TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

October 2021

Quarterly Insights

EXECUTIVE SUMMARY

US Stocks Flat, Most Major Regions Down In Q3

In the Third Quarter, the domestic S&P 500 Index was up 0.58% to lead most major regions. Year to date, the S&P 500 is up 15.92%. Large cap stocks led small cap stocks in Q3, a repeat of what happened in Q2. The leading sectors were Financials (+1.50%) and Technology (+1.03%). The Fed did not change its outlook regarding interest rates or tapering. Consequently the bond market was uneventful. In Q3, the 10-Year Treasury rose 0.07% and the Bloomberg Barclay's US Aggregate Bond Index rose 0.05%.

The Nifty Fifty: Déjà Vu All Over Again?

In the early 1970s, a group of stocks called "The Nifty Fifty" embraced an optimism that the US companies would dominate the global economy. These "blue chip" high growth stocks were bid up quickly, having a price-to-earnings (P/E) ratio over double that of the S&P 500 Index. The Nifty Fifty fell harder than the market as a whole during the 1973-1974 Bear Market. Many investors got hurt by initially paying huge prices for some stocks that were over-priced. Today we have large cap growth stocks dominating the S&P 500 Index, each with a P/E greater than the index. Should we be worried?

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Third Quarter 2021

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The Nifty Fifty Was A Seemingly Invincible Group Of Stocks In The Early 1970s

During the tough bear market from 1968-1970, the S&P 500 Index fell 36%, but small value stocks got hit much worse. Investors came out of the downturn more tilted towards the bigger growth-oriented companies. Known as the "Nifty Fifty", these "blue chip" high growth stocks included companies such as Polaroid, Xerox, McDonald's, Coca Cola, IBM and JC Penney.

This was an immediate shift from "value investing" to "growth at any price". The Nifty Fifty embraced an optimism that the US companies would dominate the global economy. Deemed as "one decision stocks", the Nifty Fifty were meant to be bought and not sold. These stocks were bid up quickly. The average price-to-earnings (P/E) ratio of the Nifty Fifty was 42x, more than double the 19x P/E ratio of the S&P 500 Index. The most inflated stocks were Polaroid (P/E of 91), McDonald's (86), Walt Disney (82), and Avon Products (65).

Constituents of the Nifty Fifty (source: Wikipedia)				
American Home Products	Digital Equipment Corp	Intl Flavors	Pfizer	Squibb
AMP Inc.	Dow Chemical	Intl Telephone	Philip Morris Cos.	S.S. Kresge
Anheuser Busch	Eastman Kodak	Johnson & Johnson	Polaroid	Texas Instruments
Avon Products	Eli Lilly & Co.	Louisiana Land	Procter & Gamble	Upjohn
Baxter International	Emery Air Freight	Lubrizol	Revlon	Walt Disney Co.
Black & Decker	First National City Bank	Minnesota Mining	Schering Plough	Walmart
Bristol-Myers	General Electric	McDonald's	Joe Schlitz Brewing	Xerox
Burroughs Corp	Gillette	Merck & Co.	Schlumberger	JC Penney
Chesebrough-Ponds	Halliburton	MGIC Investment	Sears, Roebuck Co.	
Coca-Cola Co.	IBM	PepsiCo	Simplicity Pattern	

= Companies Eventually In Deep Trouble

The Nifty Fifty Fell Hard In The 1973-1974 Bear Market

In the 1973-1974 bear market, the S&P 500 Index fell 51% from peak (January 1973) to bottom (November 1974). Reasons included high valuations of stocks, the end of the Bretton Woods monetary system, Watergate, soaring inflation and interest rates, and the first of the 1970s oil crises. As was written by a Forbes columnist, the Nifty Fifty "were taken out and shot one by one." To investors' dismay, the Nifty Fifty performed much worse than the overall market. To illustrate, Xerox fell 71%, Avon fell 86% and Polaroid fell 91%.

While many of the Nifty Fifty ultimately thrived, some did not. Over the next three decades, Walmart led the pack with a 26.96% annual return. However, Polaroid (1972 P/E of 91) had a negative 14.68% annual return, MGIC Investment (1972 P/E of 83) had a negative 6.84% annual return, Simplicity Pattern (1972 P/E of 53) had a negative 1.47% annual return, and Burroughs Corp (1972 P/E of 49) had a negative 1.64% annual return.

Lesson: Valuation Matters

The Nifty Fifty investors departed from a basic tenet of sound investing - valuation. With blind enthusiasm, investors were willing to pay unlimited prices to own any stock in the Nifty Fifty. This proved costly.

"The delusion was that these companies were so good, it didn't matter what you paid for them; their inexorable growth would bail you out.

Obviously the problem was not with the companies but with the temporary insanity of money managers - proving again that stupidity well-packaged can sound like wisdom. It was so easy to forget that no sizeable company could possibly be worth over 50 times normal earnings."

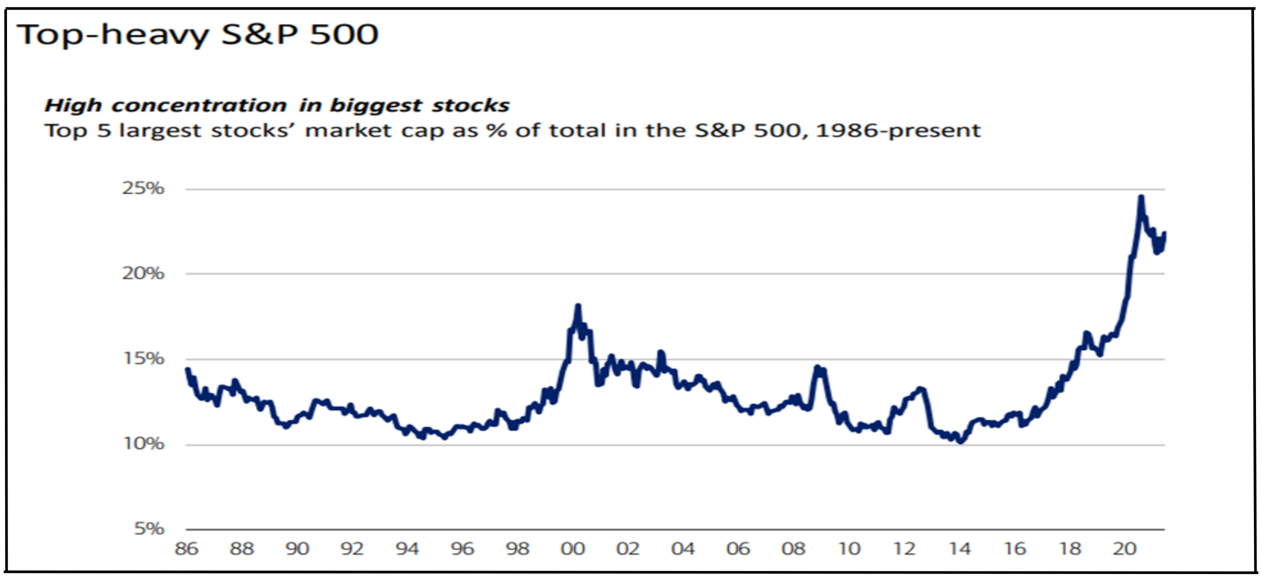
Forbes Magazine

The S&P 500 Index Is Concentrated With Large High P/E Growth Stocks

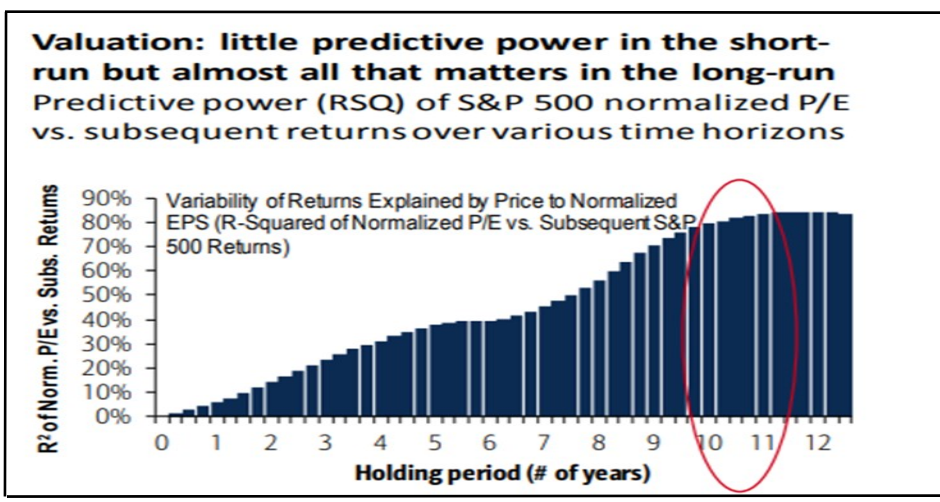
Over the last few years, large cap growth stocks have dominated the S&P 500 Index in terms of market cap weighting and performance attribution. While the historical average P/E of the S&P 500 Index is 19.6, its current P/E is 22.3. The 7 largest companies are all growth stocks and each has a larger P/E than the market as a whole, similar to the Nifty Fifty scenario in the early 1970s. This does not mean we should shy away from high-quality high-P/E companies (we own many). Rather, it means that we should be selective of companies and their valuations. Are the relatively high P/Es justified? As the time horizon of holding stocks increases, so does the predictive power of valuation. The over-valued companies tend to correct over time.

The 7 Largest Companies in the S&P 500 Index

Symbol	Company	Index Weight	P/E Ratio
AAPL	Apple	6.4%	27
MSFT	Microsoft	6.0%	34
AMZN	Amazon	4.7%	48
FB	Facebook	2.7%	25
GOOGL	Alphabet Inc Class C	2.6%	28
GOOG	Alphabet Inc Class A	2.3%	28
TSLA	Tesla	2.0%	102
NVDA	NVIDIA	1.5%	55



Source: Bank of America



Predictive Power Of Valuation

In the early years, valuation explains very little of subsequent returns.

At 3 years, valuation explains roughly 20% of subsequent returns.

At 5 years, valuation explains roughly 30% of subsequent returns.

At 8 years, valuation explains roughly 50% of subsequent returns.

At 10 years, valuation explains over 80% of subsequent returns.

Valuation Matters In The Long Run!

Where We Are Going In The Portfolio

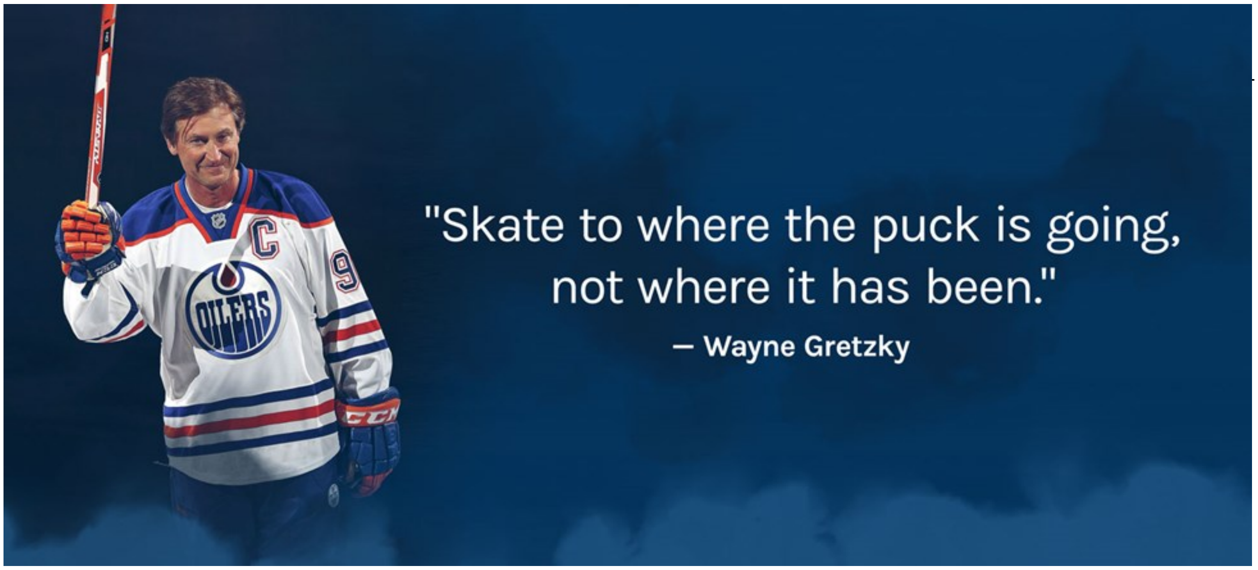
As evidenced by P/E ratios, it can be argued that the market as a whole is slightly over-priced and many large growth companies that have performed well are expensive. As your manager, we are proactive versus reactive. In terms of general positioning, we want the portfolio to have a higher component of defensive exposure (increase sectors such as Health Care and Staples) to protect you in the event of an economic downturn and/or market correction. In terms of individual stock positions, we are cognizant of those with high valuations and will adjust holdings if warranted. As is often said, “you don’t go broke taking profits”. We have been adjusting the portfolio in these directions over the past year and expect to continue to do so.

Recent Portfolio Adjustments: Getting More Defensive and Paring Back Exceptional Performers

Date	Action
09/22/21 07/27/21	We increased Staples by buying PepsiCo Inc (symbol: PEP), a global food and beverage giant. We increased Health Care by buying Globus Medical (symbol: GMED), a medical device company.
07/20/21	We pared back Intuit Inc (symbol: INTU), the US leader in small business accounting and tax filing software. The company was up over 700% in under 9 years and has a current P/E of 51.
04/19/21	We doubled our exposure in Amazon (symbol: AMZN) despite a current P/E of 48 - we like AMZN. We sold Facebook (symbol: FB): we felt its risks outweighed its valuation (current P/E = 25). We pared back Costco (symbol: COST); the company has done very well but its current P/E is 41.
03/04/21	We pared back Chipotle (symbol: CMG), up 266% since we bought it in 2018; current P/E is 57.
01/15/21	We pared back Visa (symbol: V), an exceptional high-performer; at the time, its P/E was 37.
10/15/20	We increased Health Care by buying CVS Health Corp (symbol: CVS). We pared back Apple (symbol: AAPL), up 4000% since we bought it in 2008; current P/E is 28.
07/21/20	We pared back PayPal (symbol: PYPL), another exceptional performer; its current P/E is 49.

The Timing Of Our Moves Will Not Be Perfect

As we move through the phases of a normal business cycle, broad categories of stocks (such as large cap versus small cap and growth versus value) tend to over-perform or under-perform at different times. This is the rationale for style rotation. The difficulty is that it is impossible to time portfolio adjustments perfectly. We act on what we believe is the greatest probability of a market eventuality, and our time frame is long-term (greater than one year) versus short-term (less than one year).



US Stocks Flat, Most Major Regions Down In Q3

In the Third Quarter, the domestic S&P 500 Index was up 0.58% to lead most major regions. Chinese government interference with its local companies and strained US/China relations hurt Chinese stocks. China was down 18.17% in Q3 and is down 16.67% year-to-date.

Equity Index Performance

Index	Q3 2021	2021
S&P 500 (Domestic)	**0.58%**	**15.92%**
MSCI EAFE (Foreign) *	**(0.45%)**	**8.35%**
MSCI Emerging Markets	**(8.09%)**	**(1.25%)**
MSCI EMU (European Monetary Union)	**(1.97%)**	**9.52%**
MSCI Japan	**4.56%**	**5.90%**

* Europe, Australia and the Far East

Large Cap Led Small Cap In Q3

Large cap stocks led small cap stocks in Q3, the same thing that happened in Q2. Year-to-date, US large cap (S&P 500 Index) is leading US small cap (Russell 2000 Index). There was little performance difference between small cap value and growth stocks in Q3 and Q2. This was not the case in Q1 (value out-performed by a lot).

2021 US Equity Index Performance

Index	Q3	Q2	Year-To-Date
S&P 500 Index (Large Cap)	0.58%	8.54%	15.92%
Russell 2000 Index (Small Cap)	(4.59%)	4.05%	11.59%
Russell 2000 Growth	(5.75%)	3.87%	2.54%
Russell 2000 Value	(3.35%)	4.16%	21.55%

Source: Telemet

Q3 relative sector performance was fairly tight (as was the case in Q2). Financials (+1.50%) and Tech(+1.03%) led the way. Industrials (-5.14%), Materials (-4.48%) and Energy (-4.46%) were the laggards.

2021 Time Frame	S&P 500 Performance	Relative Sector Performance
Q3	0.58%	**Out-Performance:** Financials, Tech **Under-Performance:** Industrials, Materials
Year-To-Date	15.92%	**Out-Performance:** Energy, Financials, Telecommunication Services, Real Estate **Under-Performance:** Staples, Utilities

Bonds Flat In Q3

The Barclay's Capital US Aggregate Bond Index, a broad-based representation of bond performance, rose 0.05% in the Third Quarter, following a 1.83% rise in Q2. Year-to-date, the bond index is down 1.55%. We realize that the bond return so far in 2021 is nothing to get excited about. Remember that bonds are an important defensive component of your portfolio.

Key US Interest Rates	June 30, 2021	Sept. 30, 2021	Change
Federal Reserve Board Funds Target Rate	0 - 0.25%	0 - 0.25%%	0 basis points
2-Year Treasury (Constant Maturity)	0.25%	0.28%	+ 3 basis points
5-Year Treasury (Constant Maturity)	0.87%	0.98%	+ 11 basis points
10-Year Treasury (Constant Maturity)	1.45%	1.52%	+ 7 basis points

Series I Savings Bonds - A Screaming Deal

Series I Savings Bonds, issued and backed by the US government, present a unique opportunity to earn a meaningful risk-free rate of return. The bonds are issued with a base (fixed) interest rate and a semi-annual adjustment for inflation (based on the Consumer Price Index for Urban Consumers), which together give a composite rate of return. You have full protection. If inflation is zero or negative (deflation), the composite rate is set to a minimum of 0%. This is why the Series I Savings Bonds are risk-free - you are guaranteed not to lose money. There are also tax benefits. Here is a summary of the bonds.

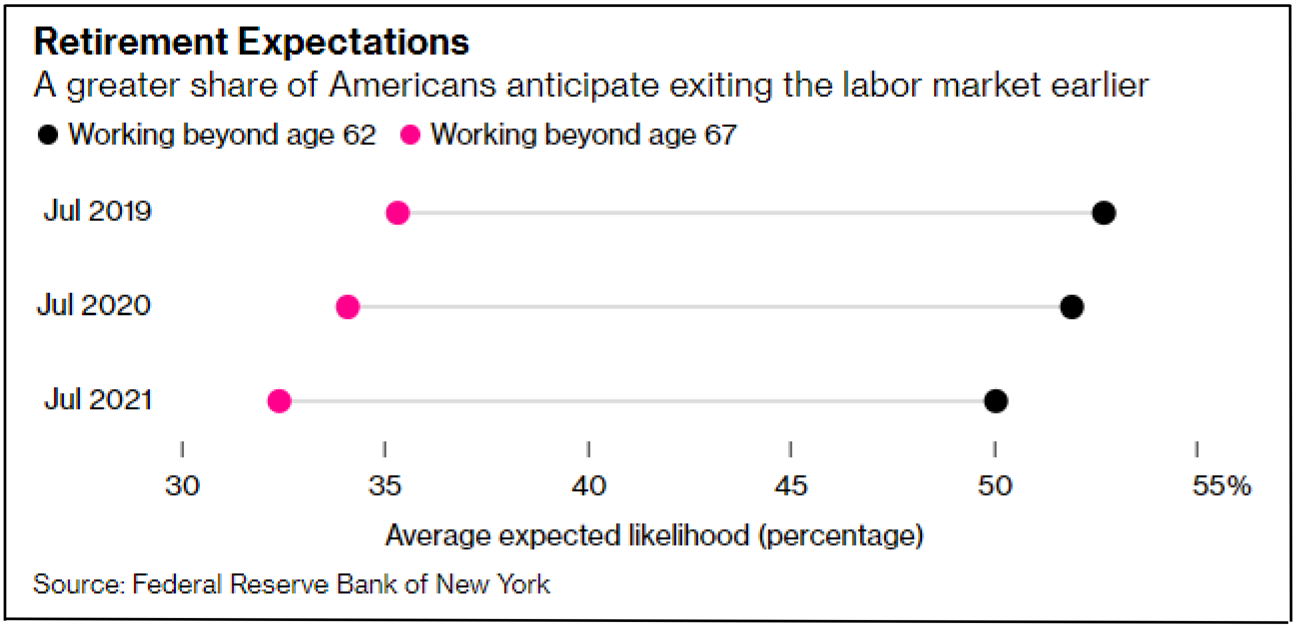
What is an I bond?	A savings bond that earns interest based on combining a fixed rate and an
What interest does an I bond earn?	A combination of a fixed rate that stays the same for the life of the bond and an inflation rate that is set twice a year. <u>CURRENT SCENARIO (bonds issued from May 2021 Through October 2021)</u> Base rate: 0%; Semi-Annual Adjusted Inflation Rate: 1.77% (annual rate of 3.54%) Total Annual Return (Combined Rate): 3.54% Frequency of Interest Payments: Monthly
Is an I bond taxable?	Federal Income Tax: Yes State & Local Income Tax: No The interest income is tax-deferred until the bond is cashed in, and is then taxed at the personal income rate.
Other potential tax benefits	Some or all of the interest can be tax free if used for qualified higher education expenses (subject to single or joint household income limits).
Maximum purchase	$10,000 annually per individual. An additional $5,000 per individual if purchased with proceeds of a tax refund.
Term of investment	Minimum Term: 1 Year Maximum Term: 30 years If bond is cashed in before 5 years, there is a three month interest penalty.

The Series I Savings Bonds present an opportunity to earn risk free income at a significantly higher rate than Treasury Inflation Protected Securities (TIPs), certificates of deposit (CDs) or money market accounts. To purchase these bonds, you have to establish an account at TreasuryDirect.gov. The bonds get registered under each individual's social security number. Please contact us anytime for assistance.

Americans Are Retiring Earlier Than Ever

According to recent polling data from the New York Federal Reserve, Americans say it is increasingly unlikely that they will work deep into their 60s. In the July New York Fed Labor Market Survey, only 50.1% of the respondents expect to work past age 62. This was down from 51.9% a year ago, and the lowest polling on record since the study was initiated in 2014. Those expecting to be employed past age 67 also fell to 32.4% from 34.1% a year ago.

Why the shift? There has been a large number of early retirements due to the pandemic. Since March 2020, more than 1 million older workers have left the labor market. The stress of Covid-19 has left many re-thinking their priorities. Recent double-digit annual growth in the financial markets has given potential retirees a greater cushion in terms of a nest egg. For others, their job losses may be involuntary.



Financial Planning Is Increasingly Important

The lower (earlier) the retirement age, the longer the investment time horizon in terms of safely meeting retirement income needs. This makes financial planning increasingly important.

We suggest you have a greater than 90% probability of success in terms of meeting your retirement objectives. Success is defined as not running out of money.

If you are already retired, we are carefully monitoring your financial status.

If you are contemplating retirement, we would be pleased to provide a detailed financial planning assessment regarding your retirement safety. Please contact us!

We made several portfolio adjustments in Q3. The rationale for these moves included an increased defensive posture (Health Care and Staples), new exposure to Real Estate and gaming, and paring back a highly appreciated position to take profits.

We bought Globus Medical Inc Class A (symbol: GMED; $8.3 billion market cap), a medical device company established in 2003 that develops and provides healthcare products and solutions to hospitals, physicians and surgical centers. We also bought PepsiCo Inc (symbol: PEP; $214 billion market cap), a global food and beverage giant, as well as Kimco Realty Corp (symbol: KIM; $9 billion market cap), one of the largest real estate investment trusts (REITs) in the US. KIM is the largest shopping center REIT and derives 80% of its base rent from major metropolitan markets. Finally, we bought San Francisco-based Unity Software (symbol: U; $28 billion market cap), the dominant gaming platform for Augmented Reality and Virtual Reality.

We sold General Dynamics Corp (symbol: GD; $55 billion market cap), a leading defense contractor and business jet manufacturer, in order to buy GMED. We also sold France-based Orange SA (symbol: FNCTF; $29 billion market cap), a global telecommunications leader. Purchased one year ago, FNCTF did not perform to our expectations. We pared back Intuit Inc (symbol: INTU; $139 billion market cap), the US leader in small-business accounting and tax-filing software. The company has performed exceptionally well. INTU is up over 700% in less than 9 years and up over 30% year-to-date. We felt it was an opportune time to take some profits.

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.

Respectfully submitted,

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