NOTTINGHAM ADVISORS
ASSET MANAGEMENT

Q4 2020 CIO UPDATE

"History doesn't repeat itself, but it often rhymes."
-Samuel Clemens (aka Mark Twain)

Nottingham Portfolio Update
2020 has been an incredibly challenging year on many fronts, with markets attempting to price in externalities not seen before. Moreover, with a Presidential election just a month away, it is likely we will see increased uncertainty and volatility as we move into year-end. In Nottingham's view, portfolio diversification has rarely been more important, despite a small group of historically expensive "work from home" (WFH) winners skewing broader market index returns upwards, hiding the inconvenient truth that the equal-weighted S&P 500 (RSP) is down -7.0% year-to-date as we go to press.

Our globally diversified strategies have attracted nearly $100 million thus far in 2020, further supporting our belief that low-cost, liquid, tax-efficient and globally diversified investment portfolios remain an investors best bet for accumulating wealth over time. By orienting our portfolios to capitalize on longer-term trends, we are able to avoid chasing the latest fad. Our flagship All-Asset portfolio is up 4.25% over the past year, despite US Large-cap Value down by -4.9%, Mid-caps falling -4.7%, Small-caps declining by -10.0%, and International Developed markets dropping -1.0%. Oh yes, and interest rates hovering near all-time lows.

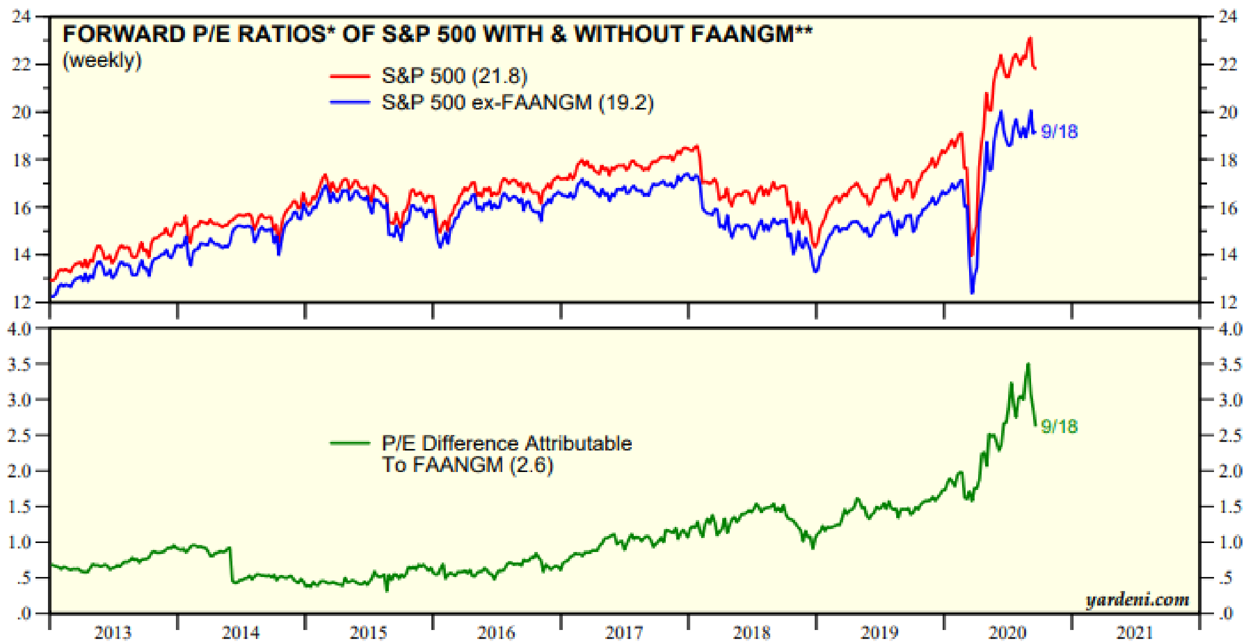
Despite relative performance, Nottingham Advisors always strives to do better, working diligently to try to anticipate the next shift of the investment landscape. Our investment team continues to meet weekly via Zoom in order to try and process the ever-changing news of the day and assess the risk and return framework of global equity and debt markets.

Thus far, in 2020, our research process has led us to various tactical trades including BOTZ, which captures exposure to the global artificial intelligence and robotics space; IPAY, an index of leading mobile payment providers; SRVR, a collection of data center tower providers for 5G cellular markets; and KWEB, an index of leading Chinese internet companies. All of these securities have outpaced the overall market this year and are adding value to our equity allocations.

Nottingham's long-time use of minimum volatility ETFs has produced mixed results thus far in 2020, as USMV, the iShares MSCI USA Min Vol ETF, outpaced the S&P 500 by +178 basis points during the Feb/Mar drawdown, but lagged on the subsequent recovery and trails the S&P 500 on the year by 674 bps (largely due to lower FAANG exposure; for the 5-years ending 12/31/19, USMV & SPY returns were virtually even, with USMV exhibiting far lower volatility). Despite the poor relative performance of min-vol this year, we believe it plays an important role in our portfolios. During the last three S&P 500 drawdowns of -10% or more, USMV has outperformed SPY by an average of +298 bps.

The Markets

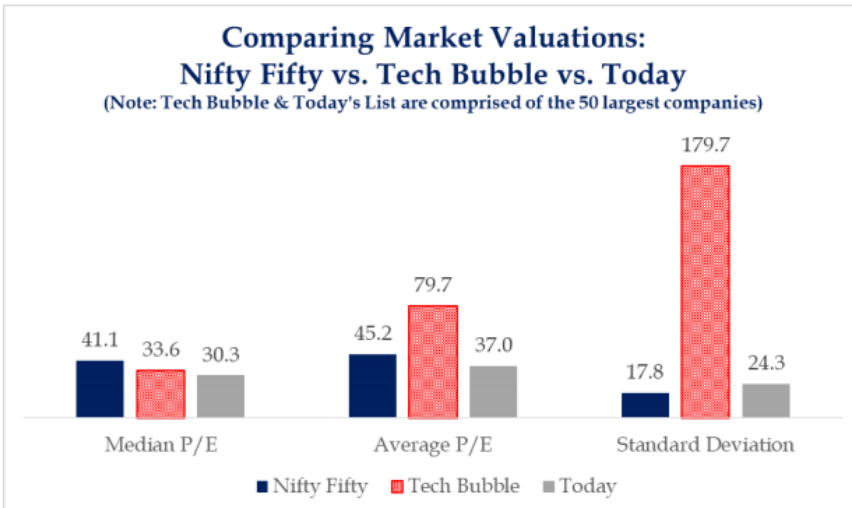
We enter the fourth quarter with US equity markets near all-time highs from both a return and valuation standpoint, propped up for the moment by a torrent of liquidity unleashed by the US Federal Reserve, as well as via Congressional passing of the $2.2 trillion CARES Act. As we go to press, negotiations continue between House Speaker Pelosi and Treasury Secretary Mnuchin on additional stimulus measures. Fallout from the virus-induced lockdowns endures with second and third order impacts affecting cities and towns across the country. Further stimulus will likely be required if markets are to remain at current levels.



Nottingham continues to monitor the outsized impact that a small subset of not-so-small companies is having on the broader market. The impact on valuation, 2.6 P/E ratios according to the above chart from Yardeni Research, would indicate that at 19.2x earnings, the broader market may not seem as expensive as at first look. However, as one peels back the layers, it becomes evident that the vast majority of both revenue and earnings growth is concentrated in the FAANGM cohort. In fact, when one looks at the Russell 2000 (Small/mid-cap) index chart below from Strategas Research, over 44% of these companies have no earnings.

Similarities to 1999 notwithstanding, we do not see broader market participation in this tech-led rally until we get a Covid-19 vaccine and some semblance of normalcy resumes, including travel and leisure activities. The TINA thesis (there is no alternative to equities) is alive and well thanks to the Federal Reserve's continued suppression of interest rates. The recent surge in IPOs and SPACs (special purpose acquisition company) along with investor love for all things digital and WFH-related gives us pause. Traditional value sectors like financials, energy and telecom have been left in the dust.

A big difference between now and 1999 is that back then, an investor could opt for a Treasury note or high-grade corporate bond paying 5% or 6%, in lieu of equities. Today, one must accept 1% or 2% from the fixed income arena, which will hardly help one realize a target return of 6-8%, which is what most pension funds need. This alone could keep equities higher for longer. In 1999, patient investors that avoided chasing hot, overpriced markets and stayed diversified ended up doing okay during the tech wreck of '00-03. This time may be no different.



Source: Strategas Research Partners

Nottingham is actively reviewing the Alternative investment landscape for so-called "fixed income proxies", which are assets that share similarities with bonds, but often carry different risk characteristics. Sectors such as utilities, real estate, private debt, and energy all present viable options for generating yield versus traditional fixed income. Our job is distinguishing the good from the bad, and doing the diligence required as part of our internal investment process before consideration is given to adding them into the portfolio.

Despite valuation concerns and the anticipation of higher volatility ahead, we feel that maintaining our disciplined approach to asset allocation is the best way to manage through the coming months. In our eyes, the risk of being wrong when making bold macro calls clearly outweighs the potential benefits now. One need only look back to the previous election in 2016 to realize the futility of trying to guess not only the election winner, but also the subsequent market reaction. Markets have survived and thrived through many different political regimes. We believe they will continue to do so.

Nottingham Update

We want to welcome two new members to the Nottingham team. Nick DiRienzo, CFA joins us from Boston, MA where he worked for the large investment firm State Street. Nick comes in as our Director of Operations and Chief Compliance Officer as well as be a member of our Investment Policy Committee. Also joining us is Angila Snediker, who comes to Nottingham with a freshly minted Master of Science degree in Econometrics and Quantitative Analysis from the University at Buffalo. Angie will be a Trading Associate, working alongside Mike Skrzypczyk on our trading desk. We are thrilled to have both of these talented individuals on the team.

Lastly, we would be remiss if we did not recognize the sad passing of our long-time Client Services Manager Kitty Mazurkiewicz. Many of our clients worked closely with Kitty over the years and have sent quite a few nice comments and reflections and the Nottingham team is appreciative. Kitty was a tireless and true professional and we all will miss her.

As we enter the last quarter of the year, Nottingham remains at the ready to render advice to our clients and help navigate these rapidly changing markets. We will be looking to effect some tax-loss harvesting over the weeks ahead, further enhancing our already tax-efficient portfolios. We will also be game planning for the uncertainties stemming from the upcoming Election, whether we see a Democratic sweep, or continue with divided government. Regardless of the outcome, we will be ready to make portfolio adjustments based on expected agendas, managing portfolio risk profiles as well as seeking return opportunities.

All of us at Nottingham appreciate your business and hope that you remain safe and healthy over the months ahead. We are hopeful of a vaccine in the near future and this light at the end of the tunnel shines brighter each passing day. In the meantime, please do not hesitate to reach out with any questions, comments or concerns.

Larry Whistler, CFA
President/Chief Investment Officer
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