

2021 May Welcome a Different Market

Last year was unlike any other year in history. At the end of the year, nearly all U.S. markets were up, and several climbed sharply after experiencing the shortest bear market in history (16 days). Most international markets had also risen although the highs were generally a bit less impressive. 2020 will be the first year in history to see the market decline more than 30% and recover to finish higher. All this has come despite earnings growth that has generally been muted by the effects of economic shutdowns.

The strength of the markets has also attracted many new participants. Through December 24th, 454 companies listed this year raising \$167.2 billion dollars. The previous record of \$107.9 billion came over 20 years ago in 1999 at the height of the dot.com boom. For comparison, 2016 saw less than \$25 billion in IPOs (Initial Public Offerings).

The IPO market was further boosted by the rise of a new star – special purpose acquisition companies or SPACs. These are essentially empty companies that raise capital and then look for companies to buy. Their rise shows a willingness on the part of investors to assume these currently unknown businesses will generate steep returns. Nearly half of the funds raised in 2020 were in SPACs, and the total raised was almost six times the previous record set in 1999.

Can 2021 deliver a similar year? Strangely enough, it appears quite possible. A slew of billion-dollar start-ups are waiting to go public including Robinhood, an online trading company, and Instacart, a grocery delivery service.

Yet, the recent strength of markets despite challenges to earnings begs comparison to the internet bubble of 1999, that last year with such incredible capital raising numbers and the height of the dot.com



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bubble. We are also seeing similar trends emerge with companies that have yet to generate profitability claiming large slices of the IPO pie. While this can continue, market direction can quickly turn and bring a focus to near-term profitability.

Similarly, the tremendous run-up that has powered tech of the five largest companies (Apple, Microsoft, Amazon, Alphabet, and Facebook) could also reverse. These five companies now represent about 23% of the market up from only 14% three years earlier. Tesla, a recent addition, is perhaps the best example of this recent rise. The stock is trading at a trailing twelve-month price to earnings multiple

of over 1300 versus the market's ratio of 37. While this may prove to be warranted based on the company's future growth, it could also prove to be wildly overvalued.

The recent success of the market also highlights its current valuation. Much like 1999, the market is setting all kinds of records and highs, and the highs are increasingly coming through stretched valuations. At the end of December, the S&P 500s PE ratio had grown to greater than 37, a level that is bested throughout history by only 1999 and the financial crash of 2009.

All this might suggest a bit of caution. While equity markets could continue setting new highs and records for the foreseeable future, current valuations could just as easily decline back to more average levels common for most of the last 20 years.

A recent Forbes' article applies an asset return projection which uses data on valuation, household and corporate balance sheets, and other key macro fundamentals to develop likely return projections for the next decade of major asset classes including equities, fixed income, and precious metals. Their model provides total return projections for equities of 2-4% over the next 10 years. This is the model's lowest forecast since 1999.

Taking this a bit further, looking at stocks and bonds as part of 60/40 stock/bond model reveals that since 1900 a 60/40 portfolio has never been more expensive. Again, using the forecasts from Forbes, they project returns for the 60/40 portfolio of 1-3% per annum over the next 10 years.

The same modeling approach suggests that gold could significantly outperform during the next decade. Simply, the same forces that drove up valuations in stocks and bonds over the past decade are

¹Bob Haber, Forbes, The 10- Year Crystal Ball Shows Us Changing Asset Allocation Models

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those that make gold now fundamentally inexpensive. In addition, given the recent stimulus and a record high federal deficit that has only been exceeded during times of war, the foundation for higher inflation is set.

Pulling all their data together leads to a different model than the typical 60/40 that is commonly used by individual investors. It still has equities at 25-35% and fixed income at 20-25%, but it also adds a significant percentage to gold at 25-35%, and most uniquely, 10-20% in uncorrelated alternative investments (such as private equity and real estate). This model is dynamic and the macro data analyzed are constantly changing which means that today a slightly lower percentage allocated to equities would be likely.

Regardless, the new model calls for possibly more than half of its assets invested into categories other than stocks and bonds. Note that this model is hardly unique. Many investment banks and financial institutions have been significantly modifying their models based on lower projections for stocks and bonds over the next decade, often adding alternatives, hedge funds and precious metals.

As you look out into 2021 and a stock market that keeps breaking records, you may want to position at least part of your portfolio for a different set of circumstances. As the market begins to adjust to a post-COVID world and a new presidential administration, we could see continued new highs or possibly a very different outcome with markets pulling back from today's lofty valuations.

This could be particularly true because individual investors have been driving much of the online trading and they could easily change their investment strategy. In particular, a reduction in risk taking by individual investors that coincides with the end of COVID could impact markets in unexpected ways. Regardless, markets are expensive. They can keep going up, or

they could simply reverse. It will happen at some point. The question is when.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Wildermuth Endowment Fund before investing. This and other important information is contained within the Fund's Prospectus, which can be obtained by calling (888) 445-6032 or by visiting the Fund website www.wildermuthendowmentfund.com. The Fund's Prospectus should be read carefully before investing.

Wildermuth Advisory, LLC is an SEC-Registered Investment Adviser that advises the Wildermuth Endowment Fund.

The Fund is a closed-end interval fund.

Investing in the Fund involves risk, including those summarized below. An investment in the Fund is generally subject to market risk, including the loss of the entire principal amount invested.

The value of your investment in the Fund at any point in time may be worth less than the value of your original investment, even after taking into account any reinvestment of dividends and distributions.

You should consider the shares to be an illiquid investment. Even though the Fund seeks to make periodic repurchase offers to repurchase a portion of the shares to provide some liquidity to shareholders, only a limited number of shares will be eligible for repurchase by us.

You should carefully consider that you may not have immediate access to the money you invest for an indefinite period of time. An investment in our shares is not suitable for you if you need immediate access to the money you invest. Certain investments in the Fund are illiquid making it difficult to sell these securities and possibly requiring the Fund to sell at an unfavorable time or price. The value of certain Fund investments, in particular non-traded investment vehicles, will be difficult to determine and the valuations provided will likely vary from the amounts the Fund would receive upon sale or disposition of its investments.

Definitions

S&P 500 - A market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

PE Ratio - The ratio for valuing a company that measures its current share price relative to its earnings per-share

Please note: It is not possible to invest directly in an index. As of 09.30.2020 Facebook, Amazon, Apple, Microsoft, Alphabet/Google, Tesla, Robinhood, and Instacart represented 0.45%, 0.52%, 0.00%, 0.00%, 0.49%, 0.00%, 0.00%, 0.00% of the Fund's portfolio, respectively.

Wildermuth Endowment Fund's principal underwriters and co-distributors are:

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