Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

P&A's Quarterly Letter

Q1 – March 31, 2021

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Dear Friends and Clients,

Unrealized Gains and Performance…

Most of our assets undermanagement are after-tax…luck of the draw. They represent monies earned by our clients through wages, dividends, investments, and successful business deals. Since these sources of wealth have already been taxed by the IRS, they are considered after-tax. We also manage IRA's, 401k's and 501c3 assets. These pools of money have yet to feel the lash of the IRS and therefore are considered before-tax. As long as the dollars held in a before-tax environment stay in that environment, they remain un-taxed by the IRS. It should be easy to see that before-tax dollars are fundamentally easier to manage than after-tax dollars. Their owners are not aggravated by capital gain taxes and the IRS is not constantly reducing the size of the investable funds. John D. Rockefeller, at $350 billion and Andrew Carnegie, at $475 billion, are widely considered to be the wealthiest individuals of the modern period. In order to pay off Civil War debt, the federal income tax was initiated in 1913. The majority of this pair's accumulations occurred before-tax…before any income tax existed. Today's wealthiest Americans are Jeff Bezos at $179 billion and Bill Gates at $111 billion… Taxes make a difference.

The Pandemic Correction of 2020…

The winter of 2020 began with the Dow at 28,634. The first 45 days were flat to strong as the index climbed 2.6% to 29,398 on February 14th (21% annualized). Shortly thereafter financial hell broke loose. Covid-19 was discovered in Wuhan, China on December 8, 2019 and by mid-February 2020 it was spreading like wildfire… Security prices fell abruptly. As has been the case with most corrections we measured our reaction. We review our portfolios systematically and did not find ourselves owning any securities that could not weather a major storm. Our after-tax portfolios held lots of gains. As the market dropped in value by -10%, -15%, and then -20%, those gains melted away…yikes! The "down -20%" calculation has long been a measure of tolerable pain for us. Unfortunately, the pandemic correction went right through that level eventually the Dow hit 18,591. We still liked our stocks but enough was enough and we began doing tax swaps in earnest…selling stocks trading at a loss and using the proceeds to buy similar securities. This process is not new to our clients and is often called "harvesting losses." In its simplest form, we might sell a bank and buy a different bank, sell a railroad and buy a different railroad. In more esoteric applications we might sell a bank and buy a semiconductor company. The objective is to move unrealized losses from the client's portfolio to the tax return, without impairing the long-term earning power of the portfolio. Since today's markets function without commissions there are very few friction charges in trades like this.

Before it was done, the pandemic correction took a -34% swath out of the market; energy and financial stocks fared the worst. Price action like this allows portfolio managers to "pull weeds and plant flowers." Although we liked our existing stocks, we now liked those in a few other sectors better. We reduced our financial exposure, energy, and deep cyclical industrial holdings in favor of technology, communication, and leading-edge consumer discretionary. In addition, the losses that were generated allowed us to manage portfolios previously dominated by unrealized capital gains. Dan and I are as long in the tooth as any pair of number crunchers you can find, and our staff is experienced beyond their years… We have never seen a correction like this. It was a severe and deep "V"-shaped affair. Most corrections this severe widen at the bottom, like a "W" or a "U," sometimes like upside down staple. If we didn't call it a deep "V," it would be compared to a "Yo-Yo," abruptly down and back. By the time the correction hit its bottom, Covid was raging and the politicians were throwing cash at the economy to save it. Save it they did; the reaction by the markets was swift and positive, leaping off the trough of the correction and headed for new highs. Once again, we were off and running.

Like any group under stress, investment managers need encouragement and support. In the unlikely event there are no successes, they will look for lessons in their failures. So, let's look at last year's benchmarks in hopes of some guidance. First of all, the Dow fell from 29,398 to 18,591: -34%, pre-correction high to the trough… Repeating…not fun. Then, without passing "Go," the indexes made a hairpin turn and traded up; by year's end, the Dow is 30,223, up 1,589 Dow points from year-end 2020, or +5.5%. However, it was up 11,049 since the trough of the correction, or up 58%. Abrupt index movements like this are very difficult for any manager to duplicate.

In order to calc total return, 1.5% in dividends generated had to be added to that 5.5% figure bringing the Dow up to 7.00% for the year. Check your statements and you will see that a fair number of you beat that number; however, mischief is looming on the horizon. As the calendar moves forward the start date of a moving 12-month comparison moves into the March 2020 correction. During this period, the Dow is up 60% on a trailing 12-month basis. Using the trailing 12-month comparison, the value used for the beginning date will increase rapidly, which means the performance figures will drop significantly as time passes. This is not a sad story for P&A as we are pleased with the job we did for our clients. It does, however, remind me of an old story about Maurice the window washer. Maurice was responsible for a number of tall buildings and knew each of the occupants well. On his last day of work, a brisk wind knocked him off his scaffolding. As he fell down the side of the building, the tenants yelled at him "Maurice…how you doin'?" To one at a time Maurice responded "So far…so good!"

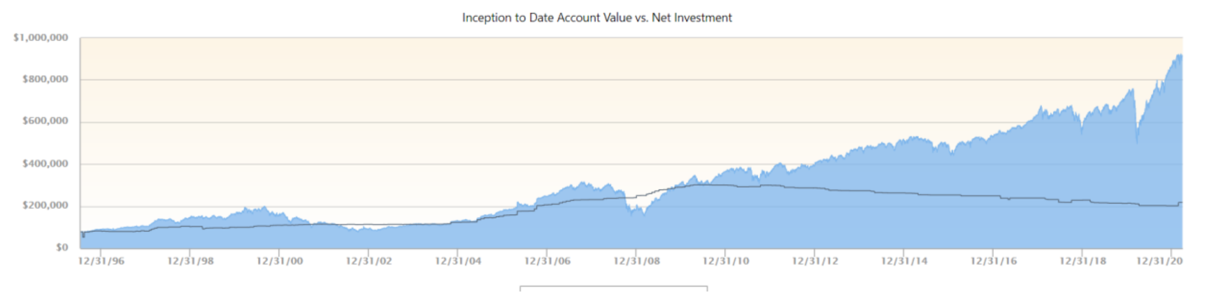
So How Are Our Clients Doing...?

Our original portfolio management software was written by Advent. In 1995, it was the best of breed and held that position through the early 2000s; we thank them for the help they gave us. In 2013, a major price change swept this industry and all major vendors increased prices. We decided to make the change to Tamarac. Although price motivated, this change did not reduce IT expenses for us when it finally occurred in 2015. Instead of sending Advent ~$40,000 per year, we started sending Tamarac ~$100,000 per year. This is not a sob story. Since the point of inception, we have elected to buy more of Tamarac products and that cost component continues to rise. No complaints! Their software is state-of-the-art and achieves its highest utility when everyone knows how to use it. Calculating performance is one of Tamarac's strengths, and we want all of our clients to be aware of the utilities available to them.

First, a little imagination is necessary. What follows is a hypothetical chart. It compares a hypothetical portfolio to the Dow and S&P. As you can see, the "Hypo" returns are inconsistent when compared to the indexes. It's kind of like life: win some, lose some. If you use the P&A Portal, your dashboard will have a performance tile in the bottom left-hand corner. This tile has four labels across the bottom which will allow you to look at your portfolio vs. the same indexes.

	Hypo	Dow	S&P
Year to Date	5.49%	8.85%	7.43%
Trailing 1 year	74.89%	61.77%	65.50%
Trailing 3 years	17.63%	14.55%	18.14%
Trailing 5 years	16.03%	15.98%	16.44%

A high percentage of our clients tell us they understand these numbers when "we" guide them through them. So what are we pay $100,000 for? We think the following graph is a huge difference maker.



This chart is a capital flows chart and it is available to you four times per year, 3/31, 6/30, 9/30 and 12/31. If you would like to see it more often, let us know and we will generate a copy. Tamarac does not provide us with a means of delivering this product in a dynamic format; when they do, you will have it. This report describes the market value of your account as a mountain range which, in this case, is painted blue. It also describes the monies you have deposited to this account as a straight line, painted black. The difference between the height of your mountain range and the black line describes the gain you have made. We like to look at this graph since inception, but that is getting to be a pretty long time for a lot of our investors. As in most forms of investing, the long-term is the only term.

It is important to use the same standard of measure at all times. To that end, we use the charts, percentage figures, and popular indexes in all our review meetings. However, we know that our clients are not robots. They are humans that take vacations, buy time-shares, invest in vacation homes, gift philanthropically, make bequests to their children, and use their monies to fulfill their best personal purposes. The capital flow charts explain the success of those endeavors the best. Please use these reports as well.

The World According to Pitt and Dan…

In our last letter we changed our equity disposition to "Really Like" and have underperformed ever since. Not dramatically, but enough to make us notice. If you would like to kick us while we are down, now would be the time.

With the $1.9 trillion stimulus package now in hand, we have heard a lot of muttering about inflation. If the multi-trillion dollar infrastructure bill gets passed, those conversations will have even greater audience. In the early '70s, Dan and I were economic punks and wet behind the ears by anyone's measure. The U.S. came off the gold standard, OPEC restricted the flow of crude oil, and the price of a barrel rose from a "pegged" $3.00 to $12.00. This was double-digit "Cost Push" inflation at its finest. The price of an essential commodity increased and demand stayed the same. Manufacturers passed their price increases along to the public, and prices were "pushed up." I do not know of an instance when cost push created hyper-inflation…the price of goods and services rising at an annual rate of 1,000%.

The US has been victimized by one and only one spat of hyperinflation (1,000% annually)…during the Civil War. One of the most singular examples of international hyperinflation occurred after WWI in the Weimar Republic of Germany. Their central bank attempted to pay war reparations and grow the economy at the same time. The German government printed so much money that a huge gap between supply and demand developed…too many dollars (deutschmarks) chasing too few goods and services. Inflation was recorded at 322% monthly and grew to more than 3 billion percent annually by 1923. Eventually this sterling example of demand pull inflation became fertile ground for the charismatic paper hanger…Adolph Hitler. You know the rest.

It is hard to picture hyperinflation without a world war, a departure from hard currency, and an unstable government. The double-digit inflation that a lot of us lived through in the '70s occurred when OPEC divorced the world from a pegged oil price ($3.00 per barrel), the US left the Gold Standard while fighting the Vietnam War, and our President resigned. That's a pretty ugly mess and still no hyperinflation.

If you would like a good primer on inflation, I suggest https://www.investopedia.com/are-we-in-for-a-hyperinflation-5093627. It is not too long, reads easy, and was used as a source for some of this text. The reason I call it to your attention is that inflation is a widely misunderstood topic. It is difficult to create and equally difficult to kill. In some size or dimension, it is with us always; a modicum of inflation allows prices to rise controllably and is fairly simple for large and small companies to deal with. There are really only two kinds…cost push and demand pull. The kind you and I have been most affected by (1970s) is cost push. The most egregious onset of inflation since 1900 was demand pull (Weimer Republic). Challenge yourselves to understand these two types of inflation and you will quickly see that, while we may be trifling with high single- to low double-digit inflation, we are not currently threatened be either one.

We continue to "Really Like" equities. Fixed income is a constant source of disappointment for us, and most of you are a lot braver than you think you are. Keep your eyes peeled for a 25th year P&A anniversary, we would love to have a party.

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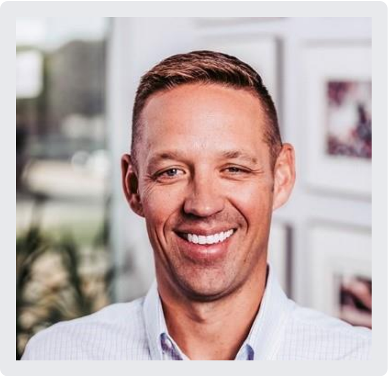

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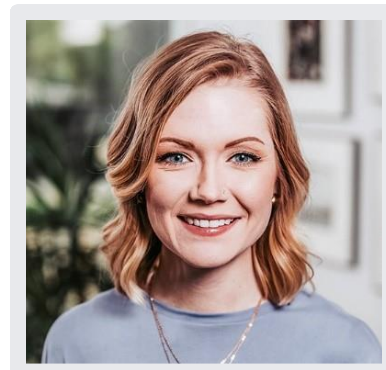

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