eighth month in a row after contracting in March, April, and May, which ended a (record) period

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We strive to optimize our clients' financial well being by coordinating investment decisions with other professionals in the fields of taxation and estate planning.

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of 131 consecutive months of growth" according to the Institute of Supply Management (ISM). The return of the Boeing 737-Max to flights will further strengthen the manufacturing sector. Of course, it will take a healthy workforce and safe working conditions on factory floors to fully revive output.

Gross Domestic Product - The year 2020 was an economic disappointment, both here in the US and for the world. As noted previously, the US economy contracted 3.5% in 2020, matching the decline in output in global output as determined by the International Monetary Fund. For the year 2021, on the other hand, The IMF is projecting a rebound in US Gross Domestic Product of 5.1%, and 5.5%, globally.

Stock Market - The stock market is not the economy. We continue to be constructive towards equity prices in the near term, as the Fed remains fully supportive of monetary easing and the new Congress is intent on providing additional relief and stimulus to American workers, as well as new infrastructure funding. It appears Congress will release a torrent of new spending this year, which is bullish for commodities, employment, consumer spending and asset classes such as equities and housing. Although energy and other commodities enjoyed a 2020 year-end joyride higher, we believe that there is a long-term secular movement weighing against fossil fuels.

The stock market appears highly valued on a historical basis but, in our view, fairly valued in the current low interest rate environment. The stock market has rocketed up in a short period of time, but there remains ample fuel to continue the rally as the Federal Reserve promises low interest rates for the next couple of years and consumers have accumulated savings and a pent-up demand for travel & entertainment.

For those of you who have a mortgage, this might be a great time to lock in a lower interest rate on your mortgage or shorten the maturity on your loan.~