## The Lessons of an Exceptionally Uncommon Year

The purpose of this letter is two-fold. First, revisit the principles which support our advice relating to investment management and financial planning. Second, share a few observations that I hope you will find relevant and useful.

### Principles

Our investment planning philosophy, is simply, that successful long-term investing is goal focused and planning driven; supported by four fundamental principles:

- The performance of a portfolio relative to a market benchmark is largely irrelevant to financial success.
- The only benchmark we should care about is the one that indicates whether you are on track to accomplish your financial goals.
- Risk should be measured as the probability that you won't achieve your financial goals.
- Investing should have the exclusive objective of ***minimizing that risk*** to the greatest extent practicable.

### Observations

Once in a very great while, there comes a year in the economy and the markets which serves as a great reminder and teacher in the lessons of successful long-term, goal-focused investing. Two thousand twenty was, among many things, just such a year.

**The first lesson:** ***At their most dramatic turning points, the economy can't be forecast, and the market cannot be timed.*** Instead, having a long-term plan and sticking to it—acting as opposed to reacting, our investment policy in a nutshell—once again demonstrated its enduring value. The velocity of the equity market's recovery essentially mirrored the violence of the February/March decline. The market recovery continued, even as the pandemic and its economic devastations were still raging. The American economy—and its leading companies—continued to demonstrate their fundamental resilience through the balance of the year. Even cash dividends, unexpectedly, went on to exceed the amount paid in 2019, the previous record for dividends paid in a single year.

Meanwhile, at least two vaccines were developed and approved in record time, going into distribution as the year ended. It now appears that the most vulnerable segments of the population are receiving vaccines and at the current pace those who want to be vaccinated should be able to do so by mid-summer, if not sooner.

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**The second lesson:** ***Avoid mixing your politics with your investment policy.*** To say that this past election was the most hyper-partisan in living memory wouldn't adequately express it: adherents to both candidates were genuinely convinced that the other would, if elected/reelected, precipitate the end of American democracy. In the event, anyone who exited the market in anticipation of the election got thoroughly (and almost immediately) punished for inserting politics into their portfolio. Reminding us once again, the market simply doesn't care whether or not we like election outcomes.

## WHERE DO WE GO FROM HERE?

As we look ahead to the remainder of 2021, there remains far more than enough uncertainty to go around. Is it possible that the economic recovery—and that of corporate earnings—have been largely discounted in soaring stock prices, particularly those of the largest growth companies? If so, might the coming year be a lackluster or even a somewhat declining year for the equity markets?

The short answer of course, is yes, it's possible. Now, the follow-up question, how do you and I—as long-term, goal-focused investors—form investment policy out of that possibility? My answer: we don't, simply because one can't. Our strategy, heading into the second quarter of 2021, is entirely driven by the same principles referenced at the beginning of this letter. Just as they were a year ago, when faced with an S&P 500 decline of over 30% in five weeks' time—the same fundamental principles guiding our investment planning philosophy as markets recovered from past unexpected yet temporary market declines—these principles are not likely to change.

We have been assured by the Federal Reserve that it is prepared to hold interest rates near current levels until such time as the economy is functioning at something close to full capacity—perhaps as long as two or three more years.

With this in mind, as long term investors, from a risk/reward perspective, it's difficult to see how long-term goals can be achieved with fixed income investments. Equities, with their potential for long-term growth of capital—***and especially their long-term growth of dividends***—appear to me to be the more attractive asset looking ahead. This said, fixed income investments will continue to play an important role (although likely somewhat of a smaller role) in achieving shorter-term goals across diversified portfolios. In addition, private equity, structured investments, real estate, and various alternatives, based on individual objectives, will continue to be positioned to serve as complements to core equity allocations.

On behalf of myself and the associates of Kendrick Wealth Management, we wish you and your loved ones good health, wealth, and happiness throughout 2021 and beyond. Thank you for your continued trust, confidence, and friendship.

Sincerely,

Noah Kendrick, CFP®
CERTIFIED FINANCIAL PLANNER™
REGISTERED PRINCIPAL