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QUARTERLY PERSPECTIVE

DVI
DAVID VAUGHAN INVESTMENTS

1. A Trip Down Memory Lane
2. Predictions for 2021
3. Predictions for 2021 (cont.)
CNBC Ranks DVI #33
4. A Trip Down Memory Lane (cont.)

Will Williams *Chairman, President & CEO*

A TRIP DOWN MEMORY LANE

Periodically, I will receive a retirement letter from an esteemed colleague in the investment management industry that really strikes a chord with me. One such letter was recently penned by Will Browne, a 42-year veteran and principal of Tweedy, Browne Company, the registered investment advisory firm founded back in the 1920s. His swan song was beautifully written and chock full of pearls of wisdom. As DVI founder David Vaughan often reminded me, there is a real advantage of being "a bit long in the tooth." It just so happens that Tweedy Browne's platinum reputation has been established over the decades as a value-oriented equity manager. Sometimes, timing is everything. I can only speculate, but with the current market's fascination with a handful of growth stocks and day trading activity not seen since the dot-com days, Will might have simply run out of patience. I know another Will that feels the same way!

Some of my key takeaways:

- Benjamin Graham's (the "father of value investing") big idea was that a stock is a fractional ownership interest in a real business. If you pay a reasonable price for that business, over time, with a bit of patience, your capital will grow.
- Value investing often requires a contrarian perspective and it can be a "lonely process."
- Success was defined as being "best in class" in the investment approach that they embraced, rather than attempting to be all things to all people.
- Lastly, he reflected upon wonderful advice from the firm's founding partner, "Always be honest – your friends and clients will forgive you for the inevitable dumb mistake, but they will not, and should not forgive you for a dishonest mistake."

This insight from an investment veteran that has experienced market boom and bust cycles is a great way of gaining an unemotional perspective on what tends to be an emotional pursuit, the management of other people's money.

When we reflect upon 2020, the word emotional also seems an appropriate description for the year in its entirety. It was quite a wild ride, as the market swoon of late February was the swiftest market decline in history and the phoenix rise from the March lows of nearly 72% has been the quickest recovery to all-time highs for the S&P 500. The healthcare crisis caused by the Pandemic, led to an all-out economic crisis. In response, extraordinary policy actions by both the Federal Reserve and the U.S. Congress have been deployed in an attempt to stabilize our nation's economy.

As we have commented in the past, the real winners in all of this over the past year have been a handful of large mega-cap technology companies that have benefitted from the economic and structural changes that have emerged in our "New Normal."

(continued on page 4)

TECHNOLOGY STOCK VALUATIONS

DECEMBER 1972

Nifty Fifty	NTM Price/ Earnings*
Polaroid	94.8
McDonald's	71.0
Coca-Cola	46.4
Xerox	45.8
Texas Instruments	39.5
IBM	35.5
Average	55.5
S&P 500	18.9

MARCH 2000

Dot-Com Darlings	NTM Price/ Earnings
Cisco	126.3
Oracle	107.2
Nortel	92.0
EMC	80.0
Microsoft	57.1
Intel	44.3
Average	84.5
S&P 500	23.8

JANUARY 2021

FAANGMT	NTM Price/ Earnings
Facebook	25.76
Amazon	71.32
Apple	32.02
Netflix	57.03
Google	28.14
Microsoft	30.55
Tesla	197.1
Average	63.1
S&P 500	22.2

*Source: ClearBridge Investments, "Institutional Perspective" December 2020, FactSet. *Current P/E Ratios NTM = Next 12 Months*

Brian Christensen, CFA
Senior Vice President & CIO

PREDICTIONS FOR 2021

Don't let the title fool you. My crystal ball is as cloudy as ever and Big David's advice to anyone who attempted to predict markets that they do it "early and often" still echoes in my head. 'Tis the season for the myriad of brokerage firms to roll out their forecasts for the upcoming year. As such, I thought a review of their work might be telling and likely entertaining.

Bespoke Investment Group, led by the well-respected Paul Hickey, recently reviewed past forecasts from Wall Street analysts on the direction of the S&P 500 Index. Since 2000, the median Wall Street analyst predicted the S&P 500 would rise 9.5% a year. The actual annual increase averaged 6% a year. The 3.5% gap is considerable. Interestingly, their 9.5% forecast is similar to the actual long-term historical return of 9.43% for the S&P 500 going back 25 years. Why not simply rely on historical averages as your guide?

A closer look at the data shows just how unwaveringly bullish analysts forecasts have been. Each December, from 2000 to 2019, the median forecast never called for a stock market decline during the upcoming year. However, the market did fall in six years during that period. In 2018, the market fell 6.9%, though the forecasters said it would rise 7.5%, a spread of 14.4%. In 2002, the forecast called for an increase of 12.5%, but stocks fell 23.3%, a spread of almost 36%! Vanguard found that from 1926 through 2019, the stock market posted annual losses 27% of the time.

In December 2019, analyst's median consensus forecast for 2020 was a 2.7% increase in the S&P 500. In April 2020, that forecast had been revised to a loss of 11%, obviously in reaction to the March pandemic driven sell-off. Actual 2020 performance for the S&P 500 exceeded 18%.

FactSet reviewed forecasts from a slightly different perspective. Rather than using forecasts based on a top-down market and economic perspective, FactSet looked at the estimates made by industry analysts who evaluate individual companies – a bottom-up perspective. Bottom-up driven forecasts, based upon the expected results of the individual companies in the index, proved no better. Over the 15 years ending 2019, industry analysts on average have overestimated the final price of the index by about 9.3% annually. Analysts overestimated the final

2021 WALL STREET FORECASTS FOR THE S&P 500 INDEX

Firm	S&P 500 at 12/31/2021	Projected 2021 Gain
Bank of America	3800	1.17%
BlackRock	4025	7.16%
BMA Capital Markets	4200	11.82%
Citibank	3800	1.17%
Credit Suisse	4050	7.83%
Deutsche Bank	3950	5.16%
Goldman Sachs	4300	14.48%
Jeffries	4200	11.82%
JP Morgan	4400	17.14%
LPL Financial	3900	3.83%
Morgan Stanley	3900	3.83%
Nuveen	4050	7.83%
Oppenheimer	4300	14.48%
Piper Sandler	4225	12.48%
State Street	3850	2.50%
T. Rowe Price	3950	5.16%
UBS	4100	9.16%
Yardeni Research	4290	14.22%
Median	**4050**	**7.83%**

CONTINUED FROM PAGE 2

value in 12 of the 15 years.

Year after year, Wall Street forecasts fail to get even close to actual results. So, what are the Wall Street analysts predicting for 2021? The table provided on page 2 lists forecasts from eighteen firms.

According to the best-known book on the subject, *Superforecasting* by Philip Tetlock and Dan Gardner, there is nothing special about Wall Street's troubles trying to predict the future. Experts across complicated disciplines fail to make accurate forecasts. Tetlock and Gardner's research found that the average expert was a horrible forecaster, regardless of experience and degrees earned. In their famous summation of expert predictions, they wrote that it was "roughly as accurate as dart-throwing by a chimpanzee."

Clearly, the daily commentary from the financial media is to keep you reading, listening, or watching. Legendary investor Sir John Templeton called the phrase "this time is different" the four most dangerous words in investing. Truer words were never spoken. Be well and Godspeed in 2021.

CNBC RANKS DVI #33

We are pleased to announce that CNBC has ranked our firm 33rd out of the top 100 Registered Investment Advisory (RIA) firms. Annually, CNBC publishes their "FA 100" list, which ranks advisory firms across the nation that provide comprehensive planning and financial services. CNBC stated that the intent of the FA 100 list is to highlight various factors that an investor should consider when hiring a financial advisory firm, such as fiduciary responsibility, range of services, investment strategy and compensation.

The analysis started with an initial list of 37,369 RIA firms. The ranking methodology considered many factors, such as number of years in the business, number of employees, disclosures, ratio of investment advisors to total number of employees, total assets under management, percentage of discretionary assets under management and total accounts under management. CNBC also applied weighted categories to further refine and rank each firm.

Will Williams remarked, "The DNA of our firm is that we rarely seek out public recognition for achieving certain industry milestones. Nonetheless, it is gratifying that CNBC identified DVI as one of the top investment advisory firms in the country utilizing an objective, fact-based selection criteria. Success for DVI has always been defined by our valued clients achieving their financial goals and objectives; that is our primary focus and that will never change. Along the way however, if it appears we are achieving best-in-class outcomes, all the better!"

Source: David Vaughan Investments, LLC

This rating is not indicative of DVI's future performance. The analysis for the CNBC FA 100 rating was conducted by CNBC with the assistance of AccuPoint Solutions, and neither the participating firms nor their employees pay a fee in exchange for inclusion in it. For more information regarding the CNBC FA 100, including the methodology and how the firms were selected, visit www.cnbc.com/top-rated-wealth-management-firms/.

Will Williams
Chairman, President & CEO

CONTINUED FROM PAGE 1

One of the dominant themes that is emerging as analysts assess the current market environment is a growing debate on the sustainability of both the growth trajectory and valuations assigned to these companies. Are we once again living through a speculative bubble or can the economic fundamentals justify another leg up on their spectacular rise?

As the table on page one illustrates, we have certainly experienced speculative market environments in the past, famous past reference points would be the "Nifty-Fifty" phenomenon in the early 1970s and the "Dot-Com" bubble that peaked in the 1st Quarter of 2000. In both instances, many if not most of the companies that were swept up in the euphoria of the day, certainly survived, but it took several years to regain their peak market values as the investors assigned lower valuation multiples to their business models. Despite the fact that the underlying company earnings can and will continue to grow, the return to a more reasonable valuation can have serious ramifications to the underlying stock price.

It is one thing if we viewed the technology sector in isolation, but one has to admit that wherever we turn today, the impact of near zero interest rates is contributing to a growing "risk-on" trade in many financial markets. The re-emergence of day trading as a popular past time is in full swing. Fidelity just announced that in the third quarter of 2020 they executed 2.2 million equity trades a day, up 97% from the third quarter of 2019. Even those numbers pale to the over four million daily equity trades executed by Robinhood on its no fee trading app. The meteoric rise of Bitcoin in 2020 and other Cryptocurrencies is just another classic indicator of speculative excess.

So where do we go from here? As Mark Twain is reported to have once said, "History does not repeat itself, but it often rhymes." After what has now been a thirty-year career at DVI, I will once again repeat our founder's guidance during times like these, "It is not so much what you own, but what you pay for what you own" and most importantly "Do no harm!" We look forward to a successful 2021.

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