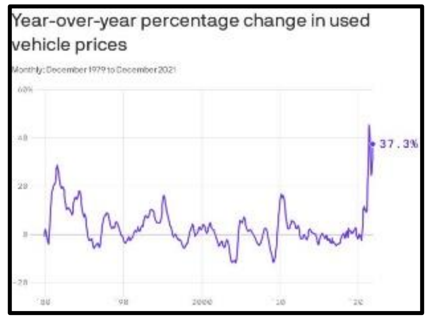
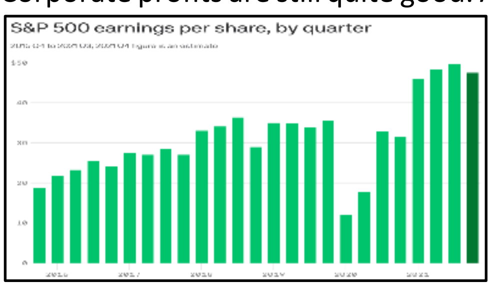
Well, another quarter has come and gone with another set of challenges and opportunities.

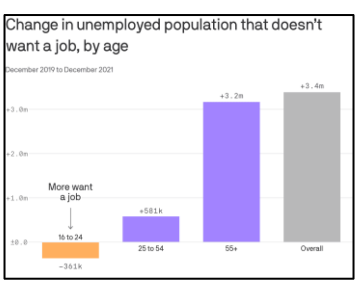
COVID in the form of Omicron is still with us. The good news is that we have vaccines, PPE supplies, and various therapeutic solutions to deal with it plus testing to find it. As a result, COVID is transitioning from a disconcerting pandemic issue to a potentially more manageable endemic challenge. But we have a way to go to complete this transition, and as many as one million people are likely to die during the course of this disease. In the meantime, the health care system continues to struggle to keep up with the shear number of people needing care.

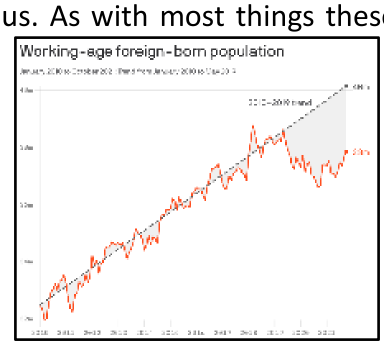


Inflation probably isn't permanent, but its clearly not transitory. As the headlines and firsthand experiences tell us, "stuff" is more expensive. How this affects us individually however may be quite varied. If you need to replace a vehicle or find new housing, you may be in a pretty challenging situation. On the other hand, if you have control of those two big items, even though everything else is more expensive, you may be better positioned to work through this. Although some prices may stick at this level, others will likely not only level off, they may even decline in time. For example, there are a variety of reasons used cars have increased so much, but its unlikely that used cars will change from a depreciating asset to an attractive investment class.



Corporate profits are still quite good. At least to this point, corporate America has managed to deal with a variety of pandemic related issues surprisingly well, or at least profitably. In many cases, they've been able to push increasing costs through to the next level and maintain their margins. In some cases, they have been able to focus their efforts on higher margin aspects of their business, which has also helped their profits. In time, their labor issues and supply chain challenges will be resolved.





Staffing is a real issue! I have no recollection of seeing so many help wanted signs ever before and in some cases the staffing issues are painfully/annoyingly obvious. As with most things these days the issues and solutions are quite varied and multifaceted. A sizable portion of the working age population has for one reason, or another decided to drop out of the workforce. I'm not sure what to make of the 3.8 million age 55+ workers who are no longer seeking employment. There are also potentially two million fewer documented aliens available to the workforce.

On the other hand, this is a great time to be looking for a job. It may even be a better time to look for a new opportunity, which is why the quit rate has been at record levels for the last several months.

Interest rates will be increasing in 2022, so easy money will change, but it will still be accommodative! As usual, there is a lot of speculation about the direction of Fed policy. There will certainly be multiple interest rate increases this year. They will also let some of their Treasury securities mature, which will reduce the amount of excess cash in the economy. As we have already seen, this will have a dampening effect on at least certain stock market sectors. But it is highly unlikely that Fed policy will be so aggressive as to be particularly challenging for business growth.

The stock market had another outstanding year. For the overall stock market, the annual return was around 25% last year. Perhaps, even more interesting, the last three years were the best in the last ten years with an average annual return of about 25% as well. For almost any prediction, forecasters are likely to suggest the current trend will continue going forward. As much as I would like that to be the case for 2022, realistically I think that’s unlikely. On the other hand, I do hope the first few days aren’t a harbinger of what’s to come for the rest of this year.

Another note of caution on the “stock market”, is that the performance of the broad market indexes is really being driven by a relatively small number of very large companies. Many of the smaller companies in the indexes have already experienced some fairly significant declines in their market value.

Given our current extremely low interest rate environment, even modest improvements in interest income will be quite welcome this year. However, we also need to be aware of the adverse impact on fixed income asset values as they adjust to a higher interest rate environment.

So, the good news is we’ve experienced a few particularly good years and have done very well. As usual there are reasonable concerns going forward. But since I generally focus on at least a three-year time horizon, I’m not particularly concerned about the prospects for a reasonably diversified asset portfolio going forward.

Here’s hoping for an interesting and rewarding 2022.

January 15, 2022