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2021 Fourth Quarter Review

Greetings Clients:

U.S. stocks appreciated 28.7% in 2021, world stocks were up 18.5%, and bonds declined 1.5%, as represented by the S&P 500 Index, the MSCI All Country World Index, and the Bloomberg Barclays Aggregate Bond Index. Astounding. The S&P 500 dropped 33% from the previous high on February 19, 2020 to the pandemic bottom on March 23, 2020. Since then the index has surged 53% through December 31st. We are so proud of you for staying calm, staying invested, and not rebelling when we rebalanced in the trough. This is how portfolios grow.

Gains and losses are frequently notched in just a few key time periods, and this was certainly the case with the last seven quarters: the S&P 500 bounced back 12% in the last week of March 2020, another 13% the following month, and another 11% in November. It would have been so easy to sell off, lock in the 33% loss and miss out on the appreciation.

So what's the call going forward? On the one hand, valuations are high and it wouldn't take much to send stocks down hard, especially the growth stocks that we are always harping about. On the other hand, low interest rates, low unemployment rates, and a lot of available cash could extend this remarkable boom and we don't want to miss it.

We wish we had a tight lock on the timing of the winners and losers so that we could go all-in on the winning bet every time, but this fiction is the real menace that destroys wealth. We don't have to risk your savings to achieve your goals; we will stay focused on our reasonable estimate of an 8% long-term yearly average return from our growth strategy, we will keep reminding you to make sure you have enough liquidity to meet short-term needs, and we will keep reviewing your goals based on conservative numbers.

Last month Chief Allocation Strategist Steve Bobo dipped into his monthly data sets and whipped up an analysis of growth vs. value going back to 1975. We wondered if owning separate growth and value investments instead of the combined index would yield more rebalancing opportunities and better returns. As it turned out, not really. But Steve's analysis included the following chart, which I found truly striking:



I was amazed to be reminded that value outperformed growth for roughly the first 11 years of this time period and about another 9 years starting in 2000. Trends can persist for very long times, and, as you can see from the steep slope in 2000, trends can reverse suddenly. That's why we must make these risk/return tradeoffs and be patient.

Just in case you want to get under the hood with us, here is a link to a workbook comparing the holdings of the Russell 1000, Russell 1000 Growth, and Russell 1000 Value index funds. FAAMGT makes up over 22% of the Russell 1000! We believe that a disciplined framework and allocation decisions are more important than security selection, but details matter and inform the big picture.

One thing that is not worrying us excessively is inflation. We think it is highly unlikely that we will experience sustained and/or runaway price increases.

We have two administrative details to touch on. First, you will be receiving a letter from TD Ameritrade reviewing the authorizations that you have granted to us to transfer funds between your checking accounts and your Ridley Cove investment accounts. We continue to believe that these transfers are

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the safest way to move money. We ONLY have your authorization to move money between two accounts owned by you; NEVER to a third party.

Second, I have hired a company called RIA Innovations to assist me with my TD Ameritrade paperwork. You will be receiving a DocuSign package to allow their service team to assist me behind the scenes; all of your communications will still be with me.

Please let me know if you have any questions or concerns about either of these details. I am excited to free up more of my time for investment analysis, financial planning, and conferring with you.

We have uploaded your quarterly reports to your portals, and you can access them with the following link:

<https://main.yhlsoft.com/auth/users/webportal/ridleycove>.

Please contact me if you have any questions about your investments, our strategy, or your financial goals. Our money is invested right alongside yours.

Happy New Year!

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