

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW CALENDAR YEAR 2020

What Happened:

The year got off to a good start, but then Covid-19 hit us square between the eyes and stocks dropped 34% from mid-February to mid-March, putting an end to the longest bull market in history. The world was in a panic—not much was known about the coronavirus—how does it spread, how deadly is it, do we have enough medical facilities, equipment and personnel to handle the potential onslaught? Early in the spring, medical experts told us that deaths from the virus could exceed 2 million in the U.S. alone. Public places were shut down, many businesses had to close, and we all got comfortable wearing masks. Brilliant scientists went to work developing vaccines to protect us from the virus, and thankfully, they did their jobs well. The first approved vaccines were administered in December. With luck, by midyear 2021, anyone wanting to be vaccinated will be accommodated.

Surprisingly, just when things looked the bleakest, the market started to rally. In mid-March, the market somehow saw beyond the pandemic and sensed that the economy would recover. Stock prices went up quickly and never looked back. Many investors, spooked by the virus, sat on the sidelines, and watched as the market moved up without them. By August, stock indices had returned to pre-pandemic levels and continued to march on to new all-time highs as the year wore on.

On top of everything else, we all had to endure the contentious November elections which will bring us a Democratic President and the possibility of a unified Democratic Congress. History gives us a clue what to expect for the financial markets under a Democratic trifecta. Since 1900, there have been eight such instances. In six of those (75% of the time), the first year saw healthy average stock returns of 11.3%. While history does not guarantee a strong move upward in 2021, it is reassuring to know that it has happened the majority of the time in the past under the same set of circumstances.

Calendar Year 2020 Performance:

S&P 500 Index (large stocks)	18.4%
Russell 2000 Index (small stocks)	20.0%
MSCI EAFE Index (international stocks)	7.8%
Barclays U.S. Aggregate Bond Index (bonds)	7.5%

Prognosis:

From an investment standpoint, the year 2020 was particularly volatile. But, despite the volatility and challenging circumstances, our clients' portfolios performed very well because we all stayed calm and patient throughout the difficult year and held tight to the concept of thinking long-term.

Looking ahead, most stock analysts are predicting another solid year for stocks in 2021. They point to an improving economy post-Covid-19 with expected GDP growth of 4%-5% in the U.S. Overseas markets are expected to see even higher GDP growth. Interest rates are expected to stay low and inflation is under control. What's more, additional fiscal stimulus for U.S. citizens and businesses is coming soon. This recovery looks poised for further advances.

Toward the end of 2020, we noticed that certain sectors of the market looked especially attractive because of their low valuations relative to the market as a whole. To take advantage of this opportunity, we carefully analyzed each of our clients' portfolios to identify any accounts where rebalancing could be advantageous from an investment and a taxation standpoint. Changes were put in place in December where appropriate. Rebalancing moves like these will enhance returns while reducing risk, which is always our goal.

New Office Arrangement:

The Covid-19 pandemic has changed how many businesses operate, including ours. We determined that a separate office space in Basalt no longer provides the utility it once did. Accordingly, effective January 1st, we have moved our office to my home in Basalt. Our mailing address and phone number remain the same. Of course, when face-to-face meetings with clients become comfortable again, we will arrange to meet at convenient offsite locations or restaurants. We are still very much open for business and we remain focused on serving our wonderful clients in the Roaring Fork Valley and from coast-to-coast.

Physical office location:

575 Riverside Drive
Basalt, CO 81621

Mailing address:

P.O. Box 3284
Basalt, CO 81621

Office telephone:

970-927-6777

Wishing you all a happy and prosperous 2021!

SCK