MADISON
FINANCIAL PLANNING GROUP
Retirement Guidance

Market Commentary

January 2021

% Return as of 12/31/2020			
Equity Indexes	**4th Q**	**YTD**	**3 Yr**
S&P 500	12.1	18.4	14.2
Russell 2000	31.4	20.0	10.2
MSCI EAFE	16.0	7.8	4.3
Emerging Market	19.7	18.3	6.2
Wilshire REIT	10.6	-7.9	3.3
Bond Indexes			
TIPS	1.6	11.0	5.9
Aggregate	0.7	7.5	5.3
Government	-0.8	7.9	5.2
Mortgages	0.2	3.9	3.7
Investment Corporate	3.0	9.9	7.1
Long Corporate	5.1	13.9	9.4
Corporate High-Yield	6.5	7.1	6.2
Municipals	1.8	5.2	4.6
Cash Equivalents			
3-Month T-Bill	0.0	0.7	1.7
Inflation	*0.0*	*1.3*	*1.8*

As we enter 2021, we do so with hope that the world will continue to make progress in dealing with the many challenges that 2020 presented. Like most people, we were happy to put 2020 behind us. We are, however, looking forward to 2021. We think it is a good idea to look back over the past year and try to make sense of this extraordinary and difficult time. We thought it might be helpful to reflect on recent events and share our thoughts and principles for the new year.

Of course, 2020 was a tumultuous time. The emergence and spread of COVID-19 led to suffering and loss. These human impacts are the most significant and we feel deeply for those who have been and continue to be affected. On top of the pandemic, the U.S. grappled with social unrest, as well as polarization due to contentious elections.

As the breadth of the spreading pandemic became known, the S&P 500 plummeted, falling 34% in a scant three weeks. Most everyone has been through market declines, but this drop felt different. It touched our lives even if we were lucky enough not to be directly impacted by the virus. An ordinary trip to the grocery store became an unnerving experience involving masks, hand sanitizer and shelves stripped bare of essentials. Frankly, it looked bad.

Then, something unexpected began to happen, as central banks around the world lowered interest rates and quickly provided stimulus to keep economies from seizing. Many discovered they could work from home using powerful technologies already present in our daily lives. Medical companies around the world joined in the fight with amazingly fast advancements. Put simply, people across the world proved to be stronger than they thought.

Markets began to stabilize, and then ultimately mounted a powerful recovery. The advance was not a smooth glide upward. Investors were nervous, anticipating that another shoe was going to drop. Many believed that shoe was the November elections. Dire predictions of market volatility if this or that candidate won were everywhere. Despite a contested election, the market just kept on advancing. At the close of 2020, the S&P 500 not only recovered from the deep losses of the first quarter but surged to an 18.4% return.

So, how is an investor to navigate events like a deep bear market from a threat no one could see coming, followed by a rousing recovery no one believed? All of this was packed into an eventful ten months. Investing can be a humbling experience. We believe that no one is very good at predicting the occurrence or timing of bull or bear markets. We do, however, have long held principles that really helped in 2020.

Reasoned optimism

During the depths of the decline, optimism in the media seemed to be in even shorter supply than toilet paper. On CNBC, we heard from a noted hedge fund manager who implied that things would get much worse saying that, “Winter is coming.” That forecast turned out to be terribly wrong. A different quote might have been better. Helen Keller once said, “While the world is full of suffering, it is also full of the overcoming of it.” Ms. Keller would have made a fine investor.

Restraint

As humans, we are hard-wired to act. This is especially true when investors are bombarded with negative information. We believe investing is a long-term process. We try to weigh each decision carefully through the lens of how each might be viewed over the next five years, not the next five days. This tends to lead to less activity during declines.

Respect Innovation

Innovation has been a powerful driver of quality of life and investment returns for centuries, even though it is consistently underestimated. Many said that a vaccine would likely take several years to produce. Based on previous diseases such as polio, measles and others, that would have been a good bet. However, that estimate failed to recognize these previous timeframes did not have the benefit of the massive data available today, nor the computing power and artificial intelligence to process it. Those same computing powers and communications advancements have similarly allowed our practice to seamlessly service our clients and countless other businesses to flourish through the pandemic.

So, what does 2021 hold for investors?

There will likely be intermittent periods of heightened volatility as the world continues to adapt to a new normalized state. However, we don’t offer specific annual forecasts of the stock market. That is because a review of historic forecasts by Wall Street firms have overall proven wrong time and time again. We believe that applying these one-year, error-prone guesses to the careful work of investment planning does more harm than good. 2020 is an excellent example.

We acknowledge there are still a lot of unknowns in 2021. There is a lot of work to be done in containing the virus, and the economic recovery is still delicate. On top of that, we as a nation are still contending with a polarized electorate and political change.

For all its challenges, 2020 reinforced what we believe. The world and the markets are uncertain, but one can plan for that. With strong principles and mathematics, we will get through whatever comes. It is an honor to serve you and your family. We will be here for you.

Happy New Year and we look forward to 2021.

Sincerely,

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