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Financial Market Lessons from 2020

How do you tell someone that you care about deeply, "I told you so?"
- Michael Scott

2020 began with the deadliest virus since the 1918 Spanish Flu followed by severe civil unrest in conjunction with an OPEC-Russia oil price war, all resulting in economic collapse and stock market upheaval. And of course, politics had to have the first and last word of the year beginning with the 3rd ever impeachment of a U.S. president and ending with doubt about the durability of democracy itself. But perhaps the most shocking twist of the year was that the S&P 500 ended the year with an 18% gain and 60/40 portfolios were up over 11%.

Of course, in March and April, images of overrun New York hospitals flooded our screens, travel bans were implemented, and global lockdowns drove oil prices negative for the first time in history. Over those weeks, the stock market declined by over 30% and single-day stock market swings of 5% or more were common. Notably, on March 9th the Dow set the worst single-day drop in U.S. market history of -7.79% only to decline again 9.99% on March 12th and then free fall 12.93% on March 16th. The S&P 500 experienced its fastest-ever bear market over a period of just 33 days. There was serious talk of another great depression.
(see Exhibit 1)

Exhibit 1

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Quarterly Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1Q 2020	**STOCKS**				**BONDS**	
	-20.90%	-23.26%	-23.60%	-29.02%	3.15%	0.51%
Since Jan. 2001						
Avg. Quarterly Return	1.8%	1.2%	2.5%	2.2%	1.2%	1.1%
Best Quarter	16.8%	25.9%	34.7%	32.3%	4.6%	4.6%
	2009 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.0%	-2.7%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2016 Q4	2015 Q2

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). Bloomberg Barclays data provided by Bloomberg.

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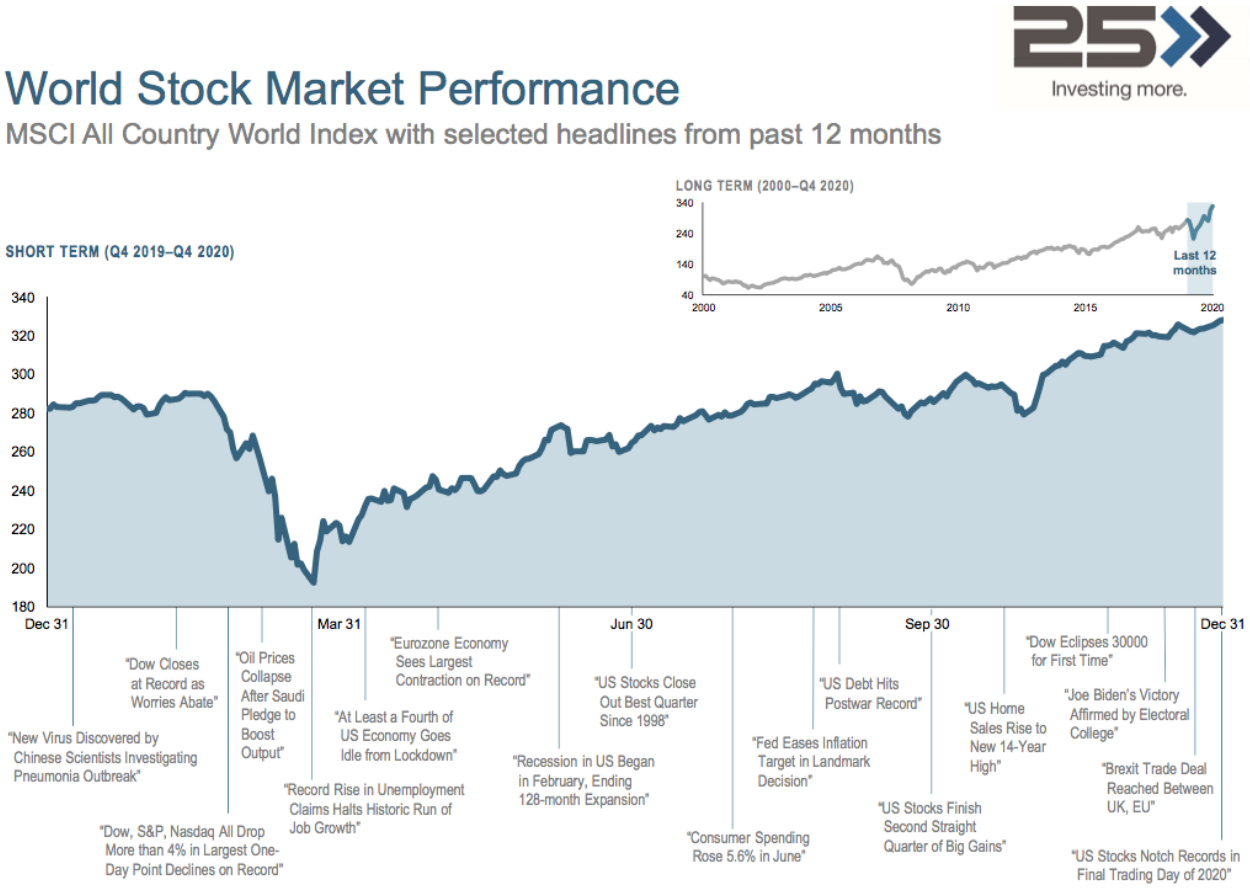
This was about the time our firm fielded calls from clients needing reassurance to "stay the course" and not sell and cash out like their family members and colleagues at work. On March 28th, 2020 (not knowing we were at the bottom of the trough), our firm responded to the "sky is falling" rhetoric with an article exhorting investors not to "chase or react to markets" but instead to "remain diversified through disciplined investing according to their pre-determined investment plan." We concluded by recommending clients actually *invest more* by "buying stocks at a discount with their savings plan and/or extra cash while others stop their savings plans and/or fearfully sell at major losses."

Investors who stayed in the market were rewarded handsomely as Exhibit 2.1 and 2.2 illustrate below:

Exhibit 2.1



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

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Exhibit 2.2

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Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
2020	**STOCKS**				**BONDS**	
	20.89%	**7.59%**	**18.31%**	**-9.09%**	**7.51%**	**3.94%**
Since Jan. 2001						
Avg. Annual Return	9.5%	6.8%	13.6%	9.8%	4.9%	4.5%
Best Year	33.6% **2013**	39.4% **2003**	78.5% **2009**	37.4% **2006**	10.3% **2002**	8.8% **2014**
Worst Year	-37.3% **2008**	-43.6% **2008**	-53.3% **2008**	-45.7% **2008**	-2.0% **2013**	1.2% **2013**

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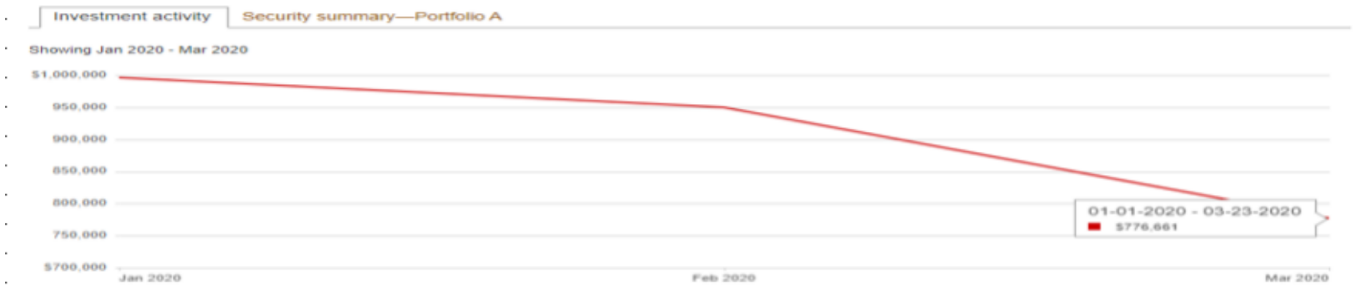
Graph provided by Dimensional Fund Advisors

Exhibits 3.1-3.3 illustrate the impact on a $1M portfolio comparing the hypothetical investor that (1) moved their portfolio to cash versus (2) "stayed the course" versus (3) invested more. All three exhibits assume a $1M portfolio on January 1st, 2020 allocated 70% to (both international and domestic) stocks and 30% to bonds.

Exhibit 3.1 Illustrates the investor moving their 1M portfolio to cash on 3/23/20:

Moving to Cash March 23 through 12/31	$1,000,000.00	$776,661.00	Loss of $233,339.00



Performance

Initial investment Edit	$1,000,000.00
Net amount invested	$1,000,000.00
Final market value	$776,660.70

Average annualized return	—
Cumulative return	– 22.33%

*Past performance is not indicative of future perfomance.

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Exhibit 3.2 Illustrates the investor "staying the course" by staying rebalanced through the year.

Leaving 70/30 invested throughout 2020	$1,000,000.00	$1,135,904.26	*Gain of $135,904.26*

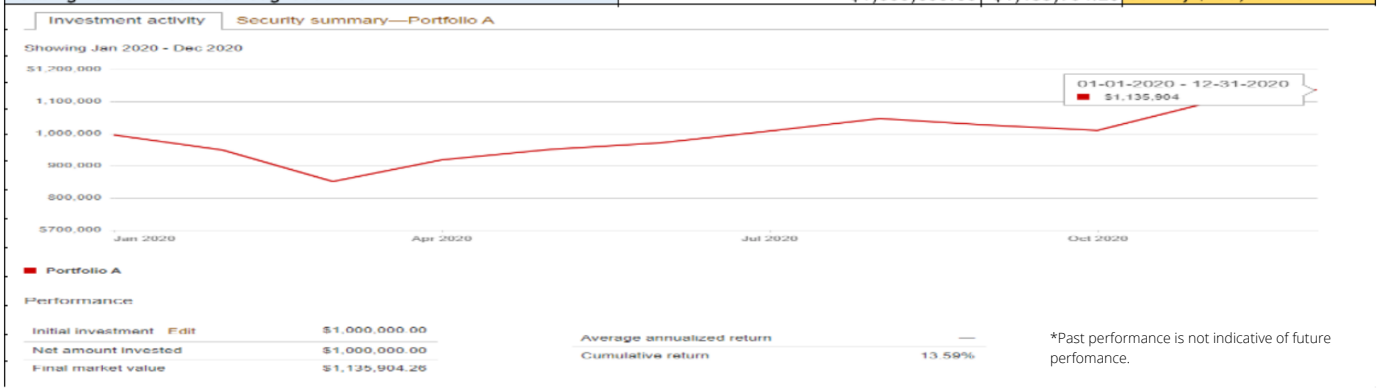

Exhibit 3.3 Illustrates the investor not only "staying the course" but also adding $100,000 to their portfolio on March 23, 2020.

Investing 100k into 70/30 model on March 23 through year end	$1,000,000.00	$1,334,089.72	Gain of $334,089.72

The difference between investors that "stayed the course" and continued their normal savings plan (exhibit 3.3, showing a $334,089 gain) versus investors that moved their $1M portfolio to cash (exhibit 3.1 showing a $233,339 loss) was a whopping $567,428!

No matter if you won or lost in the market, 2020 is a year worthy of our reflection. Here are some simple lessons worthy of an exclamation point after 2020:

(1) Develop a pre-determined investment plan in the "calm seas" so you are prepared in the "hurricane seasons."
(2) Stick to the plan.
(3) Don't chase (or run from) markets. You "ride out the storm" by sticking to your plan.
(4) Seek the help of an objective third-party investment advisor to help develop the right plan for you and then help you stick to it.