

January 10, 2022

Dear Clients,

“Every new beginning comes from some other beginning’s end.”

– Seneca

We can all agree that 2021 was far from an ordinary year. For most of it we were buoyed by the recovered freedom afforded us by the vaccines. Unfortunately, we ended 2021 having to adapt many of our holiday plans to yet another spike in COVID. Therefore, our thoughts start this New Year with hopes that this letter finds your family having safely navigated these most recent challenges.

In contrast to the endless rollercoaster ride of news as it relates to the pandemic, the stock market, as represented by the S&P 500 Index, largely ignored the noise to continuously attain record highs. The serial gains that the stock market indices posted have left many to wonder how long it can last?

The short answer: As long as corporate earnings continue to grow.

So, how likely are earnings to grow? Over the near-term, there continue to be tailwinds that should prove supportive. With massive monetary stimulus, unprecedented increase in consumer wealth and excess savings, supply chain snags easing, and higher wages, the U.S. economy should grow appreciably in 2022. With strong GDP growth, corporate profits and earnings should also advance.

As with everything, there are countervailing forces to consider – inflation, Federal Reserve tightening, and labor disruptions due to COVID, among them. However, on balance, we expect the positives to outweigh the negatives.

While the data highlighted above may seem useful in trying to figure out when the market might top out, it is a fool’s errand to try to predict the future. Whether the market is at a top or at some other level, we have found that opportunities are always evolving.

The opening quote from the Roman philosopher Lucius Annaeus Seneca, captures a more helpful frame of mind to employ as an investor. Asking “what is next” as opposed to “when is the end.”

In our [third quarter letter](#) we discussed how a change in interest rates can impact the stock price of companies having only the promise of future earnings very differently than it can for those companies that deliver their earnings in the present. While some bemoan a rise in interest rates as the end of the investment opportunity in long duration stocks, others rightly look at it as a chance to take advantage of mispriced shorter duration stocks

(i.e., Growth vs. Value). This is a perfect example of a new beginning coming from some other beginning's end.

Identifying those companies that can deliver growing earnings and strong cashflows as the economy moves past its recovery, leaving behind the stimulus that helped it recover, has been our focus. We are not concerned with the level of the S&P 500 Index or any other market index, but rather seek out stocks that can provide good shareholder returns as the economy moves to sustainable growth under its own power. This is yet another new beginning.

In our personal lives new beginnings are often the end of another beginning. Whether the transition from college to the working world, from being single to a committed relationship, from raising children to becoming an empty nester, or from career minded to retired, each of these are new beginnings. Planning for these changes and the impact that they may have on one's financial circumstances can make such transitions easier. In addition to thoughtfully and prudently investing your assets, we are here to help you prepare for the inevitable changes in life by providing planning capabilities and advice that can make these transitions financially rewarding.

Once on the right financial path, we often recommend that you stay the course. Please do not mistake this for the suggestion that you should ignore the world around you or that we do. We are always on the lookout for those investments that can weather and ultimately thrive in ever changing market conditions. With our almost fifty years of experience, we will navigate the challenges of new beginnings with you. We are honored to partner with you to help you chart your course. We are humbled by that responsibility and grateful for your trust.

As the risks of gathering in person diminish, look for us to host events that, hopefully, will be of interest to you and your friends. We will use these events to bring you additional insights from professionals in the fields of law, accounting, insurance, health and wellness, and more, whom we consider trusted partners. More on this to come.

Best wishes to you and your loved ones for a healthy, happy, and prosperous 2022.

Sincerely,

The Partners of CANNELL & CO.