

FINANCIAL FOCUS

Investment Lessons from 2020

As 2020 drew to a close, it's fair to say that we've all learned something about the social, political, physical and environmental forces that have affected everyone. And, in some ways, our lives will be changed, perhaps permanently. But as an investor, what lessons can you learn from 2020?

Here are some to consider:

- ***The markets look ahead.*** Here's something many investors discovered in 2020:

Investment prices don't always move in the same direction as the overall economy. This might not have seemed apparent right after the COVID-19 pandemic struck in mid-February, as the overall economy and the stock market took big hits. But just about five weeks later, the markets began a rally that lasted several months. During this time, the economy also recovered somewhat, but still remains on weak footing.

What can explain this discrepancy between the markets and economic activity?

Essentially, economic numbers, such as the unemployment rate and gross domestic product (GDP), reflect what's happening *today*, but the markets are always looking toward *tomorrow*, which means they are anticipating a stronger economic recovery and the results that come with it, such as greater corporate earnings in 2021. No one can say for sure what the future holds, but you can usually know the market's opinion by its performance.

- ***Opportunities will always exist for investors.*** Although the coronavirus seems unprecedented, the equity markets have rebounded from many crises before it. From war to global financial meltdowns, the market has seen it all. But even at the height of these events, when the markets might be most affected, individual segments or industries can do well.

For example, in the current environment, when many people have been forced to work and shop from home, and get their entertainment online, it's probably not surprising that some parts of the technology sector have seen their economic activity grow, along with their stock prices. Here's the key point: Investment opportunities always exist, especially in times of market stress – and smart investors will find them and incorporate them into their portfolios in a way that's appropriate for their goals and risk tolerance.

- ***Patience and discipline can pay dividends.*** As mentioned above, the stock market dropped sharply in the weeks immediately following the pandemic, but then gained steadily for months afterward. Investors who tried to "cut losses" and exited the market likely did so at the wrong time and missed out on the beginning of the upturn. Unfortunately, this is not uncommon

– investors who overreact to market declines often find themselves on the investment sidelines just when a new rally begins. Rather than being reactive in this way, you may be better off sticking with a long-term investment strategy, and buying and selling investments only when it makes sense for your situation, such as when you need to diversify your portfolio.

For many reasons, it's unlikely that we'll see anything exactly like 2020 again. But some of the investment lessons we learned are applicable in every year – so keep them in mind for 2021 and beyond.

*This article was written by Edward Jones for distribution by Russell Van Sistine, financial advisor.
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