



January 26, 2021

2020 Annual Letter

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair.”

—Charles Dickens, “A Tale of Two Cities”

While I suspect that I am far from the only one quoting Dickens in a 2020 year-end letter, that quote so perfectly describes the last 12 months—in the economy, the markets, and our society—that I cannot help but use it. The pandemic has seen scientists’ fears about what biology can do to our species become realized; and it has seen scientists’ hopes about what science can do to combat such fears exceed many of their greatest expectations (evoking another Dickens classic). We’ve seen the wisdom of crowds fighting for change, reform, and justice—and the folly of greed, self-interest, and ideology. We’ve been able to spend more time at home with those we love, but lost others we love too soon.

In the markets, 2020 has shown, possibly more than in any other year in history, how unpredictable things can be, and the general uselessness of macro forecasting. It has also shown how crazy and inefficient markets can be at times.

This temporary inefficiency seems to have increased with the rise of the so-called retail trader in 2020 and early 2021. According to investment bank Piper Sandler Companies, the average daily volume of equity shares traded went from 7 billion in 2019, to 10.9 billion in 2020, to 14.7 billion through the first 3 weeks of 2021. As I type these lines on January 25th, there are two business retailers that have become favorites of message board retail traders that are up over 100% on the day, on no fundamental company news. Is this a good or bad development? It’s certainly not normal, and not how markets are meant to behave.

With all our travel plans put on hold last year, 2020 became the year that we at Sorffis chose to upgrade our software systems and build our watch lists. We’ve increased our flexibility and ability to customize portfolios for clients depending on their needs, desires, and tax situations.

For clients who invest in individual equities, our focus in 2021 will be on investing in areas where we expect good returns and reasonable downside protection when looking out over the next 3–5 years.



So far, this has led to higher concentration in our best ideas. What the rapid 2020 market recovery showed is that we may need to do better at initiating smaller position sizes. We had several investments that we were considering buying that went up substantially before we were ready to make our final typically-sized initial purchases.

For clients who diversify more widely in equities and ETFs, our focus is not just on wide and adequate diversification, but also on devoting special attention to what to avoid. To use another phrase from literature, the valuations of many stocks today—especially those related to technology—require one to believe as many as six impossible things before breakfast to expect a positive return from their current prices. Almost everything is a good buy at one price and a bad buy at another price; and most of the time, things are somewhere in between. But today, there are plenty of investments worth avoiding either directly or indirectly through one's ETF portfolio.

Countries that looked insolvent, and that many economists thought might put the entire financial world at risk less than a decade ago, can now issue bonds at lower rates than can the United States. Interest rates hit all-time lows and approached zero—and then went negative. Companies with no history of earnings or, in some cases, no history of sales, have been valued in the stock market at billions and tens-of-billions of dollars. Are these signs of a bubble, or valid bets on the companies of the future? Maybe it's a little of both. Maybe it's just weird. Or maybe it's normal—just the ebb and flow of greed and fear and hope and anxiety that recurs through time.

There are, perhaps, few feelings more uncomfortable than the feeling of uncertainty. We want to know what is going to happen. We want to see the future so that we know what exactly to do today. But the future is rarely so clear. There are many paths it *can* take, but only one it *will* take.

There are things happening today regarding interest rates, the involvement of central banks, and other stimulus measures around the world that have never happened before. We don't know how these things that have never happened before will play out. But we can control our preparation and positioning, and that's what we're focused on as we move through 2021.

All the best,

Joe Koster



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