TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

January 2021

Quarterly Insights

EXECUTIVE SUMMARY

2020 - The S&P 500 Index Was Up 18.40%

In 2020, the domestic S&P 500 Index was up 18.40%. With the exception of China, the US led global performance. Our initial 2020 market prediction for the S&P (+11%) was somewhat accurate for all the wrong reasons - we did not foresee the global pandemic. Market performance was remarkably high given the circumstances. There was a big disconnect between Main Street and Wall Street. The Bloomberg Barclay's Aggregate Bond Index rose 7.51% in 2020.

We Believe The S&P 500 Index Will Rise 15% In 2021

We believe the S&P 500 Index will rise 15% in 2021. Vaccines are here. The Fed and the federal government are taking aggressive actions to revive the economy. We have

- An economic recovery already in motion with forecasted 2021 GDP growth of 4.2%
- Surviving companies that have "already tightened their belts" with expenses
- Estimated 2021 operating earnings growth of 37.9% for the S&P 500 Index
- Pent up consumer demand
- An "accommodative Fed" that should maintain low interest rates
- A new Biden Administration that will increase government spending

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Fourth Quarter 2020

In This Issue

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~~It Was The Best Of Times,~~ It Was The Worst Of Times

We recently completed another strong year for the markets and one in which we feel our clients fared quite well. Normally it would have been a year to celebrate our good fortune, but any celebration has been muted. 2020 was also a year of tragedy from the global pandemic. Special years and times were lost forever. Mike's son, Charlie, finished his collegiate career without the traditional celebrations of graduation. No doubt he also missed a few other social events (parties). Dan's mother lives in Canada by herself and he has been unable to visit her due to quarantine rules. Others postponed or missed weddings, holidays and other family events.

TriVant had more clients pass away this year than any prior year, and it hurt deeply on so many levels. While we run an investment business, we literally feel invested in your lives. Many of you have been with us for more than a decade. Each and every one of you is more than just a client to us.

We lost one special client this year who was our very first client - my father. Greg Barber passed away after spending weeks in a hospital…a place we know he wanted to avoid…by himself. He had overcome much in the final chapter of his life, including spending the last few years as a quadruple amputee. Never once did he complain…he soldiered on. His memorial service was an over-subscribed Zoom meeting where dozens of friends told stories about him. Afterwards, a former student of his (my father was a science teacher and football coach) sent me 10 pages of random Facebook comments from former students and players about the effect he had on their lives. I was stunned to see the influence that my father had on so many people. I was also inspired by the mark he made and his never ending positive spirit.

So as we move on from 2020 and into this new year, we can reflect back on both our good fortune and our struggles. Let our return to a more normal life be more than normal. Let us appreciate our friends and family and not take the good things for granted. Let us celebrate our blessings.

Sincerely,

John

Stock Outlook: We Believe The S&P 500 Index Will Rise 15% In 2021

We believe the S&P 500 Index will rise 15% in 2021. Vaccines are here. The Fed and the federal government are taking aggressive actions to revive the economy. We have

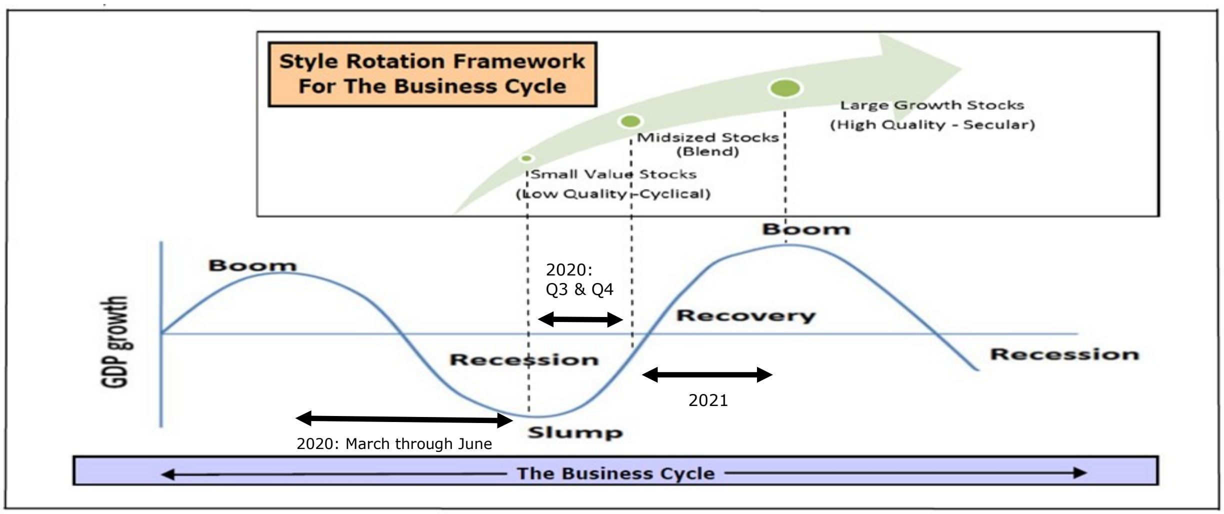
- An economic recovery already in motion with forecasted 2021 GDP growth of 4.2%
- Surviving companies that have already "tightened their belts" with expenses
- Pent up consumer demand
- An "accommodative" Fed that should maintain low interest rates (its Target Rate remains at 0%)
- A new Biden Administration that will increase government spending

The Pandemic Forced The Business Cycle To Prematurely Bottom In Q2 2020

A normal business cycle spans 5-6 years. Pre-pandemic (early March), we viewed the economy as being in the late stage of the cycle and emphasized high quality stocks. We had anticipated 12-18 months for the cycle to bottom. Then the pandemic quickened the pace of the bottoming. We foresee a continuing Recovery Phase over the next 6-12 months - the same time frame medical experts predict Covid-19 vaccinations to reach the masses. The stock market is a forward indicator. An unimpeded economic recovery over the next 6-12 months is bullish.

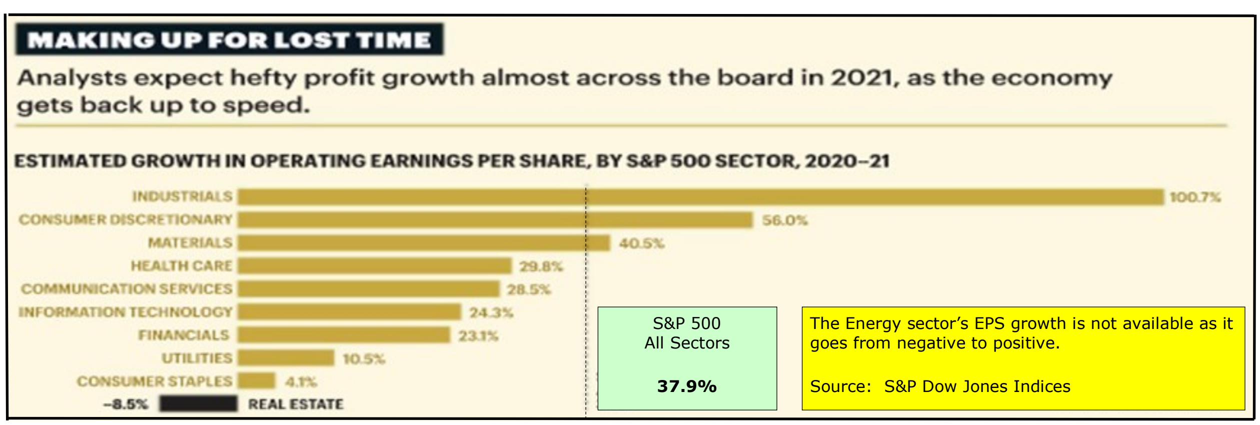
Real GDP (source: BEA)

Time Period	%
Q1 2020	-4.9
Q2 2020	**-31.4**
Q3 2020	+33.4
Q4 2020	TBD
2021 (Fed Est.)	+4.2



Company Profits Are Projected To Significantly Increase In The 2021 Recovery

The S&P 500 is projected to increase operating earnings by 37.9% in 2021. Note that a lagging 2020 sector (Industrials) is leading the way, while 2020 high-fliers Technology and Communication Services are not.



Portfolio Strategy: Stocks

1. Reduce Stocks With The Highest 2020 Performance Impact

In 2020, just six out of 500 stocks produced 92% of the S&P 500 Index 18.40% return (we own five out of six). Apple alone produced 35% of the return! Consequently, these six stocks now comprise over 20% of the index and are very expensive. We see a more "evenly divided" market in 2021 regarding performance attribution, partly because the leading 2020 sectors are expected to lag in terms of operating earnings growth (see page 3). There are other sectors/stocks with greater upside potential, and we will continue to rotate towards them.

2020 S&P 500 Index Performance Attribution: Just Six Companies Produced 92% Of The Returns!

Symbol	Name	Sector	Market Cap ($ billions) Dec. 31, 2020	Total Return (%) 2020	Index Weight (%) Dec. 31, 2020	Performance Impact (%) (see Note 1)	P/E Ratio
AAPL	Apple	Technology	$2,256	82.31%	6.74%	6.57%	34
AMZN	Amazon	Discretionary	$1,634	76.26%	4.88%	4.40%	61
MSFT	Microsoft	Technology	$1,682	42.53%	5.03%	2.53%	33
NVDA	NVIDIA	Technology	$323	122.30%	0.97%	1.41%	46
PYPL	PayPal	Technology	$274	116.51%	0.82%	1.14%	52
FB	Facebook	Comm Services	$778	33.09%	2.33%	0.91%	25
					20.77%	16.96%	
	2020 - Beg:	S&P 500 Index	$28,270				
	2020 - End:	S&P 500 Index:	$33,472		S&P 500 Index:	18.40%	22
				Attribution:	6 Stocks	16.96%	0.92
					494 Stocks	1.44%	0.08
					500 Stocks	18.40%	1.00

Note 1: Performance Impact Of An Individual Stock = (Total Return) * (Index Weight) * (1 + S&P Perf. 2020)

2. Reduce Average Market Cap

The Q2 business cycle bottom (GDP data reported late July) is normally the cue to rotate to small cap value stocks (low quality cyclical stocks) and subsequently rotate to "blended" mid cap stocks (value and growth). Perfectly timing these moves is impossible in normal circumstances, let alone a pandemic. We were wary of taking on additional portfolio risk without an FDA-approved vaccine. On December 11, the FDA approved the Pfizer vaccine. On December 18, the FDA approved the Moderna vaccine. With the expectation of mass immunization and further economic recovery, we will add "blended" smaller caps (value and growth).

The Stock Market Is A Forward Indicator - A 2021 Economic Recovery Could Favor Smaller Caps

	GDP	Large Stocks S&P 500	Small Stocks Russell 2000	Small Stocks Russell 2000 Growth	Small Stocks Russell 2000 Value
2020 - Year	Negative	18.40%	18.40%	33.85%	2.38%
Breakdown					
Q1	-4.9%	-19.60%	-30.88%	-25.85%	-36.03%
Q2	-31.4%	20.54%	24.99%	30.27%	18.26%
Q3	33.4%	8.93%	4.65%	7.05%	1.99%
Q4	TBD	12.15%	30.97%	29.44%	32.70%
2021 - Fed Est.	4.2%				

3. Increase Foreign Exposure

In 2020, we benefited from a high (over 85%) exposure to US stocks because the US led global performance. The performance exception was China. We believe China fared well due to better control of Covid-19 and its currency appreciation versus the US Dollar (the US Dollar fell versus the Chinese Yuan).

We plan to increase foreign exposure for two reasons: a weakening US Dollar and improved trade relations.

Large monetary stimulus hurt the US Dollar in the second half of 2020. We believe this trend will continue in 2021. US Dollar depreciation often leads to foreign out-performance. Foreign stocks led US stocks in Q4.

Over the last four years, the US moved to a more antagonistic approach to free trade ("protectionism"). The resulting chaos with free trade caused a "flight to US quality", which hurt foreign market performance for the last three years. We believe the new Administration will tone down trade rhetoric and move towards stronger trade relations. Greater trade certainty as the pandemic subsides should benefit foreign markets.

2020 Equity Index Performance

Regional	Q4 2020	2020
S&P 500 (Domestic)	**12.15%**	**18.40%**
MSCI EAFE (Foreign) *	16.05%	7.82%
MSCI Emerging Mkts	19.70%	18.31%
MSCI EMU	17.63%	7.89%
MSCI Japan	15.26%	14.48%
Country	**Q4 2020**	**2020**
China	11.20%	29.49%
Germany	11.48%	11.55%
France	20.36%	4.07%
United Kingdom	16.94%	(10.47%)

* Europe, Australia and the Far East

2020 Currency Performance

The US Dollar Fell Versus Major Currencies	Net 90 Days	Net 180 Days	Net 360 Days
Euro	- 3.31%	- 7.43%	- 7.77%
Chinese Yuan	- 3.90%	- 7.66%	- 6.36%
Australian $	- 6.84%	- 10.21%	- 10.03%
Swiss Franc	- 3.70%	- 6.42%	- 8.63%

Source: Telemet

Portfolio Strategy: Bonds

Interest rates cannot go much lower. Bond yields are unattractive. Since bonds are important for risk control, we have a challenge: what types of bonds present a reasonable yield and an acceptable risk/return tradeoff?

In 2020, we reduced Treasurys (unattractive yields) and corporate bonds (poor risk/return tradeoff). We still hold Treasury Inflation Protected Securities and Mortgage Backed Securities (reasonable yield). We recently added floating rate bonds for interest protection (as interest rates rise, bond prices fall). Looking ahead, we will continue to seek bonds that have the best risk/return tradeoff for an acceptable level of risk.

Another potential benefit of disciplined bond asset allocation is less obvious: strategic rebalancing.
In both 2019 and 2020, stocks fell hard in one quarter and almost recovered the following quarter (see page 6).
A "V-Shape Recovery" in a relatively tame bond market presents the following rebalancing opportunities:

1. When the stock market falls, your relative portfolio stock weight falls - hence we increase stock weight
2. When the stock market rises, your relative portfolio stock weight rises - hence we decrease stock weight

We buy stocks at a lower point (sell bonds to raise the cash) and sell stocks at a higher point (to buy bonds).

(see Quarterly Insights October 2020, page 7, "Rebalancing Portfolios Amidst Market Volatility Has Enhanced 2020 Performance")

Our 2020 Market Prediction Was Somewhat Accurate For All The Wrong Reasons

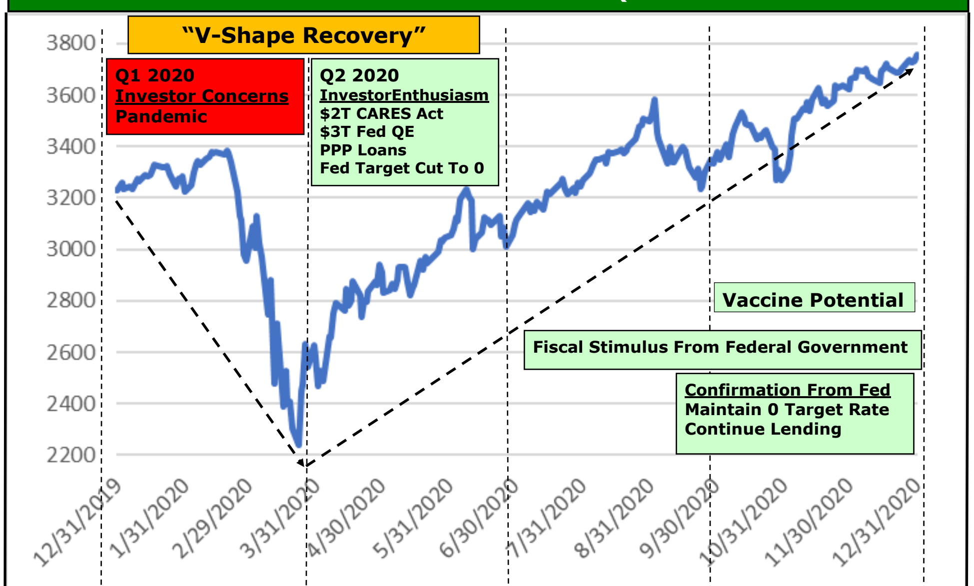
We predicted the S&P 500 Index would rise 11% in 2020 and the index rose 18.40%. These were our thoughts:

"We believe the S&P 500 Index will rise 11% in 2020. There is a healthy US economy, very low unemployment, rising S&P 500 earnings, and reasonable market valuation. The Fed Funds Rate (1.5%) will likely stay where it is. We have both monetary stimulus and fiscal stimulus to fuel the economy. The Fed has started to purchase government securities from the market in order to increase the money supply and encourage lending and investment ("quantitative easing", or "QE"). The level of purchases ($101B a month) is reminiscent of the QE initiated in 2008 ($95B a month). Federal government spending increased 10.23% in 2019 and is projected to increase 4.78% in 2020."

What Did We Miss?

In short, we missed everything because of Covid-19. It is interesting to compare 2020 to Q4 2018 - 2019.

S&P 500 Index Performance: 2020 (source: Telemet

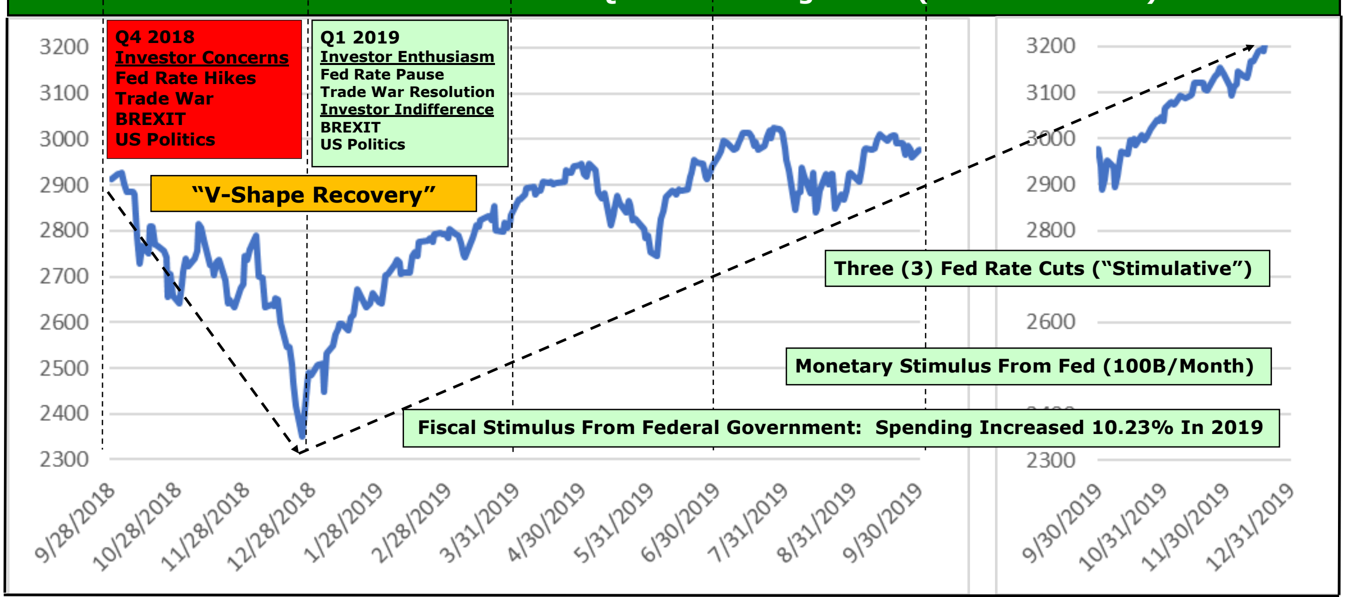


S&P 500 Index Return

2020: +18.40%

2019: +31.49%

S&P 500 Index Performance: Q4 2018 Through 2019 (source: Telemet)



2020 - A "V-Shape" First Half Followed By A Smooth Ascent In The Second Half

We reflect on 2020 as a year where the S&P 500 Index swung wildly in the midst of Covid-19, yet ended the year remarkably high given the circumstances (a pandemic, shutdowns, tremendous job losses and a fierce political environment). There was a big disconnect between Main Street and Wall Street.

Q1 2020:	- 19.60%
Q2 2020:	+20.54%
Q3 2020:	+ 8.93%
Q4 2020:	+12.15%
2020 Total:	+18.40%
Biggest Drop (Feb. 21 to March 23): Down 32.84%	

1. The US Was The Best Place To Be

We benefited from a very high (over 85%) exposure to US stocks. The US led for reasons including problems in Europe (relatively weaker economy, UK BREXIT uncertainty up until now) and a "flight to quality" (initial response to the pandemic). Germany (+11.55%,) France (+4.07%) and the UK (minus 10.47%) lagged. China (+29.49%) led due to better control of Covid-19 and its currency appreciation versus the US Dollar.

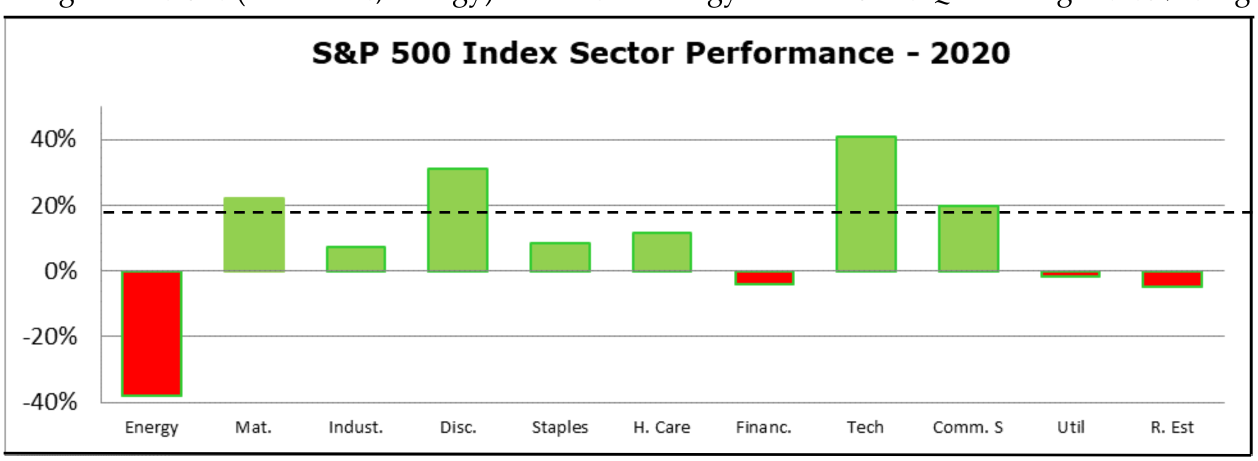
Equity Index Performance

Index	2020
S&P 500 (Domestic)	**18.40%**
MSCI EAFE (Foreign) *	**7.82%**
MSCI Emerging Markets	**18.31%**
MSCI EMU (European Monetary Union)	**7.89%**
MSCI Japan	**14.48%**

* Europe, Australia and the Far East

2. Technology Was The Star Performer

Seven sectors were positive and four out-performed the S&P 500 Index: Technology (+40.88%), Consumer Discretionary (+31.03%), Materials (+22.11%) and Telecommunication Services (+19.80%). For the second year in a row, the Tech out-performance was staggering. Energy was the significant laggard. From a sector standpoint, our key success factors in 2020 were over-weight decisions (Technology, Discretionary) and under-weight decisions (Financials, Energy). We raised Energy in time for its Q4-leading +29.85% surge.



Your Portfolio

We made several portfolio adjustments in 2020 to respond to changing market conditions. We plan to do the same in 2021. As your portfolio manager, we are not dealing with market certainty and we are always ready to adjust on the fly. In looking ahead, we are confident in the market and its underlying fundamentals.

In Q4, we made six portfolio adjustments. The rationale for these moves was to raise exposure to Health Care and Financials in anticipation of an economic recovery, pare back a high-performing stock, continue to place a greater emphasis on dividend-paying stocks, and get a better risk/return tradeoff in our bond portfolio.

In the stock portfolio, we bought CVS Health Corp (symbol: CVS; $89 billion market cap), the largest integrated health care company in the US. The company is poised to benefit from the critical need of lowering costs regardless of US healthcare policy. Another CVS attraction is its large 3.00% dividend yield. We also bought Bank of America Corp (symbol: BAC; $260 billion market cap), one of the largest financial institutions in the US. Covid-19 vaccinations should lead to a strong economic recovery, which will be favorable to bank profits. BAC also has an attractive 2.40% dividend yield. Finally, we pared back high-performing Apple (symbol: AAPL; $2.3 trillion market cap) and sold Diageo PLC ADR (symbol: DEO; $90 billion market cap).

In the bond portfolio, we bought SPDR Blackstone/GSO Senior Loan ETF (symbol: SRLN) and reduced SPDR Portfolio Short Term Corporate Bond ETF (symbol: SPSB). SRLN has acceptable risk for a 4% higher yield.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress. Thank you for your continued confidence in TriVant.

Respectfully submitted,

TRIVANT

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