Five Lessons from the Pandemic

1. Keep an emergency reserve. Life can be unpredictable, and 2020 was no exception. Having an emergency reserve is essential to protecting from loss of employment, unforeseen medical issues, home and vehicle repairs, etc. How much to save for emergencies is dependent on several factors, such as liquidity of current investments, other income sources in the family, the availability of lines of credit, current interest rates, and others. There is no cookie cutter approach to this. When thinking about how much to save, consider monthly expenses and not monthly income.

2. Timing the market is impossible to do consistently. The stock market and the economy do not always move in lockstep. 2020 was a perfect example of this. Gross Domestic Product (GDP) dropped by 3.5%, the worst it has been since 1946.[1] Yet, the S&P 500 finished the year up 16.26%.[2] Often times, the market leads the economy, meaning that it anticipates the direction of the economy and moves accordingly.

3. Stay diversified. While the performance of the market as a whole is unpredictable, so is that of individual sectors and asset classes. For example. there is no magic formula for determining whether growth or value stocks will perform better in any given year, or if large, medium, or small companies will be best. We do not know whether stocks will outperform bonds or vice versa. For most people, creating a diversified portfolio make sense to smooth out the ride over time.

4. Rebalance your portfolio over time. It is important to rebalance your portfolio when certain investments outperform others. For example, large growth stocks drove performance in 2020. The Morningstar US Large Growth Index was up by 38.05%, but the US Large Value Index dropped by 4.12%![3] Bonds were positive, but not as much as large growth. If your growth positions now significantly outweigh your value and bond positions, it may be a time to consider a rebalance.

5. Hire a professional. The volatility of the markets and uncertainty surrounding the economy make it difficult to make the correct decisions about investing. Many times, emotions can play a big role when people are making investment decisions on their own. Having a financial plan in place and an advisor for guidance can help people to make less emotional decisions over time.

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1. Source: countryeconomy.com
2. Source: cnbc.com
3. Source: morningstar.com