January 2021

Dear Clients and Friends,

LESSONS FROM 2020

Every now and then, a year comes along in the economy and markets that can serve as an instruction manual for investing. 2020 was that year. If you forget everything else but remember the lessons of 2020, I am quite certain it will serve you well in the long run. As a starting point, here are the returns for 2020 of several different asset classes:

- S&P 500 (US large stocks) 18.40%
- Russell 1000 Value (US large value stocks) 2.80%
- Russell 2000 (US small stocks) 19.96%
- Russell 2000 Value (US small value stocks) 4.63%
- MSCI EAFE Index (international stocks) 7.82%
- Barclay's US Gov/Corp bond index 6.53%

Based on these numbers, if you fell and hit your head on 12/31/2019 and awoke on 12/31/2020 you would think this was a good year without much drama. While it was indeed a good market year, we all know differently regarding the drama. A nice start to the year, followed by a pandemic, economic lockdowns, 35% decline in stocks (or more in some categories), followed by a sharp market recovery and good news regarding vaccines. The timeless and valuable lesson for us all is how it got there. Here are the financial lessons (or maybe better put, reminders) that we should learn from 2020:

Stick to your plan in times of uncertainty.

At their most dramatic turning points, the economy cannot be forecast, and the market cannot be timed. If you make the foolish decision to abandon your plan, which was established based on your goals, needs, and objectives, you are doing it during the times with the most uncertainty and with no pre-determined path forward from that point. Good luck. I have been in this business 20+ years and I am still waiting to see when this works out well for someone. NOTE: sticking to your plan does not equal "do nothing". If your plan gets out of whack because of the dramatic stock market decline and the plan tells you to buy stocks at that time, do it! For all of you that did so, you already see the meaningful benefits of that action. If your plan says to just hold on and not sell, do it! You have already recovered and then some. If it makes sense to "tax loss harvest" and recognize losses while buying a similar fund to stay in the market, that can help to make lemonade out of market lemons.

Look for creative ways to capitalize on the current situation that fits within your plan.

I mentioned buying stocks low (or rebalancing during down markets) as one action item. But there are others. For example, we had several clients adjust and accelerate their retirement plan contributions to hit the annual maximum by June 30 instead of spreading the additions over the entire year. They "bought cheap" and benefitted. The same idea holds true for annual Roth IRA or college 529 contributions. If your plan includes making these at year end, but there is a downturn and you have the cash, do it earlier. If you were thinking about converting your IRA to a Roth IRA and incurring the tax to do so, why not do it when the value is 30%

less? When the Fed gives you a zero interest rate environment, perhaps refinancing a mortgage makes sense if you have one.

If you have significant dollars to invest, have a phase-in plan.

Think business sale proceeds, inheritance of cash, life insurance proceeds, legal settlements, etc. These are not regular additions but large chunks of dollars to invest. To take some of the timing risk out of the process, we develop a periodic schedule to phase that money into an investment plan. But if the market goes haywire, you can respond by accelerating the plan to buy low. We dealt with all these example situations in 2020, and this year demonstrated the benefits of this approach.

Never get your politics mixed up with your investment policy.

Anyone who exited the market in anticipation of the November election shot themselves in the foot and missed out on at least a 12% increase in the market. If you are a right-leaning individual and exited the market when Obama was elected, you paid a heavy price in lost returns. If you are a left-leaning individual and exited the market when Trump was elected, you paid a heavy price in lost returns. There are mountains of further evidence I will not bore you with that this does not work. I know I am preaching to the choir because I am sure anyone reading this newsletter is not doing this, but in this hyper-partisan environment it bears a cautionary reminder.

DIVERSIFICATION DOES PAY OFF

You might recall from my October newsletter that at the end of the third quarter the only positive stock asset class was the S&P 500 (up 5.57% at that time) and it was carried by the five biggest stocks. The Russell 1000 was down -11.58%, Russell 2000 was down -8.69%, Russell 2000 Value was down a whopping -21.54%, and EAFE was down -7.09%. Compare those to the numbers on page one and what a difference a quarter can make. While all these categories have increased, it has paid to have exposure to asset classes other than the S&P 500, notably small stocks and value stocks. Is this the start of a new trend? It is too early to tell, but large US growth stocks have led the way since the 2009 financial crisis and history says that cannot continue forever. In an efficient market, stockholders will expect higher returns to compensate for making riskier investments like small companies vs. larger established companies. We do not want to abandon the blue-chip stocks, but it always pays to be diversified and balanced in your investment plan.

GRATEFULNESS

As I reflect on 2020, while there were many unexpected challenges, I am also grateful for many things. First, I am grateful that my family is healthy and safe. I am grateful for the fine members of the WealthPoint team and that they are also healthy. I am grateful to be in an industry that was not decimated by the pandemic. Too many businesses, through no fault of their own, have been irreparably harmed. A few of our clients passed away this year and while we will miss them dearly, I am grateful for having known them and for the privilege of learning from them. Finally, I am grateful to be in this wonderful profession and to serve all of you. Best wishes to you all for a healthy and prosperous 2021.

Sincerely,

Brent M. Walker, CFP®