

**FOURTH QUARTER  
MARKET OVERVIEW**

Fourth Quarter 2020

Fourth Quarter 2020 saw the continued resurgence in stocks that began in March on the heels of the dramatic stock market drop in February. While the overall story was similar to the Second and Third quarters this year, there was a significant change in which sectors drove the gains.

During the quarter, the S&P 500 large stock index gained 12.15%. That's a healthy gain for any calendar quarter – but it paled in comparison to the Russell 2000 small stock index's performance, which gained a whopping 31.37%! This was a complete reversal from the prior six months when a handful of the very largest stocks in the S&P 500 drove the market higher while nearly all other stocks were in the red.

Despite the flood of dire predictions from market pundits last spring, stocks defied expectation coming out of the market plunge in February and March and enjoyed healthy gains for the 2020 calendar year. The S&P 500 index gained 18.40% for 2020, while the Russell 2000 small stock index gained 19.96% and the MSCI EAFE index gained 7.82%.

We have seen more than a few mea culpas from the experts professing shock at the remarkable recovery that stocks experienced on the heels of the spring bear market. However, the only thing that shocks us is that these same "experts" continue to make predictions about the short-term direction of stocks when their track record is so miserable. Long-term investors should keep that in mind the next time the airwaves are flooded with the latest round of doom-and-gloom predictions about the stock market.

**The Power of Small, Quiet Acts:**

*Today, let's pause and take a moment to reflect on the wondrous powers of small, quiet acts.*

Pandemic aside, there have been plenty of great, big year-end reviews and year-ahead teasers, clamoring for your current attention. Describing 2020 as an ["everything rally,"](#) One *Wall Street Journal* columnist wrote, "Investors ended one of Wall Street's wildest years on record by piling into everything from bitcoin to emerging markets, raising expectations that a powerful economic comeback will fuel even more gains."

The excitement is not entirely unfounded. Last March, when the S&P 500 dove into a bear market almost overnight, it was hard to expect anything but a long, grim year ahead. Of course, in hindsight, we now know markets rebounded nearly as quickly as they plummeted. They ultimately delivered strong annual returns across most domestic and international asset classes. The fourth quarter was no exception to this tale of remarkable resilience.

Why would markets soar during still-sour economies? We could describe any number of rational reasons near-term market pricing mechanisms are continuing to operate exactly as expected ... which is to say, according to anyone's next lucky guess.

**SELECTED 2020 EQUITY INDICES**

	Dec. '20	4 <sup>th</sup> Qtr.	YTD
S&P 500 Total Return (Large-Cap Stocks)	3.84%	12.15%	18.40%
Russell 2000 Total Return (Small-Cap Stocks)	8.65%	31.37%	19.96%
MSCI EAFE (Developed International Stocks)	4.65%	16.05%	7.82%
MSCI Emerging Markets (International Emerging Stocks)	7.35%	19.70%	18.31%

**SELECTED 2020 FIXED INCOME INDICES**

	Dec. '20	4 <sup>th</sup> Qtr.	YTD
Barclays U.S. Aggregate (Broad Domestic Bonds)	0.14%	0.67%	7.51%
Barclays 1-5 Yr. Credit (Short-Term Domestic Bonds)	0.34%	0.95%	5.19%
Barclays 5-10 Yr. Credit (Intermediate-Term Domestic Bonds)	0.63%	2.28%	9.49%
Barclays U.S. TIPS (Treasury Inflation Protected Securities)	1.15%	1.62%	10.99%
FTSE World Gov't 1-5 Yr. Hedg'd (Short-Term Global Bonds)	0.08%	0.17%	3.21%

Unfortunately, that hasn't stopped hordes of hopefuls from trying to score big on the latest tricks of the trade. From the adventures of Robinhood, to record-busting bitcoins, to blank-check SPACs, rising markets often tempt the uninitiated with enticing offers to earn "easy" money.

Whether the temptation is to abandon a free-falling market (like the one we encountered less than a year ago) or chase after winning streaks, an investor's best move remains the same. Concentrated bets on hot hands generate wildly unpredictable outcomes, making them far closer to being dicey gambles than sturdy investments.

Trust, instead, in the durability of your carefully planned investment portfolio. Focus instead on small, quiet acts. That's what we're here for, for example, to:

- Remind you that your globally diversified portfolio already holds an appropriate allocation to Tesla stock (which may be a lot, a little, or none, depending on *your* financial goals).
- Guide you in rebalancing your portfolio if recent gains have overexposed it to market risks.
- Help you interpret the 5,600 pages of the newly passed [Consolidated Appropriations Act, 2021](#), so you can manage your next financial moves accordingly.
- Assess potential ramifications of the Biden tax proposals, and advise you on any additional defensive tax planning that may be warranted for you in the years ahead.
- Remain by your side as you encounter whatever other challenges and opportunities 2021 has in store for you and your family.

These aren't loud acts you'll read about in the paper, But they're the stuff financial dreams are made of. How else can we help you achieve your personal financial goals, come what may in the headline news? Tell us more. We're here to hear you. In the meantime, we wish you and yours a healthy and prosperous 2021.

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*Past performance does not guarantee future results. All investments include risk and have the potential for loss as well as gain.*

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