Happy Spring from your DA team. Tulips are on the rise and the virus is on the decline, things are looking up! In the financial markets, the first quarter of the New Year started in similar fashion to the fourth quarter of last year. Stocks moved up while bond prices continued to fall. The S&P 500 was up about 6%[1] while the Barclays bond index was down approximately 2%[1]. Fortunately, the inflation indexed treasury bonds that we have been accumulating over the last several years have been doing much better than most all other bonds. Our portfolios performed nicely as there was a little shift away from some of the fastest growing "high octane" companies toward the more established (boring) businesses where we have the most exposure. For example, Tesla was down about 5%[1] while Berkshire Hathaway was up 10%[1]. As stock prices continue to climb, we have been reviewing things portfolio by portfolio to determine whether we need to reduce our equity exposure. It's always difficult to pare back our holdings when they are working well and with the unprecedented amount of federal stimulus pouring into the economy, GNP growth forecasts have been steadily increasing. This probably explains most of the current optimism and strength in the stock market. I've included a little chart[1] below that gives you a sense of the shift in investor preferences in the first quarter:

Stock	**1st Quarter Return**	**Stock**	**1st Quarter Return**
Berkshire Hathaway Class B	10.2%	Netflix Inc.	-4%
Intel Corp	29%	Tesla Inc.	-5%
CVS Health Corp	11%	Peloton Interactive Inc.	-26%
Charles Schwab Corp	23%	Zoom Video Communications Inc.	-5%

To say we've had an interesting year would be an understatement, but if you consider a little longer look back to include the 2008 financial crisis, our monetary and fiscal policy approaches have been truly unprecedented. In an effort to "right the ship" and to stimulate the economy in late 2008, the federal reserve began reducing interest rates sharply and then again with Covid in 2020 rates were reduced to essentially 0%[2]. I believe the mortgage on my first house in about 1980 was somewhere around 13%[3]. Today, it's not that difficult to get a mortgage below 3%[3].

When you have interest rates at rock-bottom levels, it certainly encourages people to be more aggressive with their borrowing. One of the unintended consequences of government intervention. I was reminded of this with a recent headline telling of a few international banks that had lost billions when a large investment partnership called Archegos (Greek for prince) got into some serious financial difficulty as a result of derivatives and borrowed money. I've noticed that when hedge funds or partnerships have esoteric names, especially those with Latin or Greek symbols, the bankers seem to be terribly enthusiastic about lending them money! The fund had about $10 billion[4] in assets and somehow managed to lose almost $20 billion[4] very quickly. Several major multinational banks allowed the fund to become so leveraged that a decline in a few of their major stock holdings lead to a meltdown and forced selling. I'm fearful that this last decade of forced, artificially low interest rates has fostered a certain comfort with large amounts of borrowed money and greater speculation. Although government policies are generally well-intentioned, they can often have collateral ill effects. I suspect current policies have fostered an environment where we will likely see more stories like Archegos in the future. Hopefully, these can be contained and will not cause widespread problems like the mortgage crisis of 2008.

We do our best to understand how our portfolio holdings deal with risk and certainly hope not to be surprised. However, large companies are complex and it's often difficult to ferret out issues before they are a problem. In the case of large banks, it's similar to buying a diamond. "If you don't know jewelry you better know the jeweler." We spend a fair amount of time reading about the managements in companies we own. We are certainly not above being fooled, but hopefully experience helps a little bit in understanding the more subtle signs of excess risk. There has to be some advantages to getting old!

We believe in forgiveness, however it's been my experience that those who cut corners and operate near the edge of honesty are often repeat offenders. My best memory of this was in the case of Enron. Before it was Enron, it was headquartered in Omaha and as a result we had a number of clients with significant positions in the stock. After it moved to Houston and became increasingly more "sophisticated," we had much difficulty in analyzing the company and increasingly less confidence in management. We began selling the position as this evolved. As an interesting side note, one of our clients had a large position in the stock which he donated to a local university for an endowed chair in medicine not long before things blew up at the company. Thankfully, the foundation sold the stock upon receipt of the gift. Unfortunately, they don't always end well. My inability to see the kinds of lending risks that GE took on in the early 2000s resulted in us losing money on that one.

On other fronts, I'd like to thank all of those of you who sent thoughts and prayers my direction during some health challenges. I am happy to report that they are working! Things have been steadily improving, life is getting back to normal and I am looking forward to working at something I truly enjoy, well into the future.

Because our practice is so personalized, labor intensive and growing, Susan, Kelli, Jennifer and I have been bumping up against some capacity constraints over the last several years. During this last year, the importance of further "bench strength" has been highly reinforced. As a result, we have been exploring the possibility of bringing on some new team members that we think could really enhance the quality of services that we provide to our clients. It's been almost 11 years now since Susan joined our team and ideally I'd love to find several more like her, but with varied backgrounds that would broaden our expertise. I am firmly in the management camp that says hiring those smarter than you and allowing them to shine is the best philosophy. I'm very proud of our current team and their results and believe potential new team members will be excited about joining us. We will share news on this front as it becomes available.

This has certainly been a tough year but we were recently reminded by a thoughtful client of the importance of taking certain positives from this experience. Slowing down and living more simply seems to afford us more time for focusing on family, friends and personal relationships. I suppose in this regard, life might be even better than before!

All the Best,
Russ, Susan, Jennifer and Kelli

[1]Morningstar.com
[2]Bankrate.com
[3]Fedprimerate.com
[4]Bloomberg.com