Hindsight is 2020

December 28, 2020

Remember January? Life was simpler then. America was a veritable oasis...a land flowing with toilet paper and hand sanitizer. In those days, you could recognize a person by their face – not just the top half, but their whole face. When you greeted someone, you didn’t have to perform split-second calculations to decide between an awkward wave or a fist or elbow bump, you could just reach out and shake their hand. Infrared thermometers were more of a luxury than a necessity; for most, a hand to the forehead was good enough for a temperature check. Back then, people disagreed about the same old things: politics, religion, money. Masks weren’t even part of the conversation.

If I really strain my memory muscles, I can piece together some of the sights and sounds and feelings of early 2020. A new decade had dawned. The Olympics were right around the corner. Economists were debating the rate of GDP growth in the year ahead (1.5%? 2%?), and “2020 Vision” puns abounded in churches and optometrists’ offices.

But no one could have envisioned what 2020 would turn out to be: a crucible of sickness, social unrest, isolation, economic hardship, and political turmoil. A complete reorientation of people’s daily routines, with millions of lives and jobs at risk.

Still, despite all the challenges, we also saw a landmark vaccine developed and distributed in record time. We saw healthcare professionals and others on the “frontline” of this bizarre war rightfully recognized and celebrated. Businesses who were able to pivot to remote work did so swiftly, and in some industries, years of technological progress were achieved in a matter of months. The adaptability of the human species was on full display.

Truly, 2020 was an extraordinary year. It was an extraordinary year in the markets, too. The fastest bear market in history was followed by one of the fastest rebounds on record. If you could have polled people on March 23 (when the market was down 35%) and asked them about the likelihood of the S&P 500 reaching new record highs a mere four months later, I think you’d have gotten more than a few eyerolls. You probably wouldn’t have believed it yourself. While pundits were speculating about an alphabet soup of recovery possibilities (V-shaped, W-shaped, K-shaped, etc.), millions of bored started speculating on Robinhood, and millions more worried about whether their nest egg would survive. Technology stocks showed that growth can hold up better than value in a downturn, with services like Netflix and Amazon proving to be as indispensable as groceries, toothpaste, and other traditional consumer staples. Meanwhile, Tesla proved that Elon Musk does, in fact, know better than you, and that it’s possible for a car company to have a bigger market cap than nine of its largest competitors combined despite selling fewer than 1% as many vehicles.
In hindsight, I’m sure a lot of us would change a few of the investment decisions we made at various points in the year. Maybe we would have bought this or sold that, paid more attention to one indicator and less to another. From my perspective as a financial advisor, here are a few key takeaways from a tumultuous year:

1. **You can’t control what happens to you, you can only control how you respond.** When it comes to wealth management, that means remaining disciplined in your investment strategy and focused on long-term objectives. Moreover, it means framing decisions within the context of your plan and weighing their impact on your various goals.

2. **As an investor, you will inevitably feel fear.** When all news is bad news, reminders like “Stay the course, things will get better” might sound cheap. However, those bits of advice are as good as gold, even if they don’t resonate with your feelings in the moment.

3. **Defense wins championships.** Investors who score huge gains get the headlines, but I would argue that it’s more important to focus on avoiding huge mistakes. First of all, it’s hard to score huge gains, and it’s even harder to sustain that kind of success. Secondly, the more money you lose on an investment, the higher the return you’ll need to recoup those losses. For example, if your portfolio declines by 25%, you’ll need a 33% gain to break even. A 50% loss requires a 100% gain, and so on. Bottom line: the damage done by terrible decision-making (and the sick feeling that accompanies it) outweighs the benefits and euphoria of earning phenomenal returns. Best to let compounding do the work for you and stay out of your own way.

4. **Cash doesn’t pay much interest, but it does deliver peace of mind.** When the sky was falling back in March, no asset class was spared – not even high-quality bonds (though they bounced back quickly). The only exception? Cash. Every individual, every family, every business needs liquidity, especially when things go downhill. Having cash on hand for emergencies is Step 1 on the path to financial freedom.

5. **When the government gives you lemonade, drink it!** The CARES Act afforded individuals and businesses who took the time to read it – and act – with some tremendous money-saving opportunities. Stay up to date on important legislation, or hire people to do it for you.

6. **The worst of times are often the best of times for advanced estate planning.** The combination of low interest rates, depressed asset values, and high exemption amounts provided a rare opportunity for people with significant wealth to shift assets (and the growth of those assets) outside of their estates to enhance their legacy goals. Those who were willing to deal with the painful process of estate planning during an already painful period will likely end up saving millions in estate taxes.

Finally, 2020 was a healthy reminder that for all its complexity, life isn’t all that complicated. At the end of the day, we all need three basic things in order to be happy: something to do, someone to love, and something to hope for.

Thanks for reading, and I want to wish all of you a better, brighter year ahead.

**And Now For Something Completely Different...**

Atari founder Nolan Bushnell's story is a perfect illustration of the razor-thin line between entrepreneurial success and failure (and why, as I mentioned earlier, tremendous success can be so hard to sustain).