Forward Focus
January 2021

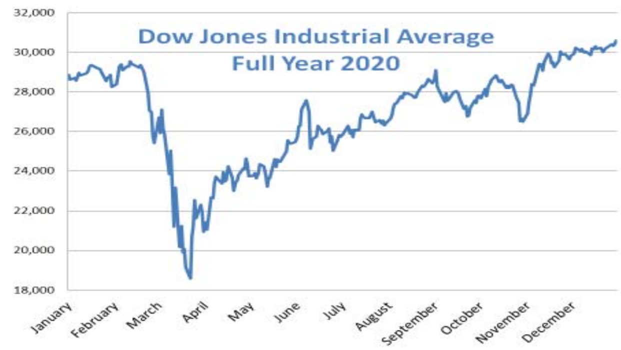
FORWARD
Investment Advisors

Yearly Market Review

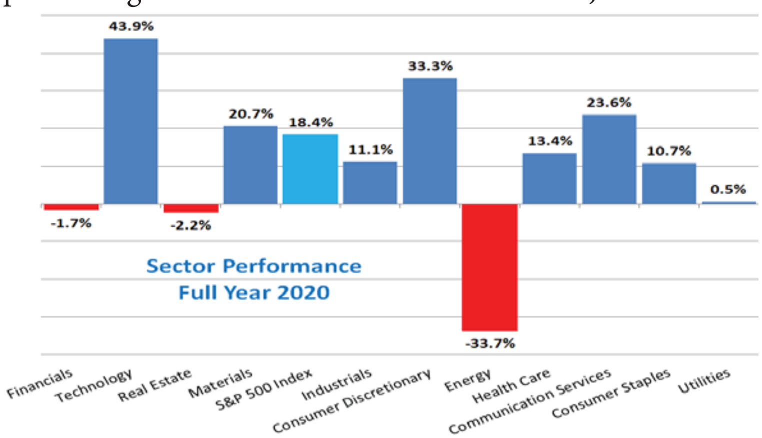
Last year included the Impeachment of the President, plummeting oil prices, riots, civil unrest, Covid19, a 34% market drop, 14.7% unemployment, 22 million job losses, contested elections, U.K. officially leaving the European Union, a Russian cyberattack. Ok, that's enough. No one wants to revisit this anymore. I understand.

In the midst of the chaos of a shutdown, trillions of dollars of government stimulus provided assistance and helped to temporarily bridge the gap for many Americans.

The chart on the right shows the return of the Dow Jones Industrial Average for all of 2020. After a 34% drop in March, markets spent the remainder of the year digging back out before peaking their head above water in December on news of more government spending and stimulus.



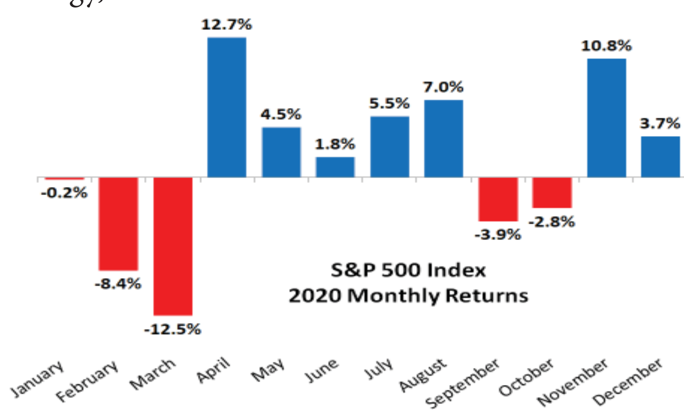
While the S&P 500 and Dow Jones Industrial Average ended 2020 in positive territory, many of the individual stocks that make up those indices did not. In the S&P 500, 183 of the 500 largest U.S. market cap companies posted negative returns and 12 of the 30 Dow Jones Industrial Average index stocks also declined in value.



In fact, 57% of the S&P 500's return in 2020 came from just 4 stocks! Apple, Microsoft, Amazon, and Facebook.

As you can see from the chart on the left, the best performing sectors for the year were Technology, Consumer Discretionary and Communication Services while the worst performing sectors were Energy, Real Estate and Financials.

The chart on the right shows the monthly returns of the S&P 500. Five months were negative and seven months were positive. The big drops in February and March were due to the initial lockdown and Coronavirus fears, April's strong rebound was due to historic stimulus, and November's gain was related to news of a vaccine.



Interesting Factoid: There were 253 trading days in 2020. The market ended the day in the red on 108 of those days.

Full Year 2020

Dow Jones Industrial Average 7.2% ● S&P 500 16.3% ● MSCI EAFE (International) 7.6%
Russell 2000 (Small Cap) 20.0% ● MSCI EMI (Emerging) 17.0% ● Barclays Capital Aggregate Bond 7.5%

Mapping out a Financial Picture

Last quarter I discussed creating a clear vision, setting goals and taking action towards them. It's 2021 now. Time to get serious and turn thoughts into action. Action step one. Setting up an **Annual Review**.

Throughout this quarter, we will be contacting each of you for an Annual Review. This year our Annual Review will be more focused on your global financial picture. We will still review portfolios and investments, but will dive deeper into other areas of finance to provide you with a clear vision of the big picture.

401ks, savings, CD's, pensions, house, cars, family, insurance, assets, debt, social security, salary, other income, IRAs, taxes, wills, risk, etc. All these things make up the big picture of your financial life.

Forward will help you **visualize** your financial life in a way you never have before. You will see your entire financial life on one page, visualize your risk level and understand what it means, and have a clear picture of your investment allocation. We will look at where you are today and where you want to be tomorrow.

By providing you with clarity and understanding, together we can clearly refine your goals and monitor your progress.

I am excited for the year ahead and eager to share these enhancements with all of you.

How can the stock market be positive with all this negativity?

Many have wondered how the stock market can keep chugging along and even hit new all-time highs while a worldwide pandemic continues to rage on, U.S. unemployment is still 6.7%, over 9 million people are still unemployed, lockdowns are still in place, and the distribution of a vaccine is slow. Well, that is a good question.

The answer is best understood when we realize the difference between the economy and the stock market.

The technology sector only accounts for 6% of the economy (as measured by nominal Gross Domestic Product (GDP)), but makes up 38% of the market cap* of the S&P 500. Thus, 2020's 44% return in the technology sector made a huge impact on the stock market, but did little to the economy (nominal GDP). In fact, it did even less to boost employment, as the tech sector only represents 2% of employment.

Financial services make up 13% of the market cap* of the S&P 500, but accounts for a much larger 22% share of nominal GDP. Last year, the financial sector was down -1.7% as a whole, but the banking sector (a large subsector of finance) lost 14%.

So, with technology accounting for almost 40% of the market cap* of the S&P 500 (but a mere 6% of the economy and 2% of employment), it becomes clear why the two are reacting differently.

Going even further, the sheer size of Apple, Microsoft, Amazon, Alphabet (Google) and Facebook is distorting market returns. Those 5 companies make up 23% of the market cap* of the S&P 500. So, as goes technology, so goes the market. That is why TRUE diversification matters.

* **Market Capitalization** is used to determine the value of a company. Market Cap is calculated by multiplying the number of shares outstanding by the current price of the stock. *Example*: Apple has 17.1 billion shares of stock outstanding at $132.70/share. Thus, Apple's market cap is 17.1 B X $132.70 = $2.27 Trillion.

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