SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Balance

2020 has provided some unusual and extreme market developments, most recent being the strong November stock market rally. Market levels were pushed higher as investors felt a measure of relief with U.S. election outcomes mostly settled and vaccination trial outcomes providing much needed promise even as the uptrend in COVID-19 cases was worrisome. The welcome November rally gave pause to reflect on some investment fundamentals, in particular the benefit of diversification and the challenge of attempting to time market trends. A review of some 2020 developments can provide perspective and balance for investing yet ahead.

PERSPECTIVE

Stock market returns in November reached historical monthly highs for some sectors and were at well above average levels for many sectors. For some, year-to-date losses were turned into gains. For others, favorable return levels merely were enhanced. Chart I provides a sample of November returns. U.S. small cap stocks were the clear leader. The bond market even managed a monthly gain, albeit far behind stock market returns.

A full market cycle usually transpires over three or more years. 2020 has seen a full cycle compressed into just ten months. Chart II compares the decline phase and the recovery phase within the total cycle for a range of markets. Measurement periods were tied to highs and lows for the total U.S. stock market. On the strength of the November rally, U.S. small cap stocks moved into the lead for the recovery phase after recording the largest loss in the decline phase. November alone lifted the small cap return for the total cycle from loss to gain. Such was not the case for the lagging U.S. large value stock sector. The expectation of sustained recovery has boosted this economically sensitive sector but not enough to lift the total cycle result to a gain. For the total cycle, emerging foreign stock returns have recovered nicely with November again making the difference. U.S. large growth stocks remain the return leaders as a result of a technology bias. Charts I and II show the benefit of diversification when market outcomes change both quickly and meaningfully. From the extremes of decline and recovery has come a more balanced total.

A portfolio managed to specific allocation targets faces rebalancing challenges in a 2020 environment. Chart III compares outcomes from different rebalancing schemes for a portfolio targeting equal allocations to U.S. stocks and bonds. With no rebalancing, a portfolio with a 50/50 balance at the start of the year and left untouched posted a +12.2% return as of November 30. If rebalanced "perfectly" at the stock market high and low for the year-to-date, the portfolio return would have been +17.5%. Whether implemented early or late, rebalancing would have added meaningfully to the portfolio's eleven-month return.

INVESTMENT IMPLICATIONS

Market trends in 2020 have been both extreme and unpredictable, frequently leaving investors off balance. No matter the landscape of 2021, portfolio outcomes can be balanced through the steady application of sound investment fundamentals including diversification and periodic rebalancing. With clarity of objectives, time horizons and risk tolerance, balance can be maintained for both investor and portfolio.

CHART I

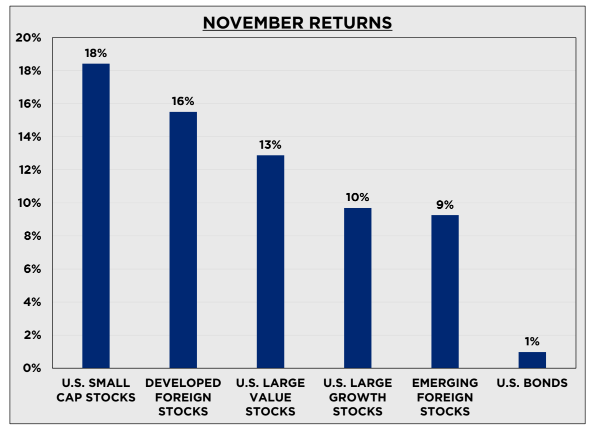

CHART II

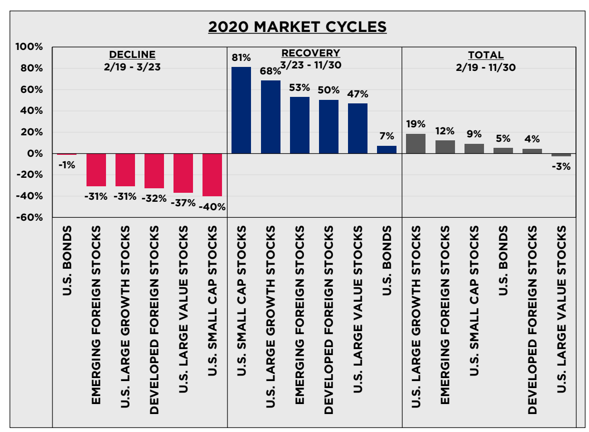

CHART III