CARDEROCK
CAPITAL® MANAGEMENT, INC.

July 14, 2021

2nd Quarter 2021 - During the period we were pleased to see the stock market refocus on Growth issues that gave a boost to Carderock holdings for the period. This was a meaningful turnaround from the 1st Quarter where Value companies were favored. While page 2 of the Carderock statement "attached" shows your individual performance, below summarizes the results of our firm's **Composite Portfolio**.

EQUITY

Carderock Composite Portfolio – Annualized **As of June 30, 2021*	**1st Qtr. 2021**	**2nd Qtr. 2021**	**Year to Date***	**1 Yr.***	**3Yrs.***	**5 Yrs.***
Carderock Growth & Income Composite - Equity	2.93%	8.86%	12.05%	40.06%	23.19%	20.17%
Benchmark Results - Annualized						
Standard & Poor's 500 TR Index	6.17%	8.55%	15.25%	40.79%	18.67%	17.65%
Dow Jones Industrial Average Index	8.29%	5.08%	13.79%	36.34%	15.02%	16.66%
SPDR S&P 500 Growth	2.22%	11.84%	14.32%	41.36%	22.98%	21.70%
SPDR S&P 500 Value	10.91%	4.86%	16.31%	39.71%	13.08%	12.50%

Source: Intercontinental Exchange and FactSet

Currently our primary concern is less about "Growth vs. Value" styles and its performance as it is on managing your equity exposure as valuations climb together with volatility. During the next six to twelve months, we see the following themes capturing the market's attention and driving our investment decisions:

- **Supply constraints** - Low inventories, overburdened shipping, and idled production have failed to keep pace with surging demand – deferring many sales into 2022.
- **Labor and Production** – Improving in the US, but many other countries are behind expectations and prone to lower growth (e.g., Japan).
- **Delta Variant** – Looks to further burden the Global economy.
- **Federal Reserve** – Shifting away from accommodation (raising interest rates, reduces bond purchasing and raises reserves).
- **Infrastructure Legislation** – (If passed), would ramp growth higher pushing economic progress into 2022 and 2023.
- **Inflation** – Cool and temporary if the Federal Reserve gets its way or hot and sustained if not (Stagflation).

Stocks – During the quarter, we sold shares taking profits in most cases and cutting back on a few laggards. Proceeds were rotated to a few new positions that we believe have better prospects while at the same time managing your cash reserves to the appropriate levels. We anticipate similar actions during the 2nd half of this year, balancing industry exposure and keeping asset allocations within range.

If the market's positive momentum continues, realized capital gains may reach or exceed your budget. Therefore, please keep this in mind and inform us should this be of concern. In addition, we raised our Equity Cash Allocation Target to 16% and may go higher if the economic data warrants. For now, we are following the flow of corporate earnings, employment, inflation, and Fiscal Policy before making any decisions on reserves.

Bonds –The challenge with maturities occurring more frequently lies in reinvesting in more favorable conditions. We expected to have seen higher rates by now but that has not materialized. While we did add a few new issues during the quarter, our activity was modest and thereby, bond cash balances have crept higher. Until we have "lift off" from the Zero Interest Rate environment that has prevailed since 2008-2009, we do not want to lower quality in our future bond purchases in order to reach for higher yield as what we see as an ending of a credit cycle.

Finally, included in this Report, you will find our latest filed copy with the Securities and Exchange Commission of our Form CRS and Form ADV for your review. Dan Kane has assumed the duties of Chief Compliance Officer at Carderock Capital Management. In this role, he will oversee Carderock's continued commitment to excellence in regulatory compliance that Skip Mersereau has skillfully and exceptionally stewarded the firm over the past 15 years. We have amended our Forms ADV and CRS to reflect this change. You can access the updated forms on our website, www.carderockcapital.com or through www.investor.gov.

As always, we invite your calls to inquire further regarding your portfolio or to discuss changes in objectives, circumstances, and their impact.

Warmest Regards,

Skip	Dan

James W. Mersereau, CFA, CIC
President

Daniel A. Kane, CFA, CIC
Managing Director

In compliance with Rule 204-2(a) of the Investment Advisors Act of 1940, we hereby offer our current Form ADV Part II as filed with the Securities and Exchange Commission through notice of its public posting on our website (www.carderockcapital.com). The Securities Exchange Commission's Investment Adviser Public Disclosure database can be accessed at their website (www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx). With reference to Rule 206(4)-2 Carderock urges you to compare the information on your statement with the statements received from your custodian. Please call if you have any questions.

Random Gleanings

"Barring some exogenous event, the main risk to this bull market is that stocks get too expensive. But valuations by themselves do not end a bull market. Fed tightening can as it did in 1987, culminating in a crash. Some stock market models are flashing yellow, indicating caution at these levels. But models that show the market as overvalued are not useful, in my opinion, because their parameters do not capture the complexity of what drives market behavior. And for now, the path of least resistance for US equities remains higher." Bill Miller, "*Current Thinking: Market Letter*", **Miller Value Partners,** April 11th.

"What is curious about the bears predicting an 'epic market crash' is that we had one only 15 months ago. The market went down the most in history in a 4-week period ending on March 23rd due to the panic over Covid-19 before beginning the remarkable recovery we are currently experiencing. Current consensus estimates of growth around 7% are the fastest in over 30 years. Now the point of most contention is the outlook for inflation where I'd observe simply that prices are rising the fastest in decades, but we are already seeing sharp declines in others. This is (all) already discounted." Bill Miller, "*Current Thinking: Market Letter*", **Miller Value Partners,** July 9th.

What the economy is experiencing may simply be a business cycle set to "fast forward" by the insanely stimulative combination of fiscal and monetary policies. We had a terrible recession last year that lasted only two months. Twelve months later, the economy had fully recovered, based on most macroeconomic indicators. While booms usually occur at the tail ends of expansions, this time, we've started at the beginning. And it's all great until it isn't—because, as we all know, booms are followed by bananas. Alfred Kahn, one of President Carter's economic advisers once (famously) testified at the Capitol that if inflation weren't brought under control, the nation was headed for a recession or a depression, but instead of saying 'recession' or 'depression' and scaring the public, he simply said 'bananas.'" Dr. Ed's Blog, "*Fast and Furious Business Cycle*", **Yardeni Research**, June 6th.

"The Fed's balance sheet is now over $8 trillion. On a net basis it is buying ALL (new) supply this year, leaving banks, pension funds and foreign investors scrambling around not to miss out on what has become quite the squeeze. Why the Fed is still buying $40 billion per month of mortgage-backed bonds when U.S. house price gains are at their highest for over 30 years is head-scratching stuff." Marcus Ashworth, "*Has the Fed Boxed Itself Out of a Smooth Taper?*", **Bloomberg**, July 12th.

"Widespread optimism about the outlook for economic activity and earnings over the coming year has led some investors to ask whether the imminent peak in the rate of growth momentum in and of itself is not likely to be enough of a catalyst for relative underperformance of stocks. We think such an outcome would require addition of a sizable shock to sentiment to occur. Sources of such a shock could include: 1) resurgence in COVID-19, 2) higher taxes on earnings, 3) overtightening in China, and 4) a hawkish shift in monetary policy in the developed world. With these unlikely at present, we continue to overweight stocks for expected single-digit returns." Jonathan LeBerge, "*Overview*", **The Bank Credit Analyst**, May 2021.

"The Great Inflation did not reveal itself all at once. In the early to mid-1960's prices crept higher at readings not much more than today's (with many economists advocating for that creep). By the late 1960's the rate of rise was accelerating and by the mid-1970's it was flying and leaping. Yet the few would accept that the Fed was part of the problem, if not its source – even as today's Fed refuses to acknowledge its complicity in fostering bubbly markets, misallocated investment and overleveraged balance sheets." James Grant, "*Spirit of St. Louis*", **Grant's Interest Rate Observer**, April 16th.

"It is not hard to spot signs of the froth and speculation in current markets. Every week throws up cases that challenge any precepts of rational investing – like DOGecoin that started as a joke in 2013. Similarly, the $100 million valuation for Hometown International – a New Jersey Deli with $21,772 in sales in 2019 and just $13,976 in 2020. As a hedge fund manager remarked, "the pastrami must be amazing!" Michael Mackenzie, "*The Long View: Risk Strategies to Adopt When Markets Turn Mad*", **Financial Times**, April 25th.

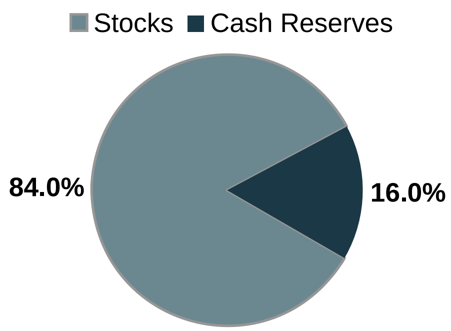
"Despite the popping of these and other mini bubbles (e.g. SPAC's, DOGecoin, meme stocks, Robinhood), the S&P500 has generated a 10.5% year-to-year return. It's more than a little strange our friend observed: 'How often do moths fly away from the flame?' But Jeremy Grantham counters, 'In March 2000, when the super crazy stocks began to weaken, the rest of the market just ignored it saying, 'Who cares? They were crazy anyway.' Then in the months that followed, they hammered the big names down 50%, but the S&P500 as a whole was unchanged. Now when I see the SPACs and cryptocurrencies down 20% to 30% off their January or February highs, I take them as good signs of the first leg down in a bubble popping move.'" James Grant, "*Containment Doctrine*", **Grant's Interest Rate Observer**, May 14th.

"The reflation trade that hammered bonds, drove stock gauges to repeated records and re-energized long dormant value shares is in rapid retreat. Driving the drama is the bond market where real rates turned negative as traders soured on the outlook, reigniting a bid for the tech-heavy Nasdaq which touched a fresh record. Though 'peak growth' warnings have surfaced, inflationary expectations (which once rattled tech shares) have cooled. With newly hawkish noises from the Fed and spread of more virulent COVID variants, traders have run back into tried-and-true growth names. As the 'tailwind boost from the reopen trade fades, investors are focusing more on what the Fed might do next, and hedge funds positioning for Growth to outperform Value according to Goldman Sachs Group Inc." Claire Ballentine, Katherine Greifeld, et. al., "*Markets: The Great Reflation Trade is Buckling All Across Wall Street*" **Bloomberg**, July 7th.

CARDEROCK CAPITAL MANAGEMENT, INC.

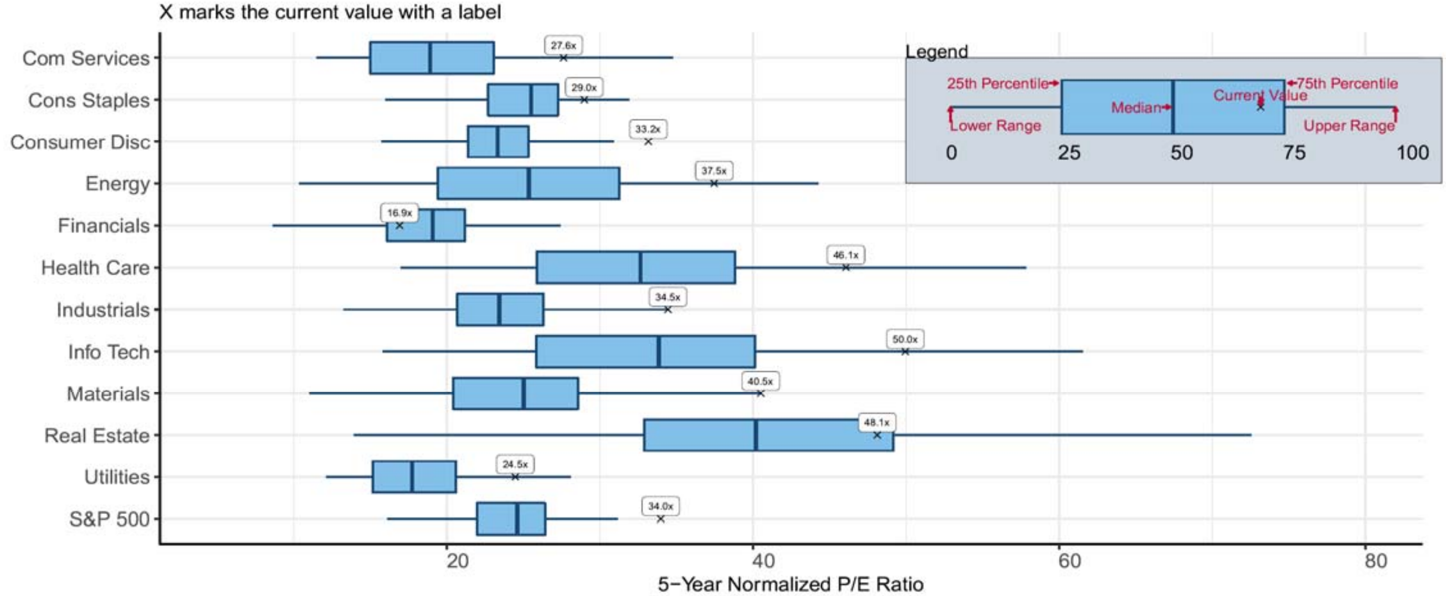
SHORT TAKES
June 30, 2021

Carderock Equity Target Allocation



S&P 500 Sectors: 5−Year Normalized PE Since 1999

X marks the current value with a label



* Real Estate data starts in 2002.

S&P 500 P/E On 5−Year Normalized EPS

1926 to Date, Monthly