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NOVMEBER 2020

TWENTY 2020 LESSONS

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MAKE NO MISTAKE, it's been an extraordinary year for the global financial markets. Nobody could have foreseen all that's happened, including the coronavirus, its economic fallout and the long, turbulent, still-ongoing election season.

And yet we shouldn't be surprised by how the financial markets have reacted, because we've seen variations on this movie many times before. Here are 20 investment lessons from 2020:

1. Market-timing is a fool's errand. Who'd have thought that the S&P 500 stocks would have plunged 34% over a brief five-week period, only to turn on a dime and rocket higher? To avoid getting whipsawed by market swings, we need to think hard about how much risk we can objectively take and how much we can stomach, use that to guide our stock allocation, and then grit our teeth and hang on for the long term.

2. Markets are driven by news—which, by definition, isn't known ahead of time. No, there weren't any market pundits predicting a global pandemic for 2020. Next year, there will likely be some new scare that roils the markets. The pundits probably won't predict that one, either.

3. Day to day, all kinds of things nudge share prices higher or lower. But over the long haul, what investors care about most is future corporate profits. Stocks plunged in early 2020 because investors feared company earnings would collapse. Why did share prices abruptly recover? The government made it clear it was pulling out all the stops to avert a deep recession.

4. You can't judge the attractiveness of stocks in isolation. Instead, what matters is how appealing they seem relative to the main alternative, which is bonds. The upshot: If bonds yield almost nothing, which they do today, stocks become more attractive.

5. Snooty Wall Street pundits claimed 2020's bear market wouldn't end

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until small investors capitulated. They also claimed this past summer's small investor exuberance, as evidenced by millennials making foolish investment bets in their $1,000 Robinhood accounts, was the sign of a market top. Both "insights" proved badly wrong. The pundits probably won't learn, but the rest of us can do the smart thing—and stop listening.

6. If you're reading something frightening in the business section, or hearing it on CNBC, or learning about it from your neighbor, it's almost certainly too late to act—because the information is already reflected in share prices.

7. Valuations may give us some insight into the stock market's likely long-run return, but they're useless as a guide to short-term results. Exhibit A: This year's startling stock market rally has occurred despite nosebleed valuations.

8. Nobody can make investors react like the Federal Reserve. On March 23, the Fed announced it was "committed to using its full range of tools to support households, businesses, and the U.S. economy overall in this challenging time." That was the day the S&P 500 hit bottom, before surging 17.6% over the next three trading sessions.

9. Take all economic forecasts with a grain of salt. In May, Goldman Sachs economists predicted that the unemployment rate might hit 25%. The worst it got was 14.7% and it's now at 6.9%. Meanwhile, in June, the Federal Reserve projected that the economy would contract 6.5% in 2020. By September, it had revised that to 3.7%.

10. Investors collectively don't much care who wins elections. See point No. 3.

11. When stocks plunge, Treasury bonds are your best friend. What about municipal and high-quality corporate bonds? They're more like fair-weather friends, as we were reminded again this year.

12. Just because a stock is apparently overpriced doesn't mean it won't become even more so. Ditto for stocks that are apparently dirt-cheap. For proof, look no further than this year's gains by highflying growth stocks—and the continued struggles of long-suffering value stocks. Will this reverse in 2021? It's anybody's guess, which is why we diversify.

13. Whatever's happening in the world, insurance agents will claim your best bet is to buy cash-value life insurance. Could this, perchance, have something to do with the hefty commissions they earn?

14. Currency movements can make a huge difference to foreign stock returns for U.S.

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investors. International stock funds took a shellacking earlier this year but have fared better of late. One reason: The U.S. dollar is down 10% against foreign currencies since the stock market bottomed in late March.

15. Remember how actively managed stock funds were supposed to outpace index funds when markets turn rocky? According to S&P Dow Jones Indices, two-thirds of actively managed U.S. stock funds lagged behind the broad market over the 12 months through June 30. The lesson: Don't be swayed by the self-serving nonsense spouted by Wall Street's active managers and instead stick with index funds.

16. Junk bonds are stocks in drag. Their high yield may make them look like super-attractive bonds. But when the world becomes unhinged, they tumble along with share prices.

17. Gold is like your crazy uncle. Nobody knows what it'll do next.

18. If you own cash investments, like money market funds and savings accounts, you're all but guaranteed to lose money after inflation and taxes. Indeed, the Federal Reserve, which controls short-term interest rates, will happily sacrifice your return for the good of the greater economy, as it did once again in 2020.

19. Every year, Wall Street rolls out a new investment contraption that's incredibly lucrative—for Wall Street. Can I interest you in a SPAC, or special purpose acquisition company? How about a perpetual motion machine instead?

20. The economy may be briefly knocked off stride, but the hunger for economic progress always prevails. Think about how the world has adapted to COVID-19. Yes, there have been many missteps. But thanks to human perseverance and ingenuity, we're getting through this.

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