



2020: The Year in Review

Every January, it's customary to look back at the year that was. What were the highlights? What were the lowlights? What events will we always remember? Most importantly, what did we learn?

Here's the problem, though: How in the world do you recap a year like 2020? You could write a book about March alone. So, we thought for a long while about everything that happened last year and decided to focus on three important lessons that we as investors can learn from 2020.

The first lesson has to do with...

The Markets. When word began leaking out about a new viral epidemic in China, the markets didn't really know how to react. Would this go away in a few weeks and be nothing more than a footnote in history? Or would it be like the SARS epidemic of 2002 – terrible, but largely restricted to China? Or would it progress into a full-blown pandemic?

Obviously, we know the answer now. But we didn't back then.

There's a well-known saying about collapses and crashes: They happen slowly, then all at once. That's sort of what the markets experienced in those turbulent few months between January and April. There was some volatility near the end of January, but nothing major. Toward the end of February, as the virus began affecting global supply chains, the volatility got worse. But for all the bad days in the markets, there were plenty of good days, too.

Then came March.

As the virus spread to our shores, as the World Health Organization declared a pandemic, as local governments instituted lockdowns and other restrictions, investors realized several things:

- Lots of people were going to get sick, or even die.
- Many more would lose their jobs.
- The economy was going to fall into a recession.

With startling speed, what had been happening slowly suddenly seemed to happen all at once: The markets crashed. From February 19 to March 23, the S&P 500 fell almost 35%.¹ On more than one occasion, trading at the New York Stock Exchange was automatically halted because prices were plummeting so fast. For most investors, it was like nothing they'd ever experienced before. Understandably, fear was rampant.

But not, we're grateful to say, at Hudock Capital Group.

When speaking on the phone with our clients, our team did our best to emphasize a very important point: While COVID-19 was new and scary, what the markets were doing was actually old and familiar. It's a classic tale: Something unexpected happens, and the markets panic. We saw it in 2008, during the financial crisis. We saw it in 2001, after September 11. We saw it in 2000, after the dot-com bubble burst. The cause is always different, but the effect is always the same.

When 2020 began, no one could have predicted the pandemic, least of all us. But that something, sometime, would bring the markets down – that was inevitable. That's why we had already factored that inevitability into our strategy and prepared for how to handle it.

Then, too, we knew that historically, epidemics tend to cause sharp downturns followed by equally sharp recoveries.² So, our message to clients was simple: All that market madness didn't mean we

should deviate from our existing strategy. Quite the contrary! It meant we should hew to it more closely than ever.

Well, you remember what happened next: The markets recovered, and quickly. Between March 23 and April 14, the S&P 500 rose 27%.¹ Before much longer, the markets had regained almost everything they had lost. And while there were further spasms of volatility later in the year, by the end of 2020, the markets had risen to new highs.

That's why Lesson #1 is simple:

1. No matter what the markets are doing, nothing should ever make us choose panic over our strategy.

To understand the second lesson, let's first understand something about...

The Economy. As we moved into the summer, many clients asked me the same question: "The markets are up, but the economy is still very, very down. What gives? Should we get out of the markets again?"

It's a terrific question. Here was our answer:

The markets and the economy are not the same thing. They're related, but different — and they don't always move in concert with each other. The economy moves based on activity, like production, consumption, and trade. The markets, on the other hand, move largely on anticipation. When investors expect something will happen, they make decisions based on that expectation. So, when the markets plummeted in February and March, it was based on the expectation that unemployment would rise, consumer spending would fall, and the economy would contract.

All those things happened. But here's the thing: once they happened, they were already "priced in" to the markets. So, in April, May, and beyond, the markets were no longer reacting to the idea of a recession. We were already in a recession! Instead, they were reacting to what analysts anticipated would happen in the future: an economic recovery. Specifically, that government stimulus would help, more government stimulus would arrive, and the pandemic would end. Some of those things happened, and some didn't, but as always, the markets moved ahead of the economy.

All most people saw, though, was a series of unrelentingly negative headlines. That's why many investors ended up sitting on the sidelines as the markets rebounded. After all, no one buys sunscreen when it's raining. Sadly, too many investors missed out, just as they often do whenever the news seems bleak. (And of course, the opposite is also true: Too many people rush to invest just because the news is good, even if what they're buying doesn't make sense.) The problem was repeated in the fall when too many investors made decisions because of who won the election, or who lost, even as the markets continued to climb.

You can probably guess Lesson #2:

2. The markets and the economy are not the same. That's one reason we should never make investment decisions based on headlines!

Finally, let's talk a little bit about the most important thing that happened in 2020. We're referring, of course, to:

The Coronavirus.

The next few paragraphs are not coming from us, the financial advisor. They're coming from us, as people.

There's no getting around it, 2020 was a hard year. Everyone, we think, suffered in some way. Some people suffered because they lost their job, saw their pay reduced, or their hours cut back. Others suffered because they felt isolated, or lonely. And of course, so many people suffered due to the virus itself — either because they caught it, or because someone they loved did.

This pandemic has tried our souls in so many ways. And while we sincerely believe there is a light at the end of the tunnel, this year will come with its own challenges. But there's a final lesson that 2020 taught us. A lesson that will get us through the months ahead.

**3. There is nothing we can't adapt to. There is nothing we can't overcome.
There is nothing we can't do.**

That's what 2020 taught us: That we are stronger than we knew. The universe threw a pandemic, a market crash, a recession, and an election at us in 2020, and we got through it. Maybe the year left scars, but it also left us stronger. So whatever 2021 hurls our way, we can take it. Economic uncertainty? Seen it, dealt with it. Market volatility? Been there, done that. We're not saying it will be easy. But doable? You bet.

As we progress further into the New Year, we hope you will remember these lessons. It may sound corny, but we earnestly hope you keep them in your heart. They will help you weather the trials to come. They will help you work toward your financial goals.

One more thing to remember: Our team will always be there for you. If you have questions, we want to answer them. If you have concerns, we want to address them. If you have dreams, we want to help you achieve them. We look forward to serving you this year, and for many years to come.

Happy New Year! Let's make it a great one!

Sincerely,



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¹ "S&P 500 Historical Prices," The Wall Street Journal, <https://www.wsj.com/market-data/quotes/index/SPX/historical-prices>

² "How the market has performed during past viral outbreaks," MarketWatch, <https://www.marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22>

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