

December Commentary

December 7, 2020

After reaching what was then a new high on February 12 of this year, the stock market fell 40% in the next six weeks, as the reality of the pandemic gripped the world. Since then, the market has regained all of that loss and has again reached new highs. Not exactly what one would expect in a year like this.

The stock market has always been forward looking and now seems to be looking ahead to three vaccines all slated to begin being administered in the next few weeks, and the world getting back to some state of normalcy. But what is the biggest driver of stocks today is the fact that with interest rates at historically low levels there is simply no where else to earn any return on your money. Many high quality US stocks today pay dividends that are double what bonds are yielding, much less bank accounts that yield virtually zero.

Investors are coming to the realization that in order to earn a decent return in today's world they have to take a higher level of risk. Traditionally, someone within ten years of retirement, a portfolio of sixty percent stocks and forty percent bonds. was considered a prudent mix. Today that allocation, where nearly half of your portfolio would be earning almost nothing, probably needs to be revisited and a larger portion may need to be allocated to stocks.

The stock market is definitely beginning to look a bit overvalued however. When twenty somethings are trading stocks daily on their phones almost like it were a video game and think they are the next coming of Warren Buffet, and Uber drivers are giving out stock tips - those are usually not good signs. That being said, this could still go on for a while.

No one knows what the world is going to look like in the post pandemic era. Perhaps it will emerge a better place, but it will definitely be different.

We want to wish you and your families a safe and happy holiday season.

Best Regards,

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