Investing In Quality For Long-Term Growth

Ebert Capital Management Inc

1st Quarter 2021

A NEWSLETTER FOR OUR CLIENTS

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Investment Overview

There are many words that can be used to describe 2020. Devastating, sad, challenging and for some it was ok or even a good year. One word that sums up 2020 and the 1st quarter of 2021 to me is … weird. As we all gear up for a return to some version of normalcy, 2021 has showed thus far that many things aren't what they used to be and some of the changes we've all witnessed over the last year may be permanent. Specifically, in publicly traded stock and bond markets, the 1st quarter has been one with little historical similarities to previous periods.

Since the stock market bottomed out in late March 2009 from epic credit crisis that led to the "Great Recession", some market trends have been built and held very steady over the 12 years since. The tech-heavy Nasdaq Index for example has left other areas of the stock market in the dust as the global economy has transformed us to a more technologically advanced society and economy. The heaviest stock weightings in the Nasdaq are many of the dominant, societally disruptive companies we talked about in our recent research paper, A Decade of Change. Many of these companies such as Google, Microsoft and Amazon continue to dominate and grow at very fast rates, while less technologically proficient businesses and industries have died or are fading fast.

During the 12-year period from 2009, as you can see by the chart from Yahoo Finance below, the Nasdaq has gained 952.54% vs. 397.94% for the S&P 500 Index, 333.46% for the Dow Jones Industrial Average, 107.83% for the All Country World Index excluding the U.S. and just 12.39% for the iShares U.S. Aggregate Bond ETF, which represents the U.S. bond market. This outperformance is due to so many of the most transformative, rapidly growing companies being listed on the Nasdaq, while the older indices like the Dow Jones and S&P 500 Index are much more heavily represented by "old economy" industries such as Utilities, In-person Retail, Energy, etc. The transformative tech innovators have business models and built-in economics that allow them to thrive in the rapidly changing economy, hence the outperformance. On the other hand, the Dow Jones Industrial Average and the S&P 500 Index are chock full of companies and industries that are dying because they aren't built to withstand the societal and economic changes that have been underway for the last 2 decades. And bonds have provided historically poor returns during this 12-year period mostly because the Federal Reserve has kept interest rates at or near historical lows for this entire period.

Reference: Pink line = Nasdaq; Purple line = S&P 500 Index; Light blue line = Dow Jones Industrial Average; Orange line = All Country World Index Ex-U.S.; Dark blue line = Barclays Aggregate Bond Index. Source: Yahoo Finance.

In the 1st quarter of 2021 however, many of these trends have seemingly reversed, albeit if just for a very short period thus far. For example, despite the Federal Reserve keeping interest rates at historical lows (0% - 0.25%) and repeatedly stressing that they won't raise interest rates likely for several years, the 10-year treasury bond interest rate has spiked from an all-time low of about 0.55% last Summer to the current rate of 1.74%.

Stock Highlights See Page 2 for Stock Highlights on the following company				
Company	**Market Cap**	**Portfolio**	**Country**	**Industry**
Zoom Video	$96 Billion	U.S. Equity	USA	Video Comms
Alphabet Inc.	$1.4 Trillion	Blended, Global and U.S. Equity	USA	Google Search, Cloud & Other Comms

This information is provided to existing and prospective clients to assist investors in understanding their own results. Detailed performance reports are updated on a quarterly basis and made available on our website www.ebertcapital.com. GIPS® compliant performance reports are included on the following pages. This report is for informational purposes only and should not be taken as instruction or solicitation to buy or sell any security. Investing in securities involves risks that may lead to financial losses. Past performance does not guarantee future results.

This interest rate spike has been an oft-cited rationale for a 6-week selloff in high-growth, technology related company stocks that started in mid-February and ended the 3rd week of March this year.

Although the 10-year treasury yield spike has been fast, interest rates still hover just above all-time lows. So, despite the rate changes in Treasury bonds, the Federal Reserve is committed to keeping interest rates low for the next few years before potentially beginning to raise them. Even then, the Treasury historically raises rates slowly so as not to shock the economy. It looks clear that we're going to have lower than historical interest rates for at least the next 5 years.

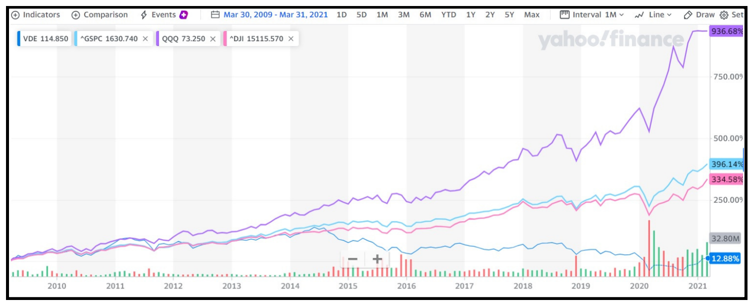
The 1st quarter was marked by several other trend-breaking events. The market continued to be carried by dominant, high-growth, recession resistant companies in the Information Tech and Healthcare sectors until mid-February. That's when a brutal selloff began for stocks that were the best performers of 2020 and recent years, while a huge bull run gained steam in stocks and sectors that have severely underperformed for the last few years and actually, the last 2 decades. Market pundits and experts have noticed and have termed this event as either a return to value vs. growth and a period where low quality stocks have outperformed high quality stocks. Specifically, stocks of companies with weak financial fundamentals and companies with declining prospects, this year, have outperformed companies with strong financial fundamentals and strong revenue and earnings growth.

For example, the Energy sector, by far the worst performing S&P 500 Index sector the last 12 years is the best performing sector year-to-date. To be sure, many of the stocks in the Energy sector were cheap when the approximate 73% rally from October 28th, 2020 through the end of March this year began. But most of the 28 stocks in the S&P 500 Energy sector are still in very weak financial positions after years of financial stress due to weak energy prices and declining demand for fossil fuels. And Exxon Mobil and Chevron stocks, which together make up about 44% of the entire Energy sector, are now back to their pre-Covid highs.

In my opinion, the runup in Energy stocks and many of the "reopening" stocks in other industries such as Mining, Autos, Airlines, Movie Theaters, Cruise Ships and other highly cyclical, financially distressed is not a sustainable trend. It's good for the markets to widen the performance base to stock sectors that have struggled, but I think much of the good news of the rebounding economy is already priced into these stocks. Many of the aforementioned areas now trade at or above fair value and I don't expect these areas of the market to lead much further after well more than 20 years of underperforming other market leading industries.

As mentioned above, there was a 6-week selloff in the high growth, tech-oriented stocks that dominated the returns of the stock market since the 2009 bottom, and these companies also thrived during the Covid-19 shutdown and long before the 2009 market bottom. We view this as a buying opportunity where investors have a chance to invest in sustainably dominant companies at depressed prices. And again relying on history, the kinds of companies we invest in – with business models that allow them to grow at consistently high rates, with extremely strong profitability metrics – rarely underperform the weaker, more cyclical industries mentioned in the previous paragraph.

Looking the charts below from Yahoo Finance we can see that the Energy sector, for example, has provided a net return of just 12.88% over the last 12 years compared to strong gains in the Nasdaq, S&P 500 Index and the Dow.



Pun intended, if we drill down further on the long-term performance of the Energy sector, clearly the sector as a whole has been a poor investment for a long time. The table below shows that the Energy sector has a standard deviation 27.51% the last 12 years, roughly twice as volatile as the broader markets. The Energy sector has also had a much higher maximum drawdown and the sector's worst years have been far worse than the market overall.

Ticker	Name	CAGR	Stdev	Best Year	Worst Year	Max. Drawdown	Sharpe Ratio	Sortino Ratio
VDE	Vanguard Energy ETF	2.61%	27.51%	32.41%	-33.06%	-68.17%	0.21	0.32
QQQ	Invesco QQQ Trust	22.54%	16.48%	54.68%	-0.12%	-16.96%	1.29	2.50
DIA	SPDR Dow Jones Industrial Avrg ETF Tr	14.14%	14.61%	29.64%	-3.74%	-22.61%	0.95	1.52
VFINX	Vanguard 500 Index Investor	15.07%	14.74%	32.18%	-4.52%	-19.63%	1.00	1.62

Looking forward, it's true that many of the areas of the economy that suffered during the Covid shutdown will see some rebound. But the market's enthusiasm over these historically weak sectors begins will begin to wain as the stock prices reflect what will likely be weak future growth. Meanwhile, the trend of the market averages being powered forward by a relatively small group of truly great businesses will again take hold. We feel we are invested in many of these great businesses and we expect the performance of these stocks to reflect their greatness vs. the market overall.

Stock Highlights

Company: Zoom Video	**Ticker: ZM**
Market Cap: $91 Billion	**Country of Origin: USA**
Industries: Video Communications	**Portfolio: U.S. Equity**
Current Price: $307.61	**DCF Value: $689.26**

Company Overview - In just 4 years Zoom has achieved what takes most companies many years to achieve. Zoom offers video conferencing services, which became essential during the Covid-19 Pandemic and will remain so while the world re-opens. Zoom became a household name almost overnight and is now a verb. Even negative new has done nothing to curb the demand, and even served to give the company increased media coverage.

Financial Highlights - Since 2017 Zoom has increased its revenues from $60.8 Million to $2.65 Billion, or 4,260% growth. Over the next several years revenues are expected to grow at least 53% annually. The most remarkable thing about Zoom is that the company has been profitable during 3 of the 4 years the company has been in existence. Most companies with a growth rate of Zoom have to spend huge sums of money to keep their growth rate high, but Zoom has attained historically high profitability rates.

Investment Thesis – Zoom's dominant business model and market share creates amazing profits. Zoom has a 130% customer retention rate and 70%+ gross profit margins, suggesting superior built-in economics in their business. We'll hold the stock while video conferencing grows worldwide.

Company: Alphabet Inc.	**Ticker: GOOGL**
Market Cap: $1.4 Trillion	**Country of Origin: USA**
Industries: Internet Search, Cloud Services & Other Communications	**Portfolio: Blended Equity, U.S. Equity, Global Equity**
Current Price: $2040.87	**DCF Value: $3042.9**

Company Overview - Alphabet posted yet another year of solid revenue growth and profit increase despite a slight slowdown during the height of the Covid-19 related shutdowns across the world. Alphabet's revenues shrunk slightly and temporarily due to the number of businesses being forced to shut down and also the large amount of Google's customers being in the travel industry. Alphabet's business is mostly comprised of 2 segments of business, Google Services & Google Cloud. Google Services is composed of Android, Chrome, Gmail, Google Maps, Google Search, & YouTube. Google Cloud is composed of security, data management, and AI.

Financial Highlights - Alphabet's growth rate this year is expected to be near 18%, which is a very impressive growth rate considering the company had revenues of over $182 billion in its most recent calendar year. Typically when a company get to Alphabet's size their growth rate tends to decline – but Alphabet is a different animal with a unique business model. Alphabet is not experiencing the growth slowdown affecting most giant companies and the company has maintained high growth and profitability rates. The net income ratio of 22% is among the highest in their industry and demonstrates that the company is extremely well managed.

Investment Thesis - Alphabet checks all the boxes we look for in a company and more. In addition to their dominant business, the company is also focused on reducing their carbon footprint, reducing paper and other pollution and the company has always been an industry leader on issues of equality, race and income inequality. Alphabet has been very wise with their acquisitions and with a cash balance of over $136 million they seem poised to make more acquisitions in the near future. Acquisitions such as AdSense, YouTube, Fitbit and others have added meaningfully to their growth and profitability. We feel Alphabet can to continue to be a great investment for many years.

Contact Us

For questions regarding fees, risks, or other questions, please visit our website at www.ebertcapital.com or contact us directly and we will be happy to assist you.

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Ebert Capital Management Inc.
U.S. Equity Strategy Composite
As of March 31, 2021

Strategy/Index Name	Inception Date	1 Year Annualized	Annualized Since Inception	Cumulative Since Inception	36 Month Standard Deviation
U.S. Equity Strategy - Net of Fees	10/01/2019	45.85%	25.98%	38.71%	N/A
U.S. Equity Strategy - Gross of Fees	10/01/2019	47.50%	27.50%	41.08%	N/A
S&P 500 Index	N/A	53.71%	22.60%	33.46%	N/A

Year	Composite Net Return (%)	Benchmark Return* (%)	Composite 3-Yr Std. Dev	Benchmark 3-Yr Std. Dev	Internal Dispersion	Number of Portfolios	Composite Assets ($)	Firm Assets ($)
2019A	7.71%	8.53%	N/A	N/A	2.67%	157	$6,184,174	$24,006,315
2020	33.94%	16.26%	N/A	N/A	7.84%	162	$9,436,037	$34,005,567

A- Performance from 10/1/2019-12/31/2019

Our U.S. Equity strategy invests in U.S. companies with significant competitive advantages, barriers to entry, preferably a recurring revenue model, and tends to perform well during market selloffs. We only select the most dominant companies in their field. The desired holding period is long term, hopefully perpetually. This strategy consists of U.S. stocks only and is benchmarked to the S&P 500 Index. The U.S. Equity Strategy consists of all accounts that hold U.S. stocks of any market capitalization above $50 million. The composite creation date is 10/01/2019.

Returns are presented net and gross of actual management fees paid. Fees are described on the last page of this report and apply to all composites managed by Ebert Capital Management Inc. ECM's account inclusion policy is the first full month or the end of the month in which the account is fully invested. The composite contains both taxable and nontaxable accounts. The returns of the individual portfolios within the composite are time-weighted, use trade date accounting, are based upon monthly portfolio valuations, and include the reinvestment of all earnings as of the payment date. The composite returns are asset-weighted based upon the beginning period market values calculated in U.S. dollars. Three-year ex post standard deviation for composite and benchmark is not present if 36 monthly returns are unavailable. A dispersion measure is not shown when there are five or fewer accounts in the composite for the entire year. The internal dispersion is calculated using the asset-weighted standard deviation of annual net returns of those portfolios that were included in the composite. The composite contained fewer than 1% of non-fee paying accounts at the end of each year.

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Past performance does not guarantee future results. Performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Past performance of markets, strategies, composites, or any individual securities is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's portfolio. Investment in the above referenced model composite is subject to investment risks, including, without limitation: market risk, interest rate risk, management style risk, business risk, sector risk, and other risks related to equity securities. There are no assurances that a portfolio will match or outperform any particular benchmark. Historical performance results for benchmarks, such as investment indices and/or categories, generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, which would have the effect of decreasing historical performance results.

Ebert Capital Management Inc.
Global Equity Strategy Composite
As of March 31, 2021

Strategy/Index Name	Inception Date	1 Year Annualized	Annualized Since Inception	Cumulative Since Inception	36 Month Standard Deviation
Global Equity Strategy - Net of Fees	10/01/2019	51.84%	35.35%	53.54%	N/A
Global Equity Strategy - Gross of Fees	10/01/2019	53.52%	36.95%	56.13%	N/A
MSCI ACWI Index	N/A	54.63%	20.80%	32.77%	N/A
S&P 500 Index	N/A	53.71%	21.22%	33.46%	N/A

Year	Composite Net Return (%)	Benchmark Return* (%)	Composite 3-Yr Std. Dev	Benchmark 3-Yr Std. Dev	Internal Dispersion	Number of Portfolios	Composite Assets ($)	Firm Assets ($)
2019A	11.86%	8.75%	N/A	N/A	3.15%	143	$5,486,430	$24,006,315
2020	39.00%	16.40%	N/A	N/A	7.31%	154	$8,847,088	$34,005,567

A- Performance from 10/1/2019-12/31/2019

Our Global Equity strategy invests in companies with at least 50% of revenues outside the U.S. or significant operations outside the U.S. The strategy invests in companies with significant competitive advantages, barriers to entry, preferably a recurring revenue model, and tends to perform well during market selloffs. We only select the most dominant companies in their field. The desired holding period is long term, hopefully perpetually. This strategy consists of U.S. Stocks with revenues of 50% or greater coming from outside the U.S. or significant operations outside the U.S. and non-U.S. stocks and is benchmarked to the MSCI ACWI (All Country World) Index. The composite creation date is 10/01/2019.

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Ebert Capital Management Inc.
Blended Equity Strategy Composite
As of March 31, 2021

Strategy/Index Name	Inception Date	1 Year Annualized	Annualized Since Inception	Cumulative Since Inception	36 Month Standard Deviation
Blended Equity Strategy – Net of Fees	10/01/2019	45.28%	28.18%	42.15%	N/A
Blended Equity Strategy – Gross of Fees	10/01/2019	46.00%	29.09%	43.58%	N/A
MSCI ACWI Index	N/A	54.63%	20.80%	32.77%	N/A
S&P 500 Index	N/A	53.71%	21.22%	33.46%	N/A

Year	Composite Net Return (%)	Benchmark Return* (%)	Composite 3-Yr Std. Dev	Benchmark 3-Yr Std. Dev	Internal Dispersion	Number of Portfolios	Composite Assets ($)	Firm Assets ($)
2019A	10.11%	8.75%	N/A	N/A	3.81%	217	$5,815,960	$24,006,315
2020	35.23%	16.26%	N/A	N/A	7.84%	234	$10,180,638	$34,005,567

A- Performance from 10/1/2019-12/31/2019

Our Blended Equity Strategy is composed of a mix of our U.S. Equity investments and our Global Equity investments. The purpose of this strategy is to hold stocks of high quality companies that maintain significant competitive advantages over their peers, barriers to entry, preferably with a recurring revenue model, and tends to perform well during market downturns. We only select the most dominant companies in their field. The desired holding period is long term, hopefully perpetually. The strategy is benchmarked to the MSCI ACWI. The composite creation date is 10/01/2019.

Returns are presented net and gross of actual management fees paid. Fees are described on the last page of this report and apply to all composites managed by Ebert Capital Management Inc. ECM's account inclusion policy is the first full month or the end of the month in which the account is fully invested. The composite contains both taxable and nontaxable accounts. The returns of the individual portfolios within the composite are time-weighted, use trade date accounting, are based upon monthly portfolio valuations, and include the reinvestment of all earnings as of the payment date. The composite returns are asset-weighted based upon the beginning period market values calculated in U.S. dollars. The composite contained fewer than 1% of non-fee paying accounts at the end of each year.

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Ebert Capital Management Inc.
Conservative Income Strategy Composite
As of March 31, 2021

Strategy/Index Name	Inception Date	1 Year Annualized	3 Year Annualized	3 Year Cumulative	5 Year Annualized	5 Year Cumulative	Annualized Since Inception	Cumulative Since Inception	36 Month Standard Deviation
Conservative Income Strategy - Net	8/1/11	6.52%	5.09%	16.07%	4.99%	27.56%	3.28%	36.66%	6.80%
Conservative Income Strategy - Gross	8/1/11	7.39%	6.11%	19.48%	6.04%	34.07%	4.29%	49.51%	6.84%
BarCap U.S. Aggregate Bond Index	N/A	0.71%	4.59%	14.41%	3.06%	16.29%	3.13%	34.76%	3.02%

Year	Composite Net Return (%)	Benchmark Return (%)	Composite 3-Yr Std. Dev	Benchmark 3-Yr Std. Dev	Internal Dispersion	Number of Portfolios	Composite Assets ($)	Firm Assets ($)
2011	1.48%	3.35%	N/A	N/A	N/A	2	$33,485	$740,775
2012	2.33%	4.23%	N/A	N/A	0.71%	19	$1,433,199	$5,500,000
2013	-2.27%	-2.02%	N/A	N/A	1.64%	36	$1,275,057	$14,025,000
2014	6.78%	5.95%	5.05%	2.89%	0.20%	48	$1,712,661	$17,000,000
2015	-5.83%	0.57%	5.26%	2.73%	0.26%	77	$2,276,207	$18,123,181
2016	9.28%	2.66%	5.96%	3.03%	2.58%	84	$1,854,702	$22,000,000
2017	8.41%	3.55%	5.25%	2.82%	1.06%	132	$3,644,450	$27,801,856
2018	-6.99%	-0.02%	6.08%	2.86%	0.76%	111	$3,974,910	$31,000,000
2019	15.13%	8.73%	6.70%	3.19%	0.81%	165	$3,149,420	$24,006,315
2020	14.12%	7.50%	9.13%	3.39%	3.30%	111	$1,835,623	$34,005,567

The Conservative Income Strategy consists of all accounts that hold bond ETFs selected with the aim of providing principal protection and income using low-cost bond index ETFs of varying maturity and bond quality and a small allocation to stocks. The composite creation date is 8/1/2011.

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Standard Tiered Fee Schedule for all composites.

Assets Under Management ($)	Annual Fee (%)
First $250,000	1.50%
Next $250,000	1.25%
Next $500,000	1.00%
Next $1,000,000	0.75%
Over $2,000,000	0.50%