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PRIVATE WEALTH MANAGEMENT

(1st Quarter, 2021)

Although it feels like the distant past, it was just over a year ago that we were struggling through one of the most challenging periods in stock market history. The rapid spread of the pandemic across the globe forced countries to take drastic steps that were previously unheard of. Business activity nearly came to a complete standstill while unemployment soared. Fear became palpable as people worried about their livelihood and health due to the shuttering of the economy and swiftly spreading virus.

From February 19th through March 23rd of 2020, the Dow Jones Industrial Average lost more than 10,000 points or 36%, dropping from 29,348 to 18,592 in just over a month. Over the same period, the S&P 500 lost nearly 34%, while the Nasdaq Composite fell roughly 30%. The coronavirus market crash was one of the fastest and harshest bear markets in history, leaving investor confidence badly shaken.

Fast forward twelve months and the landscape has dramatically changed. Much of the fear and angst we all felt during those dark days have passed without many of the dire predictions coming to fruition. As I write this letter, the major U.S. equity indexes are trading near all-time highs. Job growth is gaining momentum and both business and consumer confidence are gradually recovering. The Federal Reserve remains accommodative with monetary policy, while fiscal stimulus has been unprecedented, with the promise of more to come in the form of infrastructure spending. Since the first Covid-19 vaccine arrived in the U.S. back in December, nearly 150 million doses have been administered, and broad-based immunity is predicted by late summer. As the light at the end of the tunnel brightens, economic growth this year is forecast to experience a historic rise in the range of 7%-10%.

Not surprisingly, investor sentiment has recently shifted from worry about a double-dip recession and prolonged economic hardship to concern regarding an overheating economy and building inflationary pressure. As is often the case, sentiment seems to transition from one extreme to another in short succession. While the economy faces many obstacles and risks as we move forward, it is important to keep in mind that economic cycles are a natural part of a well-functioning, free market. These cycles, caused by external shocks or irrational exuberance, allow economic imbalances and financial excesses to be purged from the system.

As we have been reminded over the last year, the stock market is a forward-looking pricing mechanism. During periods of trouble and uncertainty, the market often does things that appear strange or unexpected at the time. Unlike most people who are focused on the present and dealing with fear and anxiety, the market looks past current problems and focuses on the future. For individual investors, this can be a costly and difficult lesson to learn, especially in the middle of bear markets when things look bleak. But keep in mind that while the duration of bear markets can vary widely, in the end, the stock market has always recovered, and we fully expect that trend to continue in the future. Managing our emotions and cognitive biases and staying focused on the long term during these periods is difficult and requires great discipline. However, as we have just experienced, it is a critical step on the path to successfully growing and protecting wealth. As the Oracle of Omaha, Warren Buffet once said, "We simply attempt to be fearful when others are greedy and to be greedy when others are fearful."

As always, thank you for your friendship and the trust you have placed in us.

April 1, 2021

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David & Keith
