
Reflecting on 2020

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For Financial Advisors and their
Clients

The end of 2020 is just around the corner, and boy what a year it has been. Who would have thought that 2020 would be the year that a pandemic would bring the world to a semi-standstill? We certainly didn't anticipate that 'zoom' would become a buzzword, facemasks would be the latest obligatory fashion accessory, sanitizer would be a must-pack handbag item, and working from home would be the new norm for most.

2020 is most certainly a year that will be remembered and spoken about for years to come. I have heard so many people comparing 2020 to a terrible rollercoaster ride when it comes to markets and emotions. If we had to break up the year (broadly) into three categories, it actually does resemble the motion of a rollercoaster.

Quarter One: The Climb and Collapse

The year started like any other. Shortly into the year, news regarding the outbreak of the Coronavirus in Wuhan started surfacing in the media. At this stage, most shrugged it off, thinking it would be contained and resolved quickly. In hindsight, this was the build-up phase of the rollercoaster, the slightly flat start that quickly elevates - just before the first big dip. In the middle of March, the dip came abruptly, with a deep fall that was filled with fear.

Globally countries went into lockdown, economies were brought to their knees and no one knew how long it would last. Markets sold off aggressively, the oil price collapsed, and South Africa's sovereign debt was finally downgraded to sub-investment grade (which got a bit lost in all the other bad news at the time).

Quarter Two and Three: The Recovery

The next phase of this year saw the quickest recovery from a crash on record. The S&P 500 took a mere 33 days to recover where it took 517 days to recover from the crash of 2008. The rollercoaster completely tilted in the opposite direction - this time a fast and steep ride up. The largest driver of the quick recovery was arguably the enormous stimulus packages that were introduced by governments across the globe.

Investors quickly regretted not deploying more cash when markets were on its knees. Fund managers called March 2020 the "Covid gift", a brief time where you had the opportunity to buy fantastic companies at bargain prices. Easier said than done. When humans are filled with fear, they tend to make irrational decisions which end up costing them in the form of investment returns over time.

Quarter Four: Market Jitters and the Rotation

As the second wave of Covid 19 hit countries and lockdown restrictions were imposed in some places again, investors started to fear another crash. Coupled with this was the uncertainty surrounding the US Elections. This phase of the rollercoaster can be compared to when you enter a dark tunnel and you know that something is about to happen, but you are unsure exactly what.

Uncertainty and the inability to see what lies ahead does warrant some jitters. If we have learnt anything, it is that markets hate uncertainty more than anything. But that was not all that happened in the fourth quarter. A possible vaccination is now on the horizon, and the Democrats celebrated victory over the Republicans in the US. Suddenly, the rollercoaster exited the dark tunnel, it was not upside down anymore and the light at the end of the tunnel was in sight.

November marks the month of the “rotation” where “stay-at-home” stocks were exchanged in favour of “out-in-the-world” stocks. The large technology stocks sold off aggressively and that money is finding its way towards the cheaper out-of-favour stocks - tourism shares and financials etc. increased by double-digit numbers in November alone. Despite what conspirators might claim, investors are slowly realising that the world is not about to end, that we will be able to travel, dine out and return to working with our colleagues in offices again.

The big questions now are - how long will this rotation last, is this the end of Covid 19, could a vaccine be distributed across the globe in a timely fashion, and does President Biden have the ability and power to change the direction of the US? Unfortunately, no one knows, and only time will tell.

What is more important, as we reflect on this past year, is to ask ourselves what we could have done differently. Perhaps you made emotional decisions when it came to your investments, perhaps you worried about things that were completely out of your control, perhaps you realised that you should be more diversified.

Wherever you may find yourself in December, take the time to reflect on 2020. What were your biggest lessons, and what would you have done differently?

Someone once said to me “Don’t bet against humanity”, and those words are so true. As people we are resilient, we are adaptable, and we will get through the difficult times.

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