Weekly Market Review

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The Week Ending December 31, 2020

2020 will forever be remembered as the year of a global pandemic. Most of us spent the year quarantined in our homes becoming professionals at Zoom and other video chatting platforms. That alone would lead one to believe it was a poor year for the stock market. When you then add a contentious U.S. presidential election, unemployment jumping to 15% with 22 million people unemployed within two months, a barrel of oil traded in negative territory, and Brexit negotiations throughout the year in Europe, there is no way the stock market finished in the green, right? Well, the S&P 500 Index ended the year at a record high, up over 18%, and posted its best two-year rally since the heart of the tech bubble in 1998-1999. Technology stocks had an even more impressive year, with the Nasdaq Index finishing over 40% higher. Now that we can look back on such an extraordinary year, we can ask ourselves: what factored into the strong rally, and what can we take from 2020 to help us in the future?

2020 taught us many investing lessons, the most important one being: timing the market is impossible. Despite all the negative events that occurred, and many we continue to live with, the stock market finished quite strong. What caused so many negative factors to be overlooked? One word: stimulus. The Federal Reserve and Congress showed they would support the market at all costs when the pandemic began, and the stock market was sent over 30% lower in a matter of weeks. The Fed brought back policies last seen during the 2008 Financial Crisis and even went beyond those measures in many cases. Congress was quick to pass the CARES Act, which provided unemployment benefits and funding to COVID- impacted sectors, among other benefits. These actions sent a clear message to the stock market; they were establishing a floor, and it was safe to resume buying.

Stimulus is what made timing the market impossible in 2020. When investors felt most uncomfortable about the market in March, it was the best time to buy. When markets are falling, tensions are high, and many people are considering selling, it can be the best time to buy. This concept is understandably very difficult for most people. In the heart of a downturn, no one knows when it will turn around, and buying into a sell-off is something most people cannot handle, and that is okay. What is most important is maintaining your allocation through all environments. Even when it is uncomfortable, missing a rebound like the 70% rally from the S&P 500 in 2020, can have more detrimental effects than capturing the drawdown. No one knows what 2021 has in store, but no matter what the year throws at us, the best approach continues to be, trust the process and maintain allocations to achieve long-term goals.

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