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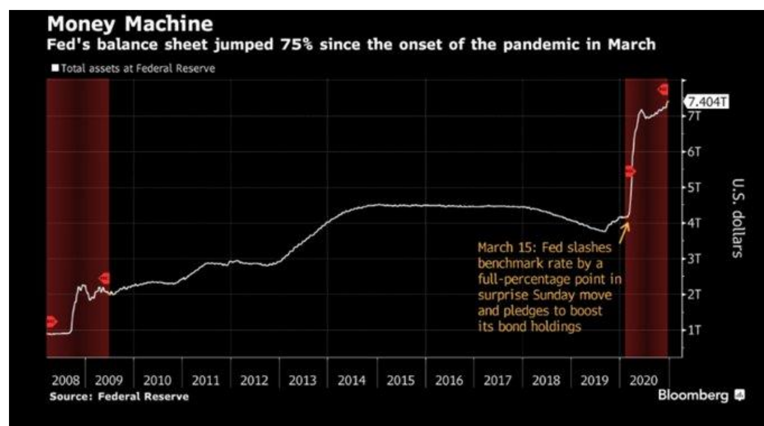
The S&P 500 closed 2020 at a record high of 3,756.07, a gain of 16.3% for the year. The Dow Jones Industrial Average and the tech heavy Nasdaq gained 7.2% and 43.6% respectively in 2020.
What a year it has been. Stocks tumbled into a bear market in just a matter of weeks in February and March. At its low, the S&P 500 had dropped 34% from its earlier high. Then stocks embarked on a consistent uptrend, initially led by a handful of technology companies, which benefited from the virus (e-commerce, cloud computing, etc.). In November and December, the market rally broadened out into more cyclical areas as new vaccines provided hope that the economy will recover.

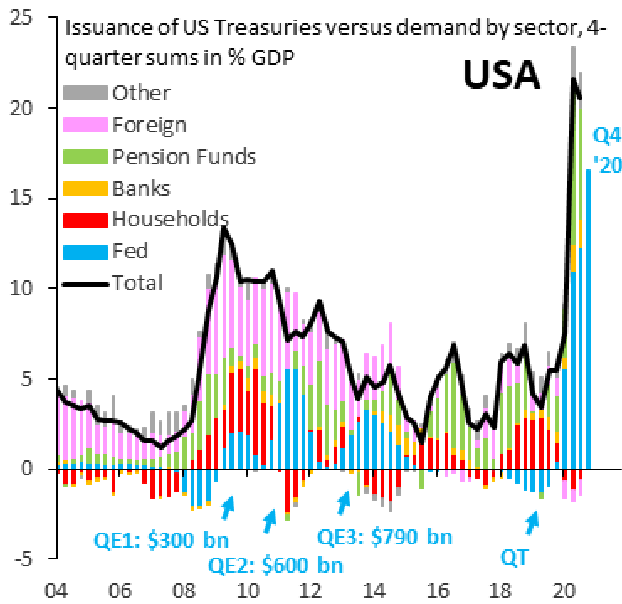
One of the words that was frequently used was "unprecedented." Due to mandatory lockdowns, the economy came to a virtual standstill and the unemployment rate rose from 3.5% in February to a record 14.7% in April (currently 6.7%). The economy has added back 12.4 million jobs since May, which is more than half of the 22.2 million jobs lost in March and April. Important to note is that the economy has not yet fully recovered to pre-pandemic levels.
The rally in the stock market was mostly triggered by the actions of the Federal Reserve Bank and the Federal government. The Fed slashed U.S. benchmark interest rates to zero and restarted an aggressive program of asset purchases. On Capitol Hill, congressional lawmakers authorized several stimulus packages.
There is definitely a disconnect between the economy and the stock market, but also a disconnect between high flying growth stocks and the broader market. The whole market trades at 22 times 2021 expected earnings, which is not cheap versus a historic 15x. Certain growth stocks are trading at much higher multiples as investors argue that very low interest rates justify higher stock valuations, by discounting future cash flows at near zero interest rates.

On Tuesday, January 5th, Georgia will hold a special election for both of its Senate seats. Majority control of the Senate hangs in the balance, and Democrats can retake the chamber by winning the two races.



The Fed's balance sheet jumped 75% to $7.4 trillion since the onset of the pandemic in March. The Federal Reserve, European Central Bank and Bank of Japan have collectively expanded their balance sheets by around $8 trillion to $22.5 trillion in 2020, by far the highest amount we have ever seen.
The Fed's balance sheet is not even the largest of developed economies. Bank of Japan 132% of GDP; European Central Bank (ECB) 61% of GDP; Bank of England 36% and Fed 34%. Massive quantitative easing could be a recipe for stagnation.

The following graph shows the issuance of US government treasuries as a % of GDP and the demand by sector. The Federal Reserve Bank bought $2.4 trillion in treasuries in 2020 (blue) and largely funded the federal deficit (black). Domestic pension funds (green) and banks (yellow) closed the gap. Interestingly, foreign buyers (pink) have been absent lately and are net sellers instead.



Value of the global stock markets hits $100 trillion in December

The Market Cap (S&P 500) to GDP (economy) ratio is highest ever.

Margin Debt soared 50% in the past 8 months. In the past 30+ years, such investor euphoria happened exactly twice: March 2000 and June 2007.

An interesting story from Ben Carlson, A Wealth of Common Sense

Bob is the world's worst market timer. What follows is Bob's tale of terrible timing of his stock purchases.

Bob began his career in 1970 at age 22. He was a diligent saver and planner.

His plan was to save $2,000 a year during the 1970s and bump that amount up by $2,000 each decade until he could retire at age 65 by the end of 2013 (so $4,000/year in the 80s, $6,000/year in the 90s then $8,000/year until he retired).

He started out by saving the $2,000 a year in his bank account until he had $6,000 to invest by the end of 1972.

Bob's problem as an investor was that he only had the courage to put his money to work in the market after a huge run-up. So, all of his money went into an S&P 500 index fund at the end of 1972. The market dropped nearly 50% in 1973-74 so Bob basically put his money in at the peak of the market right before a crash.

Yet he did have one saving grace. Once he was in the market, he never sold his fund shares. He held on for dear life because he was too nervous about being wrong on both his sell decisions too. Remember this decision because it's a big one.

Bob didn't feel comfortable about investing again until August of 1987 after another huge bull market. After 15 years of saving he had $46,000 to put to work. Again, he put it in an S&P 500 index fund and again he invested at a market peak just before a crash. This time the market lost more than 30% in short order right after Bob bought his index shares. Timing wasn't on Bob's side so he continued to keep his money invested as he did before.

After the 1987 crash, Bob didn't feel right about putting his future savings back into stocks until the tech bubble really ramped up at the end of 1999. He had another $68,000 of savings to put to work. This time his purchase at the end of December in 1999 was just before a 50%+ downturn that lasted until 2002.

The final investment was made in October of 2007 when he invested $64,000 which he had been saving since 2000. He rounded out his string of horrific market timing calls by buying right before another 50%+ crash from the credit blow-up. After the financial crisis, he decided to continue to save his money in the bank (another $40,000) but kept his stock investments in the market until he retired at the end of 2013.

To recap, Bob was a terrible market timer with his only stock market purchases being made at the market peaks just before extreme losses. Here are the purchase dates, the crashes that followed and the amounts invested:

Date of Investment	Subsequent Crash	Amount Invested
December 1972	-48%	$6,000
August 1987	-34%	$46,000
December 1999	-49%	$68,000
October 2007	-52%	$64,000
Total Invested		$184,000

Luckily, while Bob couldn't time his buys, he never sold out of the market even once. He didn't sell after the bear market of 1973-74 or the Black Monday in 1987 or the technology bust in 2000 or the financial crisis of

2007-09. He never sold a single share. So how did he do? Even though he only bought at the very top of the market, Bob still ended up a millionaire with $1.1 million. How could that be you might ask?
First of all, Bob was a diligent saver, he never wavered on his long-term savings goals and increased the amount he saved over time. Second, he allowed his investments to compound through the decades by never selling out of the market over his 40+ years of investing. He did have to endure huge psychological tolls from seeing large losses and sticking with his long-term mindset, but he just continued to save and kept his head down. And finally, he had a very simple and low-cost investment plan — one index fund with minimal costs.
Obviously, this story was for illustrative purposes and I wouldn't recommend a portfolio consisting of 100% in stocks of a single market in the S&P 500 unless you have an extremely high-risk tolerance. Even then a more balanced portfolio in different global markets with a sound rebalancing policy makes much more sense.
And if he would have simply dollar cost averaged into the market on an annual basis with his savings, he would have ended up with much more money in the end (over $2.3 million). But then he wouldn't be Bob, The World's Worst Market Timer.
Lessons from Bob's Journey: If you are going to make investment mistakes, make sure you are biased towards optimism and not pessimism. Losses are part of the deal when investing in stocks. How you react to those losses is one of the biggest determinants of your investment performance. Saving more and allowing compound interest to work in your favor are your biggest accelerants for building wealth.

Building wealth in the stock market requires patience and discipline. Marathon Investments selects quality companies with strong balance sheets which generate above average cash flows and dividends. The company is expanding and interested in new clients and referrals. Portfolios are personalized, there are no investment minimums and costs are low to ensure that you benefit the most in the ***long run.***
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Thank you for your interest, Hans

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