Once in a very great while, there comes a year in the economy and the markets that may serve as a tutorial—in effect, a master class in the principles of successful long-term, goal-focused investing. 2020 was just such a year.

On December 31, 2019, the Standard & Poor's 500-Stock index closed at 3,230.78. This past New Year's Eve, it closed at 3,756.07, some 16.3% higher. With reinvested dividends, the total return of the S&P 500 was about 18.4%.

From these bare facts, you might infer that the equity market had, in 2020, quite a good year, as indeed it did. What should be so phenomenally instructive to the long-term investor is how it got there.

From a new all-time high on February 19, the market reacted to the onset of the greatest public health crisis in a century by going down roughly a third in five weeks. The Federal Reserve and Congress responded with massive intervention, the economy learned to work around the lockdowns—and the result was that the S&P 500 regained its February high by mid-August. I find it interesting that the entire decline will end up looking like a blip on a long term historical chart.

The lifetime lesson here: At its most dramatic turning points, the economy cannot be forecast, and the market cannot be timed. Instead, having a long-term plan and sticking to it—acting as opposed to reacting, which is your and my investment policy in a nutshell—once again demonstrated its enduring value.

Two corollary lessons are worth noting in this regard. First, the velocity and trajectory of the equity market recovery essentially mirrored the violence of the February/March decline. Second, the market went into new high ground midsummer, even as the pandemic and its economic devastations were still raging. Both outcomes were consistent with historical norms. "Waiting for the pullback" once a market recovery gets under way, and/or waiting for the economic picture to clear before investing, turned out to be formulas for significant underperformance, as is most often the case.

The American economy—and its leading companies—continued to demonstrate their fundamental resilience through the balance of the year, such that all three major stock indexes made multiple new highs. Even cash dividends appear on track to exceed those paid in 2019, which was the previous record year.

Meanwhile, at least two vaccines were developed and approved in record time, and were going into distribution as the year ended. There seems to be good hope that the most vulnerable segments of the population could get the vaccines by spring, and that everyone who wants to be vaccinated can do so by the end of the year, if not sooner.

The second great lifetime lesson of this hugely educational year had to do with the presidential election cycle. To say that it 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, everyone who exited the market in anticipation of the election got thoroughly (and almost immediately) skunked. The enduring historical lesson: never get your politics mixed up with your investment policy.

Still, as we look ahead to 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 market, even as earnings/employment and the economy surge? Might it also be possible, using history as our guide, that the next ten years mirror the decade following the last pandemic and becomes a Roaring 20's redux?

Yes, of course it's possible. Now, how do you and I—as long-term, goal-focused investors—make investment policy out of that possibility? My answer: we do not, because one cannot. Our strategy, as 2021 dawns, is entirely driven by the same steadfast principles as it was a year ago—and will be a year from now.

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.

For investors like us, this makes it difficult to see how we can pursue our long-term goals with fixed income investments. Equities, with their potential for long-term growth of capital—and especially their long-term growth of dividends—seem to us the more rational approach. We therefore tune out "volatility". We act; we do not react. This was the most effective approach to the vicissitudes of 2020. I believe it always will be.

Resilience is what defined 2020, but more importantly, it will be what takes us forward.

I look forward to discussing this further with you in our annual update session. Until then, let me thank you again for being my clients. It is a privilege to serve you.

PS. Something you should definitely see is a viewpoint from Cathy O'Neil. She is a Bloomberg Opinion columnist and a mathematician with a quiet projection of the path of COVID-19 abating by Valentine's Day. As daylight increases each day, perhaps so too will good news on the virus.

https://www.fa-mag.com/news/covid-s-worst-should-be-over-by-valentine-s-day-59550.html

PPS. Thank you to the pharmaceutical industry for delivering a miracle – indeed, a brace of miracles – in record time. Bloomberg Business provides a fine assessment how innovations in science and medicine accelerated a COVID-19 vaccine.

https://www.bloomberg.com/news/features/2020-12-23/covid-vaccine-how-big-pharma-saved-the-world-in-2020?utm_campaign=news&utm_medium=bd&utm_source=applenews

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