What's Good is Bad, and What's Up is Down

A friend of mine used this expression in a conversation with me yesterday, and I realized it captured a lot about 2020. It not only correctly characterizes the sentiments behind the locomotion of 2020's stock market volatility, but also it identifies the country's political climate of this past year. Nothing really makes sense. We found ourselves in a pandemic of deadly proportions that shut down major parts of our economy, and yet, at year end, the S&P 500 index returned 18-19%. This is head scratching to say the least. In order to get a better perspective, we have to ask ourselves why and what to do? Do we simply ignore some of the lofty valuations and just throw the baby with the bath water into stocks? Alternatively, do we run for cover in money markets, gold, digital currency and treasuries? Obviously, the answer is neither and probably something in between. As we look back at 2020 one last time, we notice that, on average, our balanced accounts exceeded the balanced index (12-13%) returns by 2-4% approximately. We certainly participated in the technology run-up and were mindful to be prudent on the back of 2019's good market. After all, one can only eat so much cake and ice cream. A.G. Campbell's clientele are generally long-term investors; however, the commitment to "long-term" does not mean that we should be careless about timing. I'm reminded of an anecdotal quote by Warren Buffet, "the stock market is designed to transfer money from the active to the patient." This is an investment philosophy that I not only learned from him, but also gleaned from my father's investment ethos. A.G. Campbell and its followers have been rewarded by sticking to this strategy.

What do we do now? To answer that question, we need to understand 2020. Last year's market was propped up by the Federal Reserve's commitment to a dovish stance. Interest rates were kept at an extremely low level, and stocks were still the best place to be. We see this continuing with little change until the accommodative Fed changes its tune. In a highly unusual period such as this time, we believe this is a great time to reassess risk tolerances. For example, how would you feel, even if it were only temporary, if the market was to reduce 10-15% of your overall account value? Most people have a problem with this scenario, but it's just part of being a true investor; however, if you can solidify your ability to sleep soundly by taking some gains and having some cash, there is no reason not to consider this action. We would be more than happy to have our Certified Financial Planner™ and partner, Betsy Brennen, CFP®, AIF®, run several models for you to stress test your portfolio. This is one way we make certain that you have the money you want for your future when you want it. 2021 will most likely be a year of change in our tax structure, government's economic intervention, and focus. We expect a shift from the wild investor enthusiasm for IPO's and high growth stocks, to value stocks and probable corrections. We saw some of the value shift in the financial sector towards the end of last year and believe this will continue. International investments look positive for 2021, especially in areas that were ravaged by Covid-19. Finally, something as simple as diversification of one's investment assets is likely more relevant now than it has been in the past. Our bias is still in the equity camp, but we are cautious about slipping into a state of intoxication over never ending up markets. Be well and be smart. Happy 2021!