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# December 2020 Monthly Commentary

Happy new year! This traditional greeting takes on new meaning at the moment, as we all do wish for a happier 2021 after a difficult 2020. 2020 was a year to both forget and remember. We would all like to forget the challenges of the pandemic – the economic turmoil, the social isolation, the inconveniences, and the illness and death. Yet from a financial planning standpoint, there are several lessons we should permanently burn into our memories. In this commentary, we'll review our Group's top takeaways from 2020.

**Short-term stock market predictions tell you more about the predictor than the future.**

If you only take away one piece of investment wisdom from 2020, it should be the uselessness of short-term stock market predictions. 2019 ended strong and 2020 started strong. Most investors expected continued strength throughout 2020, but then the bottom fell out. U.S. stocks experienced their fastest 30% decline in history, falling faster than during The Great Depression. This was a full-blown market panic and a truly frightening experience. Yet our Group maintained confidence in the long-term potential of U.S. stocks. We've lived through multiple stock market panics and have studied historical panics in depth. And while every economic crisis began for different reasons, we knew they had one thing in common: they all ended. We counseled our clients to remain invested despite the highest levels of economic and financial uncertainty. While we never expect fast validation of our investment views, we were fortunate in getting exactly that. After March's treacherous decline, U.S. stocks staged a rally for the ages in April, increasing their highest monthly percentage since 1987. U.S. stocks ended up generating positive returns for the year, something almost nobody expected in March and April. Unfortunately, those investors who acted on a negative view of the stock market's short-term direction in March got left behind in 2020(1).

**Every economic crisis unfolds differently.**

Part of the reason for such great panic last March was that the previous economic crisis, which resulted in the largest total stock market decline since The Great Depression (a 57% decline), was top of mind for many investors. After the financial crisis, it took more than five years for U.S. stocks to recover to their previous peak level of October 2007. In March of last year, many people thought something similar would unfold as a result of the coronavirus crisis. But that didn't happen. There are many reasons why. Some of the most important have to do with intervention by the federal government. The Federal Reserve developed powerful policy tools during the financial crisis, and implemented them immediately last March. Further, economic aid packages were politically difficult to pass during the financial crisis as they were often viewed as Wall Street bailouts. Coronavirus aid packages were directed at all Americans, including small businesses, and Congress swiftly passed these large aid packages. This combination of trillions of dollars of economic support by The Fed and Congress made a huge difference to the U.S. economy. As a result, the outcome of the coronavirus crisis has differed substantially from the financial crisis. Even professionals got it wrong as nearly every single economic metric since March has outperformed economist expectations. As is often the case, the correct decision in March was to hold onto one's investments, rather than trying to predict the short-term direction of financial markets and shift around investments on the basis of that prediction[2][3].

**Don't let election volatility spook you.**

In October, we sent out a commentary that discussed the impact the November elections could have on stocks. Actually, we talked about the *lack* of an impact that elections have had on stocks in the U.S. Although there's always some level of volatility around elections, it's always short-lived and driven by economic factors more than election factors. There was quite a climate of fear leading up to last November's presidential election, particularly the uncertainty of an unresolved or contested election. We pointed to the Bush / Gore contested election as an example of how unresolved elections don't really impact the market. U.S. stocks fell during the Bush / Gore legal proceedings, but we argued that was driven more by economic factors than political factors. This reasoning held true last year as the presidential election ballot counting and recounting dragged on for weeks and faced continuous legal challenges. Yet stocks went up. Ultimately the fact that the U.S. was in the early stages of a strong economic recovery mattered more for financial markets than the election. This is an important lesson to keep in mind for future elections – elections don't have a lasting impact on financial markets, but the economy does[4].

**The importance of sticking with a sound long-term financial plan.**

Future crises are guaranteed to happen. Some market pundits even speculate that the flooding of the world with coronavirus aid money and subsequent debt could lead to the next crisis. As we just discussed, it's not helpful to try to guess when and how crises will unfold. Investors who do that will lose money over time. Our Group takes a different approach, which is to prepare in advance for crises by investing today as if the next crisis could occur tomorrow. In other words, we won't consider an investment if we wouldn't be comfortable owning it going into the next crisis. For investors like yourself, the most important thing is to have confidence in your financial plan. The higher the confidence you have in your plan, the less likely you are to panic and make a bad decision when financial markets temporarily fall apart, as they do from time to time. Our Group is proud of the fact that our client portfolios have defensive qualities that cause them to do relatively well when markets are in disarray. This helps our clients maintain confidence and peace of mind during turbulent times. The core of our investment approach has always consisted of owning beloved brands that consumers have enjoyed for decades and centuries, and that we expect them to continue to enjoy for decades and centuries more. High flyers come and go. They're exciting to own while on the rise, but they almost always end in tears. Our Group prefers the approach of the tortoise rather than the hare. We think that history shows slow and steady does win the race. It's easy for anyone to sit back and count their gains while everything goes straight up. It's when markets are in chaos that one realizes the wisdom of having a sound financial plan in place.

Wishing you all the best in 2021,

The Crescent Group
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**Sources:**


(1) CNBC
(2) Thomson Reuters
(3) The Harvard Business Review
(4) Morningstar
(5) Fortune