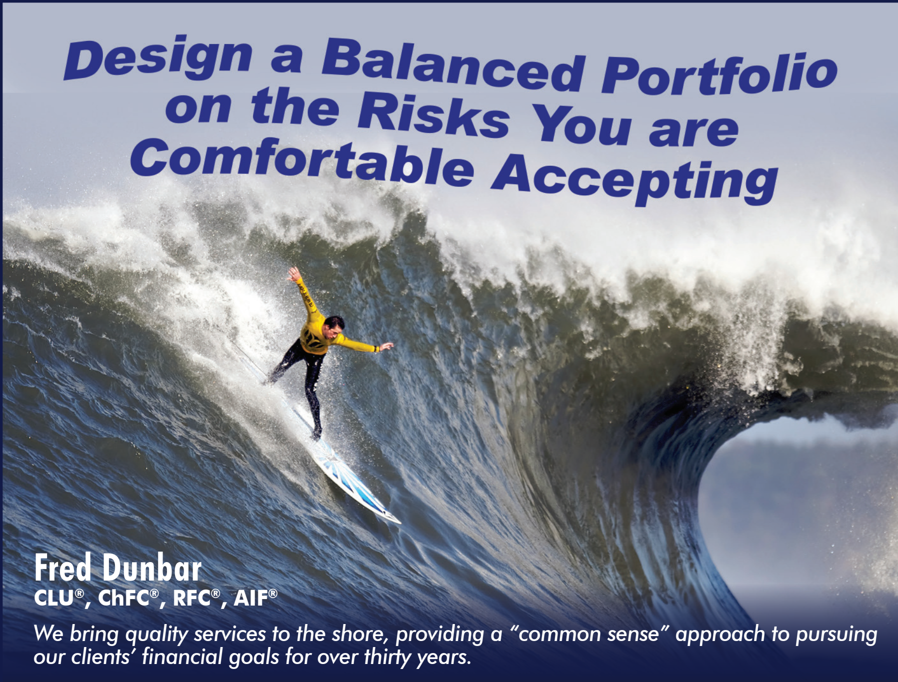

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1-800-647-0762

239 Baltimore Pike Glen Mills, PA • 6606 Central Ave. N. Sea Isle City, NJ
fdunbar@commoncentsplanning.com • www.commoncentsplanning.com

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RIDING OUT THE PANDEMIC

By Fred Dunbar

Wow, it was just about a year ago when the World Health Organization declared COVID-19 a pandemic. You remember life before COVID, don't you? Maybe "Yesterday," the 1965 Beatles classic written by Paul McCartney, sums it up. "Yesterday, all my troubles seemed so far away. Now it looks as though they're here to stay. Oh, I believe in yesterday." The economy was rolling along, and we had unemployment rates at around 3.5%, close to a 50-year low.

Looking back, the 2019 holidays were exceptional. Do you remember when we were able to gather with family, friends, and co-workers with no restrictions? Perhaps the only complaints during that holiday season could have been centered around certain people showing up or not – you know, the ones you whisper about to your spouse, siblings or friends. We were able to go to our favorite restaurants, attend sporting events, and work in offices, and children were able to learn at schools surrounded by their friends. At that time, you had probably never heard of Zoom. Oh, how we long for yesterday, which was not that long ago.

Hopefully, with the vaccines now available and being distributed (although not quickly enough), we can get back to having normalcy in our lives. Aren't you so over hearing about how this is the "new normal"? How about when something is not done or available, all you hear is that it's due to COVID? There is not one area of our lives that hasn't been affected one way or another. In a few short months, we will be celebrating Memorial Day on May 31. Possibly by then, we will be attending barbecues and parties and eating at our favorite restaurants, inside or out.

Last year, the 2020 stock market crash was referred to as the Coronavirus Crash, which lasted from Feb. 20 through March 23. The S&P went from 3,373 points to a low of 2,237, down 33.7%. Many investors during that time panicked and sold out of the market. After having a 10-plus-year bull market (since March 2009), many felt this was going to be like the great recession of 2008.

Hopefully, you did not panic. There were many reports about a V-shape recovery in the markets but not the economy. The markets did more than recover by year-end. The S&P 500 ended up at 3,756, a record at the time. From March 23 to Dec. 31, 2020, the S&P was up close to 68%. It was certainly breathtaking. If you look at the year 2020 as a whole, the S&P was up 16.1%.

What does that tell us? Do not panic when markets drop or try to time the markets because it usually doesn't work. These are lessons that many have learned over their lifetimes, but unfortunately some still panic and sell. It is always, "This time it will be different." If you have a balanced portfolio, you would generally be fine. When the markets drop, you have bonds and cash to help you through a downturn.

Many of those who sold out of the market were probably happy at first because they moved to cash and locked in any gains. For some who sold, it was followed by anxiety. They saw the stock market level off and then start recovering. Generally, this is followed by paralysis when the markets start making significant gains. Investors are afraid that when they buy stocks again, they will take a hit and go back down.

I had a call from a man who was referred to our company and had sold out of the stock market in early March. He was delighted with himself, since he locked in his gains and was comfortable with earning next to nothing in his bank money market account. In June, he was going to buy stocks again, but the S&P was already up 44% from its low. He had always invested on his own and wanted advice on getting back into the market.

We discussed that although he owned individual stocks, stock ETFs (exchange-traded funds), and mutual funds, he was not 100% invested in the S&P 500. Even though the market had recovered much of what it lost, his portfolio before selling out of the market would not have been back up 44%, nor would it have dropped almost 34%. I explained that most news channels report on markets being up or down by percentages, which rarely means an individual portfolio will be up or down by the same percentage, since they are not invested 100% in the S&P 500, the Dow, or NASDAQ.

We worked with this individual and designed a balanced portfolio based on the risk he was comfortable accepting. A balanced portfolio simply means balanced between stocks, bonds, and cash. Depending on the individual, that may be 40%, 50%, or 60% equities. Everyone is different. We helped him buy back into the market over a couple of months (dollar-cost averaging).

When you invest in the S&P 500, you are buying an index of the 500 largest U.S. publicly traded companies based on size (market capitalization). If you own only the S&P 500 index, you had a great year, congratulations. With the S&P, you do have some diversification, but it has changed over the years and now isn't as diversified as it once was.

In 2013, CNBC's Jim Cramer coined the term "FANG" stocks, which is Facebook, Amazon, Netflix and Alphabet (Google). In 2013, the FANG stocks represented a little more than 3% of the S&P 500 market capitalization (size). Last year, traders started to refer to the acronym FAANGM, which is the FANG stocks with the addition of Microsoft and Apple. As of April 2020, these six stocks represented almost 23% of the S&P 500 based on market capitalization. It is now truly the tail wagging the dog. So, if you own only the S&P 500, you may not be as diversified as you think due to the weight of those six companies, which will continue to move the market up or down.

It always comes down to investing based on your risk comfort zone. It is excruciating when markets go south quickly, and you are not balanced. Use the markets to help build wealth, not gamble.

Actual performance and results will vary. This example does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed, and a financial advisor should be consulted for your specific situation.

Fred Dunbar, CLU®, ChFC®, RFC®, AIF®, is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He also offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. He's always happy to meet with you "down the shore" at 6606 Central Avenue N. Sea Isle City, NJ. 08243.