

2020 Year in Review

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January 7, 2021

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What a year!

You may recall that we ended 2019 with the market at an all-time high. Unemployment was near an all-time low at 3.5% [1]. The US economy was growing at a 2.1% annual pace [2], not exactly robust but good enough to dispel any fears of near-term recession. Equity valuations were seen as rather full, and the 10 strategists featured in Barron's 2020 outlook forecast an average rise of 4% for the S&P 500 index [3]. Everyone agreed that the two most important factors for the markets in 2020 would be the growing trade dispute with China and the upcoming presidential election. No one had "global pandemic" on their bingo card. One lesson learned is that these Year Ahead predictions are about as useful as horoscope readings.

The stock market had a flattish January opening before rallying 4.8% to an all-time high on February 19 [4]. A few days later, news of a major Covid surge in Italy helped to touch off a plunge of -33.9% in the next 23 trading days—one of the sharpest selloffs on record [5]. In just a month, everything had changed. Plexiglass shields were everywhere. Facemasks. Toilet paper shortages.

If that wasn't enough to completely blow up any "year ahead" predictions, energy prices made the equity market's plunge look like a speedbump by diving -65% [6]. And in a move that absolutely no one had ever seen or anticipated, oil futures actually traded at a level of negative -\$40 per barrel (sellers paid buyers to take it) [7].

In the face of this unprecedented turmoil, the Fed and Congress responded with massive intervention, the economy learned to work around lockdowns, and the result was markets regaining the February highs by mid-August. The lifetime lesson here: At their most dramatic turning points, the economy can't be forecast, and the market cannot be timed. Instead, having a long-term plan and sticking to it as opposed to reacting, which is our investment philosophy in a nutshell, once again demonstrated its enduring value.

Another great lesson of this highly educational year had to do with the presidential election cycle. To say that it was the most hyper-partisan in living memory wouldn't adequately express it. Supporters of both candidates were genuinely convinced that the other would, if elected/reelected, precipitate the end of American democracy. Yet months later, we again find that Politics are most often a small consideration or after thought in determining value and potential long term return on investments.

Ultimately, after that very rocky start, 2020 proved to be a good year for investors. The Dow Jones Industrial Average rose 7.25%. The S&P 500 was up 16.26%. Bonds +7.51%. Most commodities were up, but the broad commodity index was dragged down by oil, which ended the year down -20.54%. [8]

So now we look ahead to 2021. There remains plenty of uncertainty. Is it possible that the economic recovery and that of corporate earnings have been largely discounted in soaring stock prices, particularly those of the largest growth companies? Will a new variant of the virus create further devastation? Yes, of course it's possible and would not be that surprising. Now, how do we as long-term, goal-focused investors react to that? The answer: we don't, because one can't. Our strategy, as 2021 dawns, is entirely driven by the same steadfast principles as it was a year ago—and will be a year from now. We seek to build a portfolio of quality companies acquired at fair prices and hold them for a very long time. The short-term valuations will fluctuate; last year's winners can easily become this year's losers. Stocks like JP Morgan, Goldman Sachs, and Exxon Mobile were laggards in 2020 but top performers so far this year.

As always, we remind you that even long-term investment horizons can become shorter term over time. We look forward to discussing your individual situation in the near future, and we thank you for the trust that you have placed in us. Happy New Year!

John and Grant

1 Bank of America Merrill Lynch December 12, 2019

2 US Government Bureau of Economic Analysis, January 30, 2020

3 Barron's, 2020 Outlook, December 16, 2019

4 Bloomberg, UBS data

5 Bloomberg, UBS data

6 Bloomberg, UBS data

7 The Economic Times Energy World, April 21, 2020

8 Bloomberg, UBS data

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