CARDEROCK
CAPITAL® MANAGEMENT, INC.

October 9, 2020

With the Summer Rally taking an early Fall Break through most of September, our stock sales outpaced purchases at a rate of 2:1. We've followed this course through most of the past 12 months given a late stage rally that has pushed valuations up 50% plus over the past 7 quarters to rank in the 90th percentile historically. Accounts have done well, and it's not that we don't enjoy the rush so much as we want to maintain our balance. The air thins at these high altitudes, and volatility usually follows. We expect conditions won't materially change through year-end.

With the Fed announcing that its freeze on interest rates will hold over the next few years, uncertainty shifts from assessing the nominal environment towards how this shakes out and what it means longer-term. At this juncture, our views trend along the following:

- The US Dollar becomes the transmission for attracting foreign dollars to fund the government's capital shortfall, pushing the dollar lower.
- Higher foreign currency values raise the cost of imports but also push up the value of foreign earnings of US companies, and broadly globalized Growth Stocks do well.
- The pace of tax and regulatory cuts, over the longer-term, will either slow or reverse course as government exacts its payback from the benefits sowed in the downturn of the pandemic.
- Domestic growth remains sluggish so long as labor remains slack following the furloughs and (emerging) permanent shifts as the economy adjusts to a "new for now" normal.
- Pressure to lift immigration restrictions for filling unmet labor needs proves hard to reverse, and the lower dollar value of pay winnows the skilled talent pool needed in Technology and Medical resulting in constrained growth.
- Portfolio roles for bonds narrow on low yields, pushing broader stock allocations. In turn, high equity valuations prove 'sticky' despite rising systemic risks.
- Poor underlying business conditions for VALUE stocks limit their more typical appeal and soften the cyclical rotation to VALUE and SMALL CAP.
- Ditto for Global markets where Asian economies remain attractive, but liquidity constraints, market integrity, and opaque reporting curtail payback periods and keep US investors participation to a minimum.

Our focus lies in pushing closer to our 18% (and rising) Equity Cash Reserve target as we prepare for a more strategic restructuring in the coming years. As these shifts will involve added realized capital gains, we ask that you please review and keep us abreast of your own tax planning.

Finally, we'd note that the revisions made to our Investment Plan assumptions amount to less change to projected total rates of returns (5% - 6%), but more in the underlying mix and path we expect different asset classes (Stocks and Bonds) to follow. The net effect suggests our recent period of outperformance over the past few quarters above Investment Plan numbers is less likely to repeat for a while.

As always, we welcome the opportunity to discuss our expectations, your circumstances and the track of your progress together during an Annual Review via Zoom Meeting or a phone call.

Warmest Regards,

Skip	Dan
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Random Gleanings

"Last week (October 2nd) NextEra overtook ExxonMobil in market capitalization, signaling a changing of the guard as Big Solar eclipsed Big Oil. Across the Atlantic, another milestone went under the radar. Orsted, the world's biggest offshore wind developer (and the first company to jettison its fossil fuel business in favor of renewables) on Thursday overtook BP's market capitalization — having already left two other European oil majors in its wake this year." Derek Brower et al., "*Big Oil vs. Big Lizard: The Fight a Biden Presidency Could Ignite"*, **Financial Times**, October 6th.

"We're building what I think of as the new type of peaker plant," said Cody Hills, LS Power's VP of energy storage. The amount of storage scheduled to come online in the next 12 months would have prevented the blackouts. With the price of storage dropping 90% in the last decade, near-complete decarbonization of California's power sector could be achievable by 2030 with cost savings or minor cost increases." Gregory Meyer, "*California Bets on Batteries to Ease Blackout Worries*", **Financial Times**, August 25th.

"I'll never forget reading (Milton) Friedman's essay when I was in business school in the 1980's. It influenced – I'd say brainwashed – a generation of C.E.O.'s who believed that the only business of business is business. Our sole responsibility to society? Make money. The communities beyond the corporate campus? Not our problem. Friedman's myopia has brought us terrible economic, racial and health inequalities; the catastrophe of climate change. It's no wonder that many young people now believe that capitalism can't deliver…" Marc Benioff, CEO of Salesforce interviewed by Andrew Ross Sorkin for "*The Thought Heard Round the World*", **New York Times**, September 13th.

"Dear Fed, Hey there! It's me, the stock market. I know it's weird to write you like this, but I felt like I needed to drop a quick thank-you note for everything you've done for me this year. I mean, your big ol' balance sheet is almost $3 trillion larger since early March! You're backing up the truck and loading it with Treasuries and corporate bonds and bond ETFs, all to keep the competition to stocks from fixed-income yields as limited as Jim Cramer's understanding of me. It's been a dream come true, honestly. I mean, fess up: Have you been reading my diary?!" Michael P. Regan, "*A Love Letter to the Fed From the Adoring Stock Market*", **Bloomberg Businessweek**, August 21st.

"Companies have become increasingly shareholder friendly over the past three decades, returning more of their earnings to investors in the form of dividends and buybacks. Many have even loaded up on debt to do so, eroding their creditworthiness. Covid-19 has forced many companies to abruptly curtail payouts to conserve cash and strengthen their balance sheets possibly ending the era of shareholder friendliness. Investors are convinced that the payout austerity will also hit dividends, and Janus Henderson expects that even in its best-case scenario, dividends globally will shrink 17% year-over-year. Dividend Futures contracts are pricing UK, US and European dividends to remain low for many years to come." Robin Wigglesworth et al., "*How Covid-19 Sparked a Dividend Drought for Investors*", **Financial Times**, September 9th.

"What could make rates rise to 3%? The only answer is some combination of a stronger economy and higher inflation. The Fed recently revised its policy framework to "let" inflation run higher for longer. While the Fed has certainly generated asset price inflation, the kind of broad inflation the Fed says it wants can't happen unless demand outstrips productive capacity for key goods and services. Without that, general price levels simply can't rise. Certain prices (rent and healthcare, for example) can rise enough to cause significant discomfort, but price weakness elsewhere keeps it from measuring in the benchmarks." John Maudlin, *Debt Bugs and Windshields*, **Thoughts from the Frontline**, October 3rd.

CARDEROCK CAPITAL® MANAGEMENT, INC.

September 30, 2020

STOCK MARKET PERFORMANCE - SEPTEMBER 30, 2020

Table of Sorted Stock Indexes Returns

Stock Indexes Returns (Total)
For time periods ending September 30, 2020

1 year returns		2 year annualized returns	
Nasdaq 100	48.75%	Nasdaq 100	23.62%
Nasdaq Composite	40.96%	Nasdaq Composite	19.04%
Russell 1000	16.01%	Dow Jones Utilities Average	9.81%
S&P 500 Composite (Capitalization Weighted)	15.15%	Russell 1000	9.78%
Russell 3000	15.00%	S&P 500 Composite (Capitalization Weighted)	9.57%
Dow Jones Total Stock Market	14.76%	Russell 3000	8.79%
Dow Jones Transportation Average	10.15%	Dow Jones Total Stock Market	8.62%
Dow Jones Industrial Average	5.70%	Dow Jones Industrial Average	4.95%
S&P 500 Composite (Equal Weighted)	2.50%	S&P 500 Composite (Equal Weighted)	2.95%
Russell 2000	0.39%	Dow Jones Transportation Average	0.97%
S&P 400 MidCap	-2.16%	S&P 400 MidCap	-2.33%
Dow Jones Utilities Average	-4.27%	Russell 2000	-4.36%
S&P 600 SmallCap	-8.29%	S&P 600 SmallCap	-8.82%

5 year annualized returns		10 year annualized returns	
Nasdaq 100	23.63%	Nasdaq 100	20.43%
Nasdaq Composite	20.63%	Nasdaq Composite	18.12%
S&P 500 Composite (Capitalization Weighted)	14.15%	Russell 1000	13.76%
Russell 1000	14.09%	S&P 500 Composite (Capitalization Weighted)	13.74%
Dow Jones Industrial Average	14.02%	Russell 3000	13.48%
Russell 3000	13.69%	Dow Jones Total Stock Market	13.43%
Dow Jones Total Stock Market	13.60%	Dow Jones Industrial Average	12.69%
Dow Jones Utilities Average	10.80%	S&P 500 Composite (Equal Weighted)	12.03%
S&P 500 Composite (Equal Weighted)	10.27%	Dow Jones Utilities Average	11.42%
Dow Jones Transportation Average	9.26%	Dow Jones Transportation Average	11.19%
S&P 400 MidCap	8.11%	S&P 600 SmallCap	10.57%
Russell 2000	8.00%	S&P 400 MidCap	10.49%
S&P 600 SmallCap	7.20%	Russell 2000	9.85%

Table of Sorted Standard & Poor's 500 GICS Sectors Returns

GICS Sectors Returns (Total)
For time periods ending September 30, 2020

1 year returns		2 year annualized returns	
Information Technology	47.23%	Information Technology	26.44%
Consumer Discretionary	28.89%	Consumer Discretionary	14.86%
Health Care	20.11%	Consumer Staples	12.23%
Communication Services	18.37%	Communication Services	11.85%
Materials	12.19%	Utilities	9.90%
Consumer Staples	7.79%	Health Care	7.62%
Industrials	1.32%	Real Estate	7.55%
Utilities	-4.97%	Materials	7.34%
Real Estate	-7.28%	Industrials	1.36%
Financials	-11.87%	Financials	-4.30%
Energy	-45.24%	Energy	-33.49%

5 year annualized returns		10 year annualized returns	
Information Technology	27.18%	Information Technology	20.50%
Consumer Discretionary	17.03%	Consumer Discretionary	18.17%
Materials	12.18%	Health Care	15.40%
Health Care	11.88%	Consumer Staples	11.77%
Industrials	10.84%	Industrials	11.58%
Communication Services	10.59%	Utilities	10.68%
Utilities	10.33%	Real Estate	10.49%
Consumer Staples	9.40%	Financials	9.69%
Real Estate	7.92%	Communication Services	9.43%
Financials	7.82%	Materials	9.42%
Energy	-9.70%	Energy	-3.16%

Source: The Chart Store – October 2, 2020