THE NEXT LEVEL
PLANNING GROUP
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As we enter a new year with new opportunities and potential challenges, it is always a good idea to reflect on the past. 2021 was indeed an interesting year. If 2020 was the year of the pandemic, 2021 was the year of recovery and change. A new administration was ushered into Washington. There was much uncertainty about how this would affect tax policy. While the pandemic continued, new hope emerged as vaccines were approved and distributed. There was much international intrigue throughout the year. Domestically, there was the usual political wrangling about legislative agendas on national, fiscal and tax policy.

Speculation emerges due to low interest and boredom

Change was not confined to just the political and pandemic fronts. Investment markets were also affected. Some were fairly logical, and some were, well, weird. With so many people confined due to the pandemic, some apparently grew tired of Netflix and virtual wine tastings. They turned to stocks for entertainment. A handful of stocks, often touted on social media and fueled by leverage and speculation, gyrated wildly. In the end, despite the hype, many wound up losing money.

There were also waves of new companies called “special purpose acquisition companies (SPACs)” that were essentially blind pools often endorsed by celebrities and professional athletes. As is usually the case, the frenzy didn’t work out as well as some had hoped. The CNBC Post SPAC index, a measure of the price performance of post-deal SPACs, fell over 30% in 2021—even as the DJIA returned over 20%.

Sectors rotate and rotate again

2020 was mostly a year when growth stocks (e.g. technology) soared while value stocks (e.g. industrials and energy) failed to participate. That changed in 2021 as the rising rate of vaccinations fed hopes for a reopening. In 2020, the worst performing sector of the S&P 500 was energy, which suffered a bruising 34% decline. A year later, energy was the strongest sector of the market in 2021, roaring to a stunning 55% gain.

These quick rotations and reversals were very common with the reopening and stay-at-home stocks frequently reversing with news of each new variant and vaccine. There is an old investment saying among the momentum crowd that “the trend is your friend.” In 2021 it would be more like “The trend is, wait. Never mind.” We, on the other hand, believe that math, asking the right questions and goal-based portfolios are more lasting friends.

Despite the side shows and volatility, stocks moved solidly higher

Despite the speculation in some corners of the markets, stocks rose strongly in 2021. However, the year was not without serious adversity. Markets were hit with significant choppiness throughout the year as investors reacted to a host of concerns ranging from politics to supply chain disruptions. After each bout of selling, the market recovered. In all, the S&P 500 set 70 new highs throughout the year.

More change ahead in 2022. We’re ready.

We have some considerable challenges ahead of us. As the world haltingly reopened, demand for goods surged. Supply, still challenged by the pandemic and supply chain issues, struggled to keep up. This has caused inflation to jump to multi-year highs. Another issue is interest rates. As the world hopefully returns to a more normal state, governments around

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the world will have to gradually withdraw the massive stimulus that was applied during the pandemic. The Fed has already begun to taper its support of the bond market and has signaled that there may be multiple rate hikes in 2022.

While these issues are significant, they are not insurmountable. Conventional wisdom is that inflation and rising interest rates are bad for stocks. We prefer to look at the math. An examination of market history provides some insight. The truth is that there is little evidence that either rising interest rates or rising inflation have a strong correlation to one-year forward returns of the equity markets. Of course, we are not ignoring either inflation or interest rates. Anything that can affect your portfolio is of interest to us.

Domestic Equities: Stocks rose for the third consecutive year as earnings were buoyed by the recovery. The S&P 500 gained 28.7% for the year as both growth and value stocks rose. Midcap stocks also had a good year, aided by a strong economy and easier access to credit. The midcap index increased 14.8% for the year.

International Equities: Foreign stocks were also positive but trailed the U.S. due to a less vibrant recovery from the shutdown and lingering disruptions around Brexit. The international developed markets index managed an 11.3% return for 2021. Emerging markets were the laggard among global equities. Given concerns about overbuilt real estate and China's apparently less friendly stance toward business, global equities turned in a 2.5% loss for the year.

Fixed Income: With the combination of a stronger economy and a less accommodating Fed, bonds were challenged. The Barclays Aggregate, a measure of the total bond market, declined a modest 1.5% for the year. While we would like to see all asset classes advance, it rarely works that way. Given the changes in the pandemic and Fed policy, we consider the performance pretty good under the circumstances.

Together

Together, we were able to navigate a year of change with strength, restraint and perspective, just like we did in 2020. It is wonderful to see investors so amply rewarded. Of course, the changes and challenges are not over.

As markets and the world evolve, we will need to examine our approaches and portfolios to adjust. However, some things will not change. Our principles of discipline and mathematically informed advice are at our core. To paraphrase noted poet and novelist Victor Hugo, "Adapt your opinions and actions as necessary but your principles remain, just as the leaves change but the roots remain."

As always, here are the specific steps we intend to take with you as we navigate this coming year:

- Discuss relevant changes in tax laws, financial markets, the economy, and your life
- Help you discern the optimal organization of your resources in support of your values and vision
- Lay out the specific actions that will help you stay "on track" for the present and future life you desire

Our singular goal remains to help you gain clarity, control, and confidence by making and carrying out thoughtful and well-informed financial decisions in a holistic and integrated manner.

Thank you for your continued trust and confidence.

Whatever the new year brings, we will be here. Thank you for the opportunity to serve you. We wish you all the best in 2022!

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Sources of data- Wall Street Journal, CNBC, FactSet, S&P Global, MSCI, Russell, Bloomberg. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Russell 2500 Index measures the performance of the 2,500 smallest companies (19% of total capitalization) in the Russell 3000 index. The S&P 500 index measures the performance of 500 stocks generally considered representative of the overall market. The Wilshire REIT Index is designed to offer a market-based index that is more reflective of real estate held by pension funds