Just How Crazy Was 2020?! What About 2021?

Previous close 1/15/21: DJIA 30,814; S&P 500 3768
End of 2020: DJIA 30,606; SPX 3756

Without a doubt, 2020 will go down as the most bizarre year in our lifetimes. If any of us had known that in a single year we would experience a steep economic shutdown and recession triggered by a global pandemic, months and months of intense social unrest, and the most bitter Presidential election in modern American history, **surely** we would have stayed out of stocks for that year. In my 35 years in this business, one truism stands out – a quote by Jesse Livermore from the early 1900s: "*The stock market is never obvious. It is designed to fool most of the people, most of the time.*" Well, 2020 certainly proved that! The wild swings of the market caused many a frayed nerve!

One way I can measure how crazy and volatile 2020 was is by my own market letters. For the past 25 years, I have chosen to communicate my "market thoughts" by publishing one whenever I sense it to be "timely." While I try to send out a letter each January with a recap of the previous year and my thoughts about the coming year (as is the purpose of this letter), I only publish additional letters when/if I sense I need to share my thoughts to those who have sought my investment advice. Over the past 20 years, I have written one or fewer letters in any given year 11 times and written two letters eight times. In 2020, I felt compelled to write four. That's how crazy it has been!

A quick walk back through 2020 reminds us that the S&P 500 began the year by hitting an all-time high on February 19th – *sweet!* But then it fell 34% in a mere 33 days – *ouch!!* By mid-March, the gloom and desperation was "so thick you could cut it with a knife" – remember that?! Strangely, on Tuesday, March 24th, the market began to bounce. No one believed it at first, but March 23rd DID prove to be THE bottom – fooling most of the people once again. In August, it regained its old high-water mark. At that point "everyone" was sure we were in for another significant pullback – but one can never know with certainty when declines will occur. As it turned out, by year-end it had rebounded 68% and had a total return of 18.4% for all of 2020 – again fooling most of the people. [While other indices may not have fared quite as well as the S&P 500 (the DJIA gained "only" 9.7% in 2020), every major US equity index was positive for the year.] Truly a wild ride! I am encouraged that 99% of our clients chose to follow our advice, following "**Herb's Three Rules of Equity Investing**" mentioned in nearly every letter over the past 10 years – *Own quality, Be diversified, Invest in patience.*

So what about 2021? With my usual caveat that these projections are "etched in sand":

The US economy will do quite well, as will corporate earnings, largely due to unprecedented liquidity stimulus – sort of the opposite of 2008 when liquiditydried up so severely.

- As for asset classes:
  - If interest rates rise (as I expect), bonds, in general, will suffer declines.
  - Cash or cash equivalents will make tiny amounts, as they did in 2020.

- Stocks appear able to provide decent positive returns, but I sense that perhaps we have "pulled forward" some of the gains I was expecting in 2021 into 2020. I'll be happy with 6%-10% which would be much better than bonds or cash.
- Of course, volatility will continue in 2021, but not likely to the degree of 2020. *I assume we'll have at least one 10%+ pullback (as we do most* years), but I have no idea when or from what level. So I need to repeat "*Investors must always be prepared – financially, mentally, & emotionally – for a 10% correction at any time."*

Like most folks, I'm very glad to see 2020 in my rearview mirror. For 2021, I hope to be publishing a lot less letters!