

DECEMBER 2020

A PANDEMIC, NAVIGATED. LESSONS FROM THE STEEPEST MARKET DROP IN HISTORY AND THE OUTLOOK FOR 2021.

Call us:
866-CREATIVE

Email us:
cpi@creativeplanning.com

Visit us online:
www.creativeplanning.com



Peter Mallouk
JD, MBA, CFP®
President

If there was ever a case study to be made regarding the futility of short-term market predictions, 2020 would be it. In December 2019, *Barron's* asked 10 strategists to predict where the S&P 500 would end 2020. All predicted the year would close out between 3,000 and 3,500. All 10 underestimated and the S&P 500 ended the year at 3,756. Imagine what they would have predicted had they known in 2020 we would also be dealing with the greatest global pandemic in 100 years.

Barron's also asked 10 strategists to predict where the 10 Year Treasury would end 2020. All predicted the year would close between 1.5 and 2.2% - a prediction that meant poor performance from bonds. All 10 overestimated and the 10 Year Treasury ended 2020 at .92%. In 2020, bonds soared, beating nearly everyone's expectations.

2020 was a recipe for market disaster: a pandemic, social conflict, a highly contentious presidential election, natural disasters from coast to coast and a few other negative surprises along the way.¹

Those who missed the recovery are reluctant to invest as markets are now, once again, at all-time highs. The good news is that the market actually does better after it hits all-time highs. Historically, it's been impossible to call a bottom, but once markets recover, they tend to enjoy quite the honeymoon period. In fact, over the last 30 plus years, an investor would have realized better returns had they invested at all-time highs rather than on any random day.



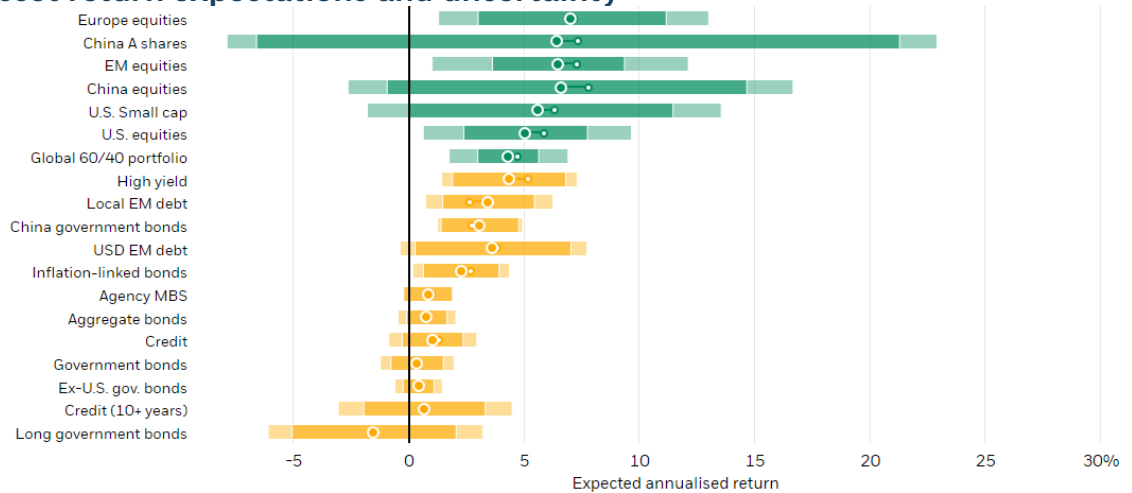
Now, I can't put a graph like that up without noting that I simply think it's a statistical fluke. The case to be made here isn't that investing at all-time highs is better than investing during any random period, but rather investing at any time generally works out for the disciplined investor.² The market actually hits an all-time high every 19 days! In other words, all the time. Get used to investing at those points, or you simply can't continually invest at all.

2020 was a reminder that it is time in the market, not timing the market, that ensures the best probability of a good outcome.

At Creative Planning, we did what we promised you we would do in market turmoil. For clients with tax opportunities, we seized them, and we did it during the market's steep drop. For those with opportunities to sell bonds and buy stocks, we did that, and we did it during the market trough. We did our best to keep you informed, engaged, and most importantly, invested. While studies coming out show many investors panicked and sold near the bottom, with the market seeing massive outflows in March and April, over 99% of our clients stayed invested and allowed us to buy into the weakness, take advantage of tax opportunities and continue investing. For most of our clients, their portfolios ended the year with significant gains, but with losses on their tax return: few years present the opportunity for real gains and tax losses at the same time.

So, where do the markets go from here? Of course, the answer is, no one knows.³ BlackRock, the world's largest asset manager, thinks international and emerging markets stocks will outperform U.S. stocks and that small stocks will outperform large stocks.

Asset return expectations and uncertainty



● Mean expected return September 2020
○ June 2020
■ Mean return uncertainty

Source: BlackRock Investment Institute, November 2020. Data as of 30 September, 2020.

Call us:
866-CREATIVE

Email us:
cpi@creativeplanning.com

Visit us online:
www.creativeplanning.com

Vanguard also expects small stocks to outperform large stocks and international stocks to outperform U.S. stocks.

Expected ten-year annualized stock returns and volatility levels

	Median projected volatility (%)	Ten-year annualized nominal return projections
U.S. small-cap	23.0	6.2–8.2%
U.S. growth	22.9	4.0–6.0%
U.S. value	20.3	7.6–9.6%
U.S. REITs	19.7	4.1–6.1%
International equity (unhedged)	18.4	8.5–10.5%
U.S. large-cap	17.9	5.4–7.4%
U.S. equities	17.2	5.5–7.5%

Of course, this hasn't been the case over the last 1- or 5-year periods, and nearly all major investment houses have been predicting this rotation for years. It is coming, no doubt, but no one knows when. Diversification keeps the disciplined investor engaged in various markets and acknowledges with humility there is no certainty as to which will have its day in the coming year.

The last time the world encountered a pandemic, it also accompanied the first world war. We humans are resilient it seems and find a way to move on. As the last pandemic came to a close, it gave way to the Roaring Twenties. Perhaps we are on the brink of a new Roaring Twenties, with full planes, hotels, restaurants, bars and stadiums and a booming economy. Time will tell.

As for all of us at Creative Planning, we can't close out the year without letting you know how thankful we are for you and the confidence you have shown in us. Our hearts are filled with gratitude for the privilege of serving you. Here's to your health and your wealth and a peaceful, joyous, better 2021.

Call us:
866-CREATIVE

Email us:
cpi@creativeplanning.com

Visit us online:
www.creativeplanning.com

Footnotes:

¹As I write this, there are still 7 hours left in 2020, so who knows what else may still happen!

²And you, my friend, are quite disciplined!

³If anyone tells you with conviction that they know what the stock or bond market will do over the next 12 months, run as fast as you can in the opposite direction. Warren Buffett once noted forecasters tell us more about the forecaster than the future.

Call us:
866-CREATIVE

Email us:
cpi@creativeplanning.com

Visit us online:
www.creativeplanning.com

This commentary is provided for general information purposes only and should not be construed as investment, tax or legal advice. Past performance of any market results is no assurance of future performance. The information contained herein has been obtained from sources deemed reliable but is not guaranteed. Please consult with your tax and legal professionals for more information.