2021 Year End Letter

January 20, 2022

Dear Investor,

The Greenfield Seitz Core Composite was up 22.7% (net-of-fees) last year. This was our fourth best year since we began auditing our returns in 1996 and brings our 3-year compounding growth rate to 19.2%. (The Core Composite is the average total return of all 86 discretionary accounts over $1 million.)

Federal Reserve Policy

In response to the COVID-19 pandemic, the Federal Reserve lowered the Fed Funds rate from 1.5% to 0% and began quantitative easing by buying $120 billion a month in debt with newly "printed" money. This grew the Fed's balance sheet from $3.7 trillion prior to the pandemic to $8.8 trillion at the end of 2021. Keeping rates at historic lows while increasing the money supply helped to boost stocks but also created inflation. There is historically a 2-year lag between money creation and inflation.[1] The Consumer Price Index hit a new 40-year high in December with prices on a basket of goods increasing 7% year over year. In December, the Fed stated its plans to curb inflation and change course by raising rates and reducing its monthly bond purchases by 50% ($60 billion).

Value Underperformed Growth for 10 Years

Value stocks (essentially low P/E) have dramatically underperformed growth stocks (high P/E) over the last five and ten years. There are several reasons for this: 1) Low rates meant stocks were a better alternative to low yielding bonds/cash; 2) Many tech stocks created monopolies with high margins; 3) High beta stocks perform better in rising markets; 4) Low rates meant companies with no earnings for years were discounted less than usual; 5) Momentum investors bought tech stocks to join in. Since 1960, value stocks have outperformed growth stocks by 4.4% per year on average.[2] In fact, the only two periods growth outperformed value were in the 1990's tech stock mania and today. We should benefit if value stocks return to outperforming in the future.

Outlook

We believe legendary investment professor, Jeremy Siegel, said it best recently (12/17/2021 & 1/6/2022)-

"U.S stocks, as a whole, are not overvalued and some stocks could even be priced too low at 22 times projected 2022 earnings. That's not completely out of line given the current low level of interest rates. If one removes the mega-cap tech stocks, the S&P 500's P/E ratio falls to 19. That's a level more than a few investors might consider too cheap. Corporate America can still produce cash-flow increases that will exceed the level of inflation.

Fiscal and monetary stimulus in the U.S. during the pandemic have been excessive, both in absolute terms and in comparison to other nations. The Fed needs to be more aggressive (raising rates) than the market expects. Now inflation is not temporary and going to get worse. I think there will be many more than four rate hikes in the future.

The biggest challenge for U.S. equities in 2022 could be taper tremors, not taper tantrums, as the Federal Reserve begins raising interest rates. I believe the American economy and its corporations are strong enough to withstand four interest rate hikes of 25 basis points, or 1.00%.

Investors facing problems with portfolios overweight long-duration assets like tech stocks, which could be hurt by rising interest rates, might want to shift their preferences in favor of dividend-paying value stocks. Many shares of value companies have underperformed growth stocks for one of the longest periods in history. I think you are seeing a rotation this year (2022). Those stocks with good current cashflows are going to benefit and those that have cashflows in the future will be hurt. Anything with a higher P/E multiple is more vulnerable. When you raise the discount rate, the higher multiple stocks have their earnings more in the future, which means a bigger price drop in the stock. I actually think value stocks will be up this year and you will see the rotation as interest rates increase. You are seeing this tilt now and I expect it to continue.

Investors will want those income streams and dividend-paying stocks are the only answer to income problems. We could still have an 8-10% gain in the market in 2022 with the rotation from growth to value taking place."

As long-term investors, we aim to invest in great companies at an attractive price (valuation). This process is determined by current fundamentals, valuations, and the outlook for each company. The prudent investor stays true to the discipline of a successful long-term approach.

As always, please contact us anytime if you have any questions.

Sincerely,

Greenfield Seitz Capital Management

GREENFIELD SEITZ CAPITAL MANAGEMENT

Past performance does not guarantee future results.
1 THE WALL STREET JOURNAL. November 9, 2021.
2 Real Investment Advice. Michael Lebowitz. December 8, 2021
All company information is from company filings

Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. The market value of securities fluctuates, and you may incur a profit or a loss. This analysis does not include transaction costs and tax considerations. The material included in this presentation is for informational purposes only and is not intended as an offer or a solicitation to buy or sell any securities. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. You should consider our investment objectives, risks, and fees carefully before you invest.

Any views or opinions presented in this presentation are solely those of GSCM. While the information contained in this presentation is believed to be reliable, no representation or warranty, whether express or implied, is made and no liability or responsibility is accepted by GSCM as to the accuracy or completeness thereof.

Special risks are involved with global and international investing related to market and currency fluctuations, economic and political instability, and different financial accounting standards. These risks are magnified by emerging markets.

Please visit www.gscapital.net for additional disclosures or to view our updated Form ADV.