

October 30th, 2020

In some ways it is hard to believe that 2020 is almost over yet, in other ways, it is hard to believe it is only November. Although we don't want to wish time away, many of us are ready for a new year.

At Albion we are busy helping you, our clients, with year-end tax planning strategies, charitable contributions and asset allocation discussions. In this quarter letter, our President and CEO, John Bird, waxes philosophical on our ability as humans to adapt and even prosper during difficult times. Our Chief Investment Officer, Jason Ware, also comments on the adaptability of the human spirit as he reminds us where we've been this year and what the road ahead may look like in Economy and Markets. Planners' Corner has a special guest writer this quarter, Albion Partner, Doug Wells. Doug shares some of his personal family history while examining harvesting strategies to be aware of as year-end approaches. And last, but certainly not least, in Albion Community, we introduce you to Kari Moon Brown, Albion's newest Associate Wealth Advisor.

When we pen our next quarter letter the elections will be over, the holidays behind us, and the calendar will say 2021. What will remain the same is our appreciation for you, our clients.

Thank you,
The Albion Team

From John Bird's Desk

"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change."
- Charles Darwin

The human capacity for adaptation is remarkable.

Most species require a specific set of environmental conditions to exist; we don't see polar bears at the equator nor do we see alligators in the arctic. Yet humans are everywhere. We have settlements in the hottest, coldest, driest and wettest parts of the planet. We even have a colony orbiting earth!

This thought comes to mind as we look at how we as individuals and more broadly as a society have adapted to the reality of Covid. Six months ago in the early stages of the economic and social lockdown it was impossible to fathom how our lives would look in the coming months. Yet we've adjusted. We are spending more time locally rather than travelling to distant places, spending less time in big groups and more time with a handful of close friends and family, changing our consumption habits away from physical browsing in favor of online browsing. Our work behavior has changed as well and unfortunately millions of us have lost our livelihoods or seen our income greatly diminished. Yet those who can work remotely do, while many who cannot - and their employers - have been able to make adjustments allowing for some level of work.

We have learned much along the way, lessons that will remain with us long after Covid has passed. We have learned that working from home... works. Post Covid Albion will continue to have some portion of our team working remotely. Online shopping is convenient. While there's nothing quite like checking out potential purchases in person the online experience is really easy and it's unlikely that brick and mortar stores will recapture much of the consumer spending that's gone online.

Many businesses have managed not only to survive but prosper without ubiquitous business travel. While we do expect travel to rebound post Covid we also recognize that in many cases both the vendor and customer would prefer a Zoom call.

The equity and debt markets reflect this adaptive capacity. Investors didn't hide in a bunker and wait for the Covid storm to pass. Nor did we. Rather, we continue to exercise critical thought around the likely near and long-term impacts of Covid, including the impacts of the monetary and fiscal support measures put in place by governments around the world. We work daily to understand how companies are changing their businesses to survive - and in some cases prosper - in this new environment. There are pockets of innovation and growth in virtually every economic environment and this one is no different. We seek out companies that benefit from the new requirements of the Covid impacted economy while simultaneously setting themselves up for success in the post Covid world.

Covid has had an unequal impact across the population - crushing some while leaving others nearly unscathed. While we hope you find yourself in good health with little disruption to your life we also recognize that for many Covid has inflicted deep physical, emotional and economic pain. Finally we hope the Covid 19 experience helps us come to grips with the reality that our time is finite and realize the pleasure inherent in spending more time with our family and friends and less time running from place to place feeling like we're always ten steps behind.

Economy & Markets

The end of quarter three finds us at an interesting spot in what's been an astonishing year. From a global pandemic that overwhelmed us out of nowhere in February and March threatening our health, livelihoods and causing a shutdown of the economy. To massive fiscal and monetary programs in response, and a worldwide herculean effort to squash the virus using a mix of cutting-edge science and what, at times, has felt more like an assortment of sociology experiments than reality; it has been a bizarre voyage. As we hit our collective summer gait, a reopening of commerce, near-universal masking, physical distancing and better hygiene practices - now like second nature - and many promising vaccines and therapeutics all united to marginally boost the national mood, despite the virus's stubborn disposition. The path that is 2020 has been ... well ... a curious one to put it gently. But what we find in times of crisis is that the human

spirit, surely not without its flaws, is both dynamic and resolute. Along the way we've lost far too many lives; far too many jobs; and far too many nights' sleep. But the journey has left us more grizzled. It isn't what we wanted, but it is the hand we were all dealt.

Turning to present conditions. Despite rising case counts, for now we don't anticipate a double-dip recession due to COVID-19. Short of another mass lockdown, of which the national appetite remains low (even from Dr. Fauci), the evidence shows that the economy troughed in the April / May timeframe and that a recovery has been underway since. Consequently, corporate profits should see a noticeable sequential improvement in the third quarter. Meanwhile the Fed is all in, which includes the recent adoption of an original and ultra-dovish inflation framework, and we expect fresh aid from Congress soon. Undergirding all of this, low interest rates and inflation remain supportive to stocks. Perhaps in its most simple form, the potent cocktail of a globally synchronized upturn shaken (not stirred) together with historical levels of excess liquidity suggest to us that a (new) bull market is firmly upon us. It won't be straight up. It won't be without its setbacks. But the general trend in the coming quarters is likely a positive arc driven by an economic recovery, scientific advances in battling COVID-19 including a forthcoming vaccine(s) and continued fiscal policy support combined with highly accommodative central banking.

Stimulus spending is arguably one of the two bigger items currently exerting influence over markets (the other is ending the pandemic). The political repartee persists in creating a will

they or won't they sort of situation that has yet been settled. Moreover, we have an election just a couple short days away. Our view is that getting additional spending out into the real economy is implausible prior to counting the ballots. We say this because not only is the prospect of even passing something that quick at best 50/50, but the machinery required in getting programs in place, appropriated and checks out the door will take time. Nonetheless, as already noted, we do believe that another round of pandemic-targeted spending is coming to help. But the magnitude and speed of the relief will depend on the political dynamics. Admittedly an unpleasant thought.

While we're on the subject of the election, let us stipulate that we do anticipate increased volatility over the short run. This pattern is quite bankable throughout history. However, on the other side of November 3rd our belief is that while there may be some mild partisan chaos, ultimately it will get resolved and the simple fact that we're through the election and know the outcome, regardless of who wins, will be a positive for markets. To be clear, the winner and make up of Congress does matter. There are distinct differences between the candidates and parties across key issues, including how best to handle COVID-19 as well as contrasts on the economy and tax policy. However, these dissimilarities probably speak more to the degree of returns over the coming years as opposed to the more often-asked binary question of "can I even continue to own stocks under a fill in the blank presidency?" The answer there is yes! (to both).

A brief update on medical developments and the virus. We remain encouraged by the breathtaking, largescale efforts to battle SARS-CoV-2 and the disease that is COVID-19. From ever evolving protocols in the clinical setting when treating patients, to innovative therapies and new uses for established drugs, our healthcare community has stepped up to the test. This has helped produce a steady decline in case mortality. To wit, the latest data show across all cohorts that survival rates if hospitalized with an infection have gone up significantly over time. Truly remarkable news, and not getting the attention it deserves. Of course, progress on vaccines have been exciting too. Terrific goings-on for our wellbeing and safety. As it pertains to markets, our view is that it would behoove investors to avoid being 'short' or underinvested going into headlines of a vaccine approval. We believe that such delightful bulletins are fast approaching.

Taken together, our counsel and approach toward your portfolios continues to advocate for a longer-term focus. It's simple to say, but simple doesn't mean easy. Particularly in 2020, with what seems like a nonstop volley of discouraging headlines and daunting challenges. Yet one must resist the temptation of turning 10-year money into 10-minute, or 10-day money. In other words, don't let your investments become trades. Remember what you're investing for, how best to get there, and do not dislodge those gilded guardrails from your mind. And along the way, we will be here to help you through it. To remind you of the importance in ignoring the noise while paying attention to the signal. It's a task we proudly assume on your behalf.

As such, getting the asset allocation right based on your individual time horizon, risk profile, and goals are essential to good investing. Once accomplished, we don't let the market's fluctuations alter those settings. Instead, it's life's course and changes to one's objectives that inform that plan. Underneath that asset allocation calculus lies the specific portfolio construction in service to your plan. And here we continue to stick with solid companies - leaders in their respective industries with wide economic moats, high returns on capital, and skillful management teams, while being mindful of valuations. For years we have favored high quality firms in technology, communications, healthcare and consumer discretionary to capture growth for the portfolio. Thoughtful diversification among great businesses and investment factors is central to providing laudable risk-adjusted returns. Rest assured, our persistence in finding and owning estimable investments has not slowed nor wavered, despite novel coronavirus's best exertions. Epictetus said, it's not what happens to you, but how you react to it that matters. Indeed. Thank you for your trust in us.



Doug's grandfather (right - Robert) & favorite horses 'Mike' & 'Ike' off photo to left Farmland south of Cleveland Ohio. Circa 1940

Planners' Corner

My grandfather immigrated to the United States in the early 1920s from what was then known as Prussia (now part of Poland and Russia). Unfortunately, I never knew him but the family story is that he came to America not for freedom and liberty but rather for “good soil and good harvests”. His parents were farmers and, unfortunately, the soil in Prussia was not very productive. In the hallmark that is America's story, my grandfather came over with a few dollars in his pocket, worked as a paid laborer on a farm for several years, and eventually bought his own 25 acre farm outside of Cleveland, Ohio. On that small parcel of land, he grew niche

vegetables, sold them at the local market, and raised 3 daughters, including my mother, Edna.

While my grandfather came over on the boat to Ellis Island with empty pockets, his ethos was full of riches including an appreciation for hard work, gratitude for a successful harvest and a value for the importance of good decisions (demonstrated by his decisions to immigrate to USA and choosing to grow high profit niche vegetables rather than a commodity crop like corn).

Even though today few of us make our living on a farm, we all know the value of hard work, good decisions and a successful harvest. As year end approaches, some of you may be thinking of managing your own “harvest”. For appreciated stocks, that might include making one or more charitable donations. For losses, that might include “tax loss harvesting”. High level, tax loss harvesting involves selling positions that have losses in order to recognize those losses on your tax return. There are important IRS limitations and rules and you want to execute this strategy in a manner consistent with your long term goals (“don't let the tail wag the dog”). Yet, done properly, tax loss harvesting can be a simple yet powerful tool for many investors.

Donating appreciated public stock to one or more charities can also be a simple and powerful tool. The essence of this strategy is that for stock shares held more than one year, an investor can donate appreciated stock directly to a 501(c)(3) charity - including most donor advised funds. One uses this

strategy instead of selling the stock, paying the tax on the gain, then donating the after tax proceeds.

By donating the stock instead of selling it, investors may be able to claim as a charitable donation the full, pretax, fair market value of the stock. As a reminder, most charities do not pay capital gains taxes when they sell stock that has been gifted to them. As with tax loss harvesting, there are important IRS limitations and rules.

We encourage you to contact Albion to learn more about both strategies and how they might benefit your personal situation. Also feel free to call us on any other investment or financial planning topic where you have questions. We are always delighted to hear from you and honored for your trust.

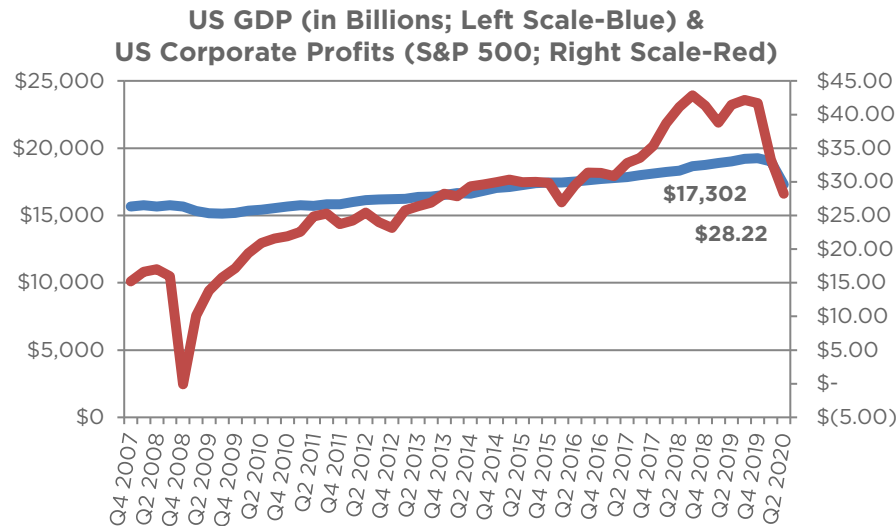
Disclosure: Information in Planners' Corner is sourced from IRS "Topic No. 409: Capital Gains and Losses" accessed September 30, 2020 and IRS "Publication 561: Determining the Value of Donated Property" accessed September 30, 2020. Please note that while none of the team members at Albion are attorneys or accountants, we are well versed on these topics and can help you better understand the potential benefits and limitations of each prior to checking with your accountant or attorney.

Albion Community

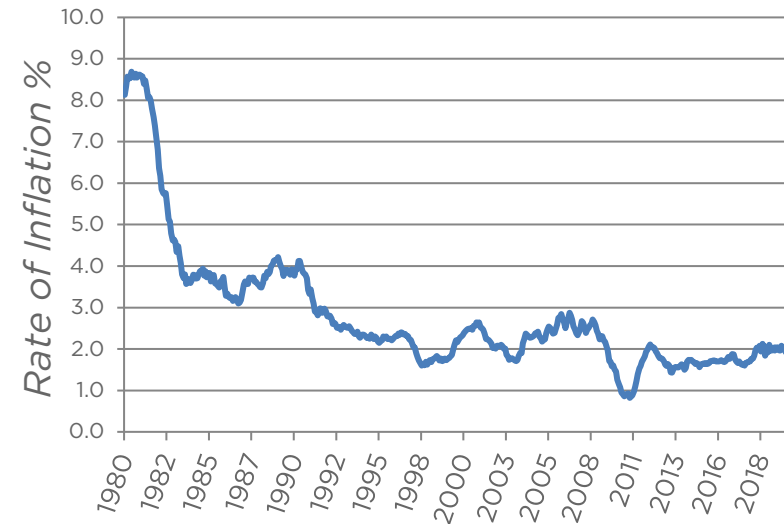
In our last quarterly letter we shared news of Eleanor Sasaki's retirement after 20 years with Albion and announced the newest member of the Albion team, Kari Moon Brown who is working as an Associate Wealth Advisor along side Sarah Bird. Kari graduated with a BS in Finance from the University of Utah and got her MBA from BYU. Before joining Albion Kari spent 12 years working for other financial management firms in the Salt Lake area and has recently passed the Certified Financial Planner exam. Kari has a passion for helping women and families gain financial strength and independence. In fact, one of the reasons Kari joined Albion was because of our Women of Albion initiative and our focus on financial education.

When Kari is not hard at work for Albion she enjoys spending time in the outdoors with her family and friends as well as cooking and traveling. Kari's fresh perspective and enthusiasm for learning has already made her an invaluable member of our team.

UNITED STATES GDP ANNUAL GROWTH RATE



UNITED STATES INFLATION RATE



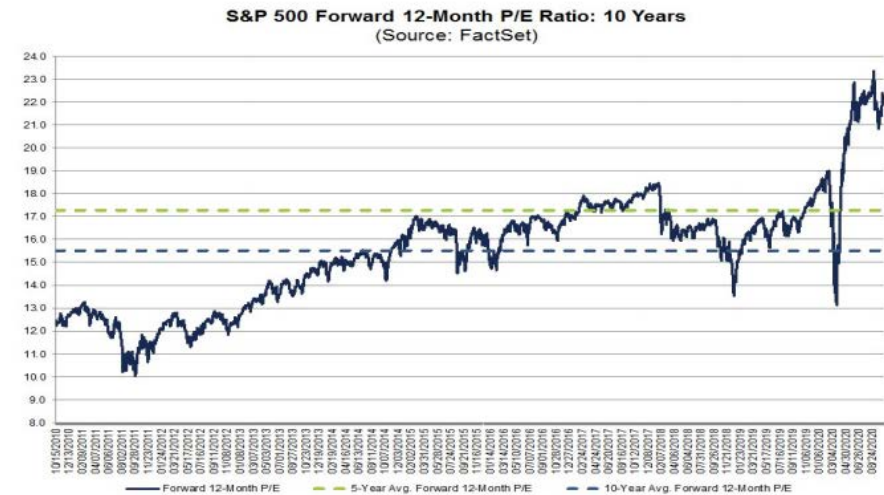
The path for the economy and profits over the near term is subject to developments in several areas, most notably the virus. It appears that the national appetite for another mass economic shutdown is low. Consequently, the economy should have seen its nadir back in April and at this time we do not anticipate a “double-dip” recession due to COVID-19. Meanwhile, the Fed is now on a steady course regarding monetary policy. Low interest rates and extreme accommodation will be around likely for years. And Congress, while bogged down in election politics, has already made a colossal down payment on America’s future to the tune of -16% of GDP with the ‘CARES Act’ and other programs. This large public investment in America makes it difficult to suddenly pivot away from further aid as needed, though the size and potency of future packages is unclear. Besides, the Beltway never passes on a chance to spend more money. It is our view that the severity of this pandemic absolutely necessitates that they call on such tendencies. All told, the economy continues its recovery from the sharp recession earlier this year.

Using the Fed’s preferred measure, core inflation is low with the most recent data showing a pace well below the Fed’s 2% target. Additional measures like CPI and “5-year, 5-year forward” data also reflect meager expected price growth. For now, the Fed is more concerned about disinflation than inflation as evidenced by the course of monetary policy. Our expectation is that over the next couple of quarters core inflation will stabilize around 1.5% or so. However, when looking out over the next several quarters we believe there’s reason to anticipate a pick-up in inflation given the massive growth in money supply. This, of course, presumes we get a fuller economic recovery as the result of a successful vaccine and therapeutics in treating COVID-19.

UNITED STATES 10 YEAR TREASURY YIELD



Forward 12M P/E RATIO: 10 YEAR



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Given the economic recession it’s hard to say with accuracy where the current market P/E multiple sits because 2020 earnings in the aggregate are in such disarray. That said stocks are forward-looking assets, which means they’re likely now looking beyond impaired 2020 earnings and instead into 2021. Our present assumption here is that next year’s earnings should record meaningful growth. And if our baseline expectations prove correct, this stabilizes the forward P/E ratio and allows us to plot it against other data points – like inflation and interest rates – our preferred method of valuation. Both figures are low and benign given current conditions. Put differently, stocks at ~21x earnings is not cheap on a nominal basis, but it’s arguably not expensive either because when rates and inflation are low P/E multiples should be higher when compared to the “averages” over time.