TD&Co.

THOMPSON DAVIS ASSET MANAGEMENT

THE INVESTOR INSIGHT

JANUARY 2022

INSIDE:

TIME IN, not TIMING, the Market

RBC—Our New Partner

Year-End Review and 2022 Outlook

At the close of 2021 I completed a task I have done each year for the past 25+ years, reviewing what went right and where things went off course. The practice, handed down to me from my earliest mentor in the business, allows me to examine in detail the investing decisions of the past year—not just those that did well, but those that provide an opportunity to learn from mistakes. The latter often is most illuminating.

The firm had an exceptional 2021, and I would like to thank my excellent staff for their hard work to get us there. Unfortunately, COVID-19 continues to morph (at a seemingly exponential pace), and it has certainly lasted much longer than most had expected, presenting additional challenges in 2022.

Another challenge is the change in the Federal Reserve's stance on its Quantitative Easing (bond buying) program and its plans to raise rates during 2022. The Fed has made clear during its last two meetings that it is going to not only reduce the bond-buying activities begun in Q4, but also increase rates to stem rising inflationary pressure. While the Fed anticipates inflationary pressures and supply chain issues to ease by mid-year, it still sees at least three rate hikes during 2022. As I have noted for the past year in these commentaries, this poses a material change in the support of certain areas of the investing landscape as well as the economy. Remember, there is no precedent for the extraordinary actions taken by the Fed when the COVID-19 pandemic began almost two years ago. The Fed went all in to support the economy as COVID rapidly spread globally. With nothing but partisan bickering from the fiscal side (Congress), the Fed was essentially forced to manage the crisis alone. Its swift action helped the markets recover from the fastest 38% drop in history (in March 2020). Since then (and something I have been concerned with and pointed out in these commentaries), the zero-rate environment and supportive Quantitative Easing have stoked what I feel is rampant speculation in certain technology areas. Some companies are sporting price-to-sales (not price to earnings) ratios of 50, 60, and even higher—unsustainable, in my view. Areas outside the equity markets (home prices, crypto currency markets) also saw prices rise at substantial rates. In addition to the abovementioned areas, commodities also rose significantly, as COVID wreaked havoc on the work force, with many leaving their jobs during what is being called "The Great Resignation." In my view, this is where the Fed finds itself trying to thread the needle of containing inflation through ending its bond buying program and starting to raise rates. The question is: Can it do this AND allow for a soft landing, as work force participation normalizes and supply chain disruptions ease? I believe this task will not be easy and runs the risk of slowing the economy too quickly during a still-tenuous period given the ongoing pandemic. As of the writing of this commentary, we are beginning to see the impact on the overall equity indexes, where the aforementioned technology stocks with extended valuations have dragged all the indexes lower. Policy errors are, and have always been, a short-term risk to the market, and the Fed will have its hands full in 2022—

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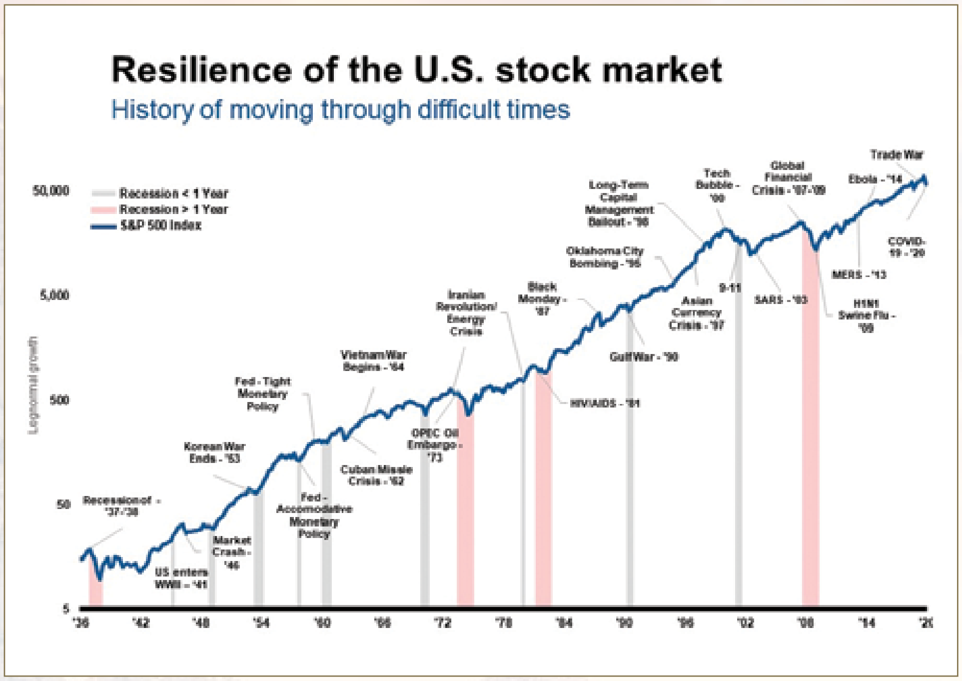
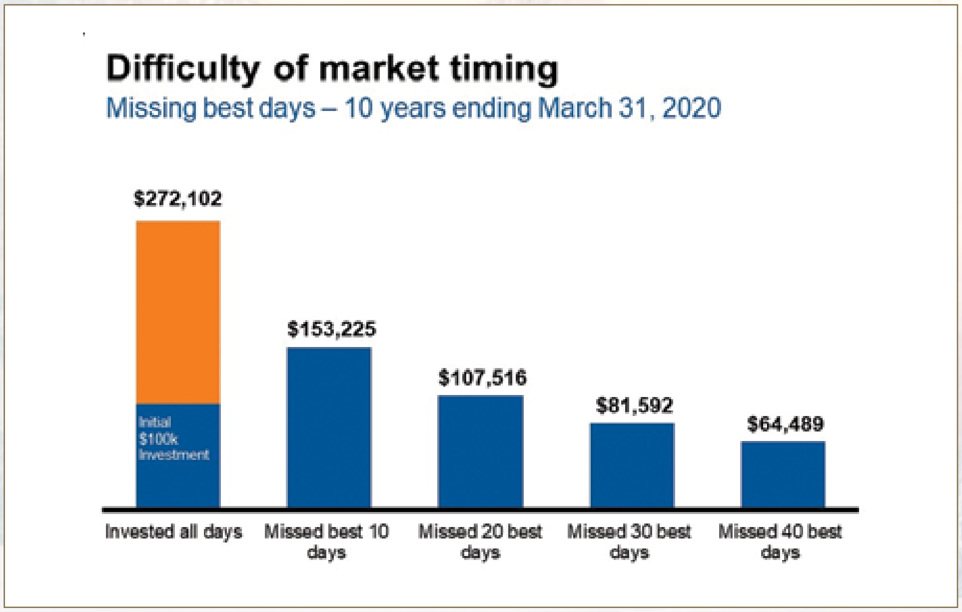
TIME IN, not TIMING, the Market

Erratic, unpredictable and volatile are just a few of the adjectives that come to mind when describing the stock market. The US stock market makes up roughly 55% of the total global market value, or $51 trillion. That $51 trillion is spread across more than 4,000 publicly traded companies with constant valuation changes every day that the markets are open. But the adjacent chart illustrates another adjective that describes the US stock market: resilient.



As the chart shows, the "up and to the right" stock market trend has persevered, even when the U.S. economy has faced an uphill battle. Over the past century, the U.S. has maintained and even grown its status as a powerhouse in the global economy, rewarding investors who remained steady with a tried-and-true investing approach.

Alternatively, being able to correctly time (and capitalize on) market movements on a short-term basis is nearly impossible for most investors. Sure, you may get lucky here and there, but consistently predicting market dips is unsustainable over the long term. Say you turn bearish and move to the sidelines/raise cash to redeploy on some future dip—a psychological tug of war ensues. You wait for the anticipated dip, but if/when it does, when exactly do you jump back in? What if the market rises another 5% while you are deciding? Do you swallow your pride and redeploy the cash you had moved to the sidelines?



The second adjacent chart illustrates the strategy of time in the market versus timing the market. Ask yourself, is a gut feeling of a market correction worth deviating from your investment plan? There are significant opportunity cost risks associated with raising cash in hopes of redeploying at lower prices. The U.S. stock market is open on average 253 days a year—around 2,530 days over the course of a 10-year period. Look at the difference in a $100,000 initial investment if you missed the ten best positive days over the ten-year period!

In short: (1) identify your investment objectives and goals, (2) stay the course, and (3) don't let your emotions get the best of you. Market dips and corrections will happen, and some will be stomach jerking, but keeping those three things in mind can provide confidence in the plan set forth for your financial future.

— Brant Jones, CFP®

RBC—Our New Partner

The time is almost here—Thompson Davis & Co. will return to RBC Clearing and Custody as our investment custodian partner. The conversion to RBC will begin in February and should be complete for most clients before the end of the month.

As we train in preparation, we are excited about the transition and think you should be too! We believe the partnership with RBC will improve your client experience via expanded technology platforms, client requested offerings, and most importantly, excellent client support.

Longtime clients of ours may remember that TD&Co. launched with RBC as our custodian. We periodically review and choose custodians on behalf of our clients as a part of our ongoing due diligence. A custodian's primary function is to house client assets, however they are also an extension of our firm in many ways: offering technology (including a trading platform), serving as a portal for client logins, and providing tax documents and account statements along with other client-facing functions.

Behind the scenes here at TD&Co, we look forward to enhancements that will allow our back office to work more efficiently on your behalf.

We are working diligently with RBC and Pershing to ensure a seamless process.

For many clients, the transition will require little action. Those with IRAs and certain account options (margin, options) will receive a package of required forms to confirm beneficiaries, lending relationships, and options disclosures. We stand ready to help you through the process; please contact us at info@thompsondavis.com or 804-644-6380 with any questions you may have.

Important Access and Document Dates to Note

Pershing NetX Investor/e-delivery access:

- TD&Co. clients can access account info via their Pershing NetX Investor login for 60 days post-conversion
- After that, clients can still use their login but will only have access to E-Document Suite (for statements and tax documents)

Statements:

- Pershing will physically mail 2021 1099s to TD&Co. clients
- In early March, TD&Co. clients will receive TWO statements for February 2022: one from Pershing (beginning of month) and one from RBC (end of month)

The below graphics highlight our new partner, RBC.

A sophisticated wealth management platform serving the needs of independent broker-dealers and registered investment advisor (RIA) firms in the United States.

1 RBC at-a-glance as of April 30, 2021

navigating work force participation and inflation and determining if the latter is going to linger or starts to ease by midyear.

While no one can accurately determine the best course of action for the Fed given the current set of data (which no doubt will change), one must have some degree of confidence in the Fed and its ability to navigate this period given its track record thus far. Having said that, I believe investors should not only be prepared to see greater volatility in 2022, but also be ready to take advantage of that volatility. As I have said many times, the big gains are often made by holding through the inevitable ups and gut-churning declines. As we move through 2022, I believe it's important to keep that topmost in our minds and not let emotions guide our decisions. The pandemic will eventually ease, the Fed tightening will run its course, and opportunities will be created. Those who can remain steadfast will reap the benefits of holding versus trying to time the market—or worse, panicking during large drawdowns in individual stocks or the markets. Remember that it is TIME IN, not TIMING, the market and individual holdings that determines success. It is also important to realize that volatility is the price investors must pay for excellent long-term results. One only need look at the greatest investors throughout time: Benjamin Graham, Warren Buffet, Peter Lynch, Sir John Templeton, and today's Jeff Bezos and Elon Musk. All had one thing in common: holding through the unavoidable downturns. With any market correction, during the first phase most all stocks correct as investors tend to sell first and ask questions later. This is where I believe the opportunity lies. I have been steadfast in my belief that value stocks remain a good place to be going forward. First, they have tended to do well during periods of rising rates, something we are going to face in 2022. From a historical and from a relative valuation perspective, small-cap value stocks still look cheap compared to bonds and remain cheap versus large caps, while small-cap value remains attractive versus small-cap growth. Small-cap value led its growth counterpart last year in different market environments. I see value's persistence in leading growth as an indication that we may be starting an extended outperformance cycle for small-cap value. I would also highlight that high-quality small cap stocks are cheaper than they have been in more than 20 years, according to FactSet.

While I expect bouts of increased volatility during 2022, I also expect those to present excellent opportunities in specific areas of the market. For example: the abovementioned small-cap-value; certain industrials with long-cycle secular trends; medical technology (particularly in the elective surgery area, held back by Covid and the strain on hospitals); and infrastructure, with the largest bill in our country's history giving significant visibility to a long-cycle sector with a secular trend that is expected to last 5–7 years. I believe 2022 will see ample opportunities in these areas, and we expect to work diligently to be in a position to take advantage of them.

Happy New Year to you and your families!
Best regards,

William D. Davis, Jr.
CEO and Portfolio Manager

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