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Q4 2020

THE QUARTERLY

2020—The Year Time Stood Still

The lonely and historic year that was and the hope that lies ahead



BY CLINT PATTY, J.D.
Managing Partner

Every December, I am surprised by how quickly the year has passed, and I always reflect on the line from Charles Portis's 1952 short novel *True Grit* that "time just gets away from us." However, that feeling was absent for most of us the past year, as 2020 flipped the script on the human race.

With nearly every major public event canceled, millions forced to shelter in place, and isolation from family, friends and co-workers, 2020 was the year where time literally seemed to stand still. While it will take years and maybe decades to fully understand the impact COVID-19 has had on our lives, we will endeavor here to review a few observations on the year we've had. We view these through the lens of pain, heroism, and hope as we move from pandemic to recovery in a new year.

THE PAIN

While the news media is quick to show the numbers of infected (over 22 million) and the staggering number of deaths in the United States alone (370,000), it is sadly notable that in less than 10 months, more than 1 in 1,000 have perished from a virus few had heard of a year ago. COVID-19 is now the leading cause of death in the United States, surpassing heart disease and cancer.

Buried in all these numbers are the personal stories of those close to us that we've lost to this terrible virus. For many of you, that loss has been real and painful. That pain is compounded with the inability to properly mourn and honor our loved ones because of restrictions caused by the pandemic. For those of you in our CWP family who have suffered loss, our thoughts and prayers are with you.

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QUARTERLY SEMINAR UPDATE

Due to the continued uncertainty of the COVID-19 pandemic, and for the health and safety of our clients and staff, we will not host an in-person seminar this quarter. Instead, we will present a live webinar presentation on **Thursday, February 11, at noon**, so you can join us from the comfort of your home or office. We will send the webinar invitation via email soon and hope you can join us. If you are unable to tune in on February 11, we will email the recorded presentation afterward. Please be safe, and we look forward to seeing you all soon.

OUR OFFICE WILL BE CLOSED ON THE FOLLOWING DATES:

Monday, January 18
Martin Luther King, Jr. Day

Monday, February 15
Presidents' Day



CWP is a Corporate Member of the National Association of Personal Financial Advisors (NAPFA). If you'd like more information about NAPFA, visit their website at napfa.org.

Accompanying the pain from the massive loss of life, the mental toll on Americans in isolation cannot be overstated. Three different studies on the effects from mass isolation have all come to the same conclusion: a tripling and quadrupling of anxiety and depression, substance abuse, and serious psychological stress. A Boston University Study found that these increased rates were higher than those experienced even after large-scale traumas such as September 11 and Hurricane Katrina. (See Willis, Claudia, "The Surprising Mental Toll of COVID," *Scientific American*, December 1, 2020.)

If you are experiencing extraordinary stress, anxiety, or depression, please reach out for help. Our community and country have wonderful resources. A good place to start is SAMHSA's national helpline through the U.S. Department of Health and Human Services at 1-800-662-HELP (4357). It is open 24 hours a day and can direct you to local help.

THE HEROES

We cannot thank enough the millions of health care workers, including first responders, nurses, doctors, technicians, and administrators, who are contending with the greatest public health crisis in a century. Hospitals large and small are at or near full capacity nationwide as two major waves of COVID-19 have decimated our health care systems. Health care workers have sacrificed their time, their health, and in many cases their lives to face down the pandemic from the front lines.

I am reminded of countless stories of doctors and nurses, many of whom came out of retirement to treat patients during the pandemic, only to lose their lives to the virus. This trauma will be felt long after the pandemic passes. And when it does, we will need to both honor and care for these heroes who served in this unprecedented crisis.

THE HOPE

Our national response to COVID-19 has led to extraordinary advances in technology and medicine in a short period. In just 10 months, the United States and Great Britain have developed mRNA vaccines for COVID-19. The hope is with the rise of at least three effective vaccines, we may be

on the back side of this pandemic by the summer. That hope would not have been possible without a united and unprecedented worldwide effort by the scientific community.

On the technological front, a survey by the World Economic Forum shows that more than 80% of global firms plan to accelerate their move to digital processes, automation, and remote work. At CWP, we began those processes three years ago in what we anticipated would be a response to a potential fire, tornado, or other national disaster. We fully completed that process at the end of 2019 and were planning on testing those processes when COVID forced that test on our entire staff in March.

We immediately acted to establish best practices both medically and technologically to maximize the protection of our clients and staff while maintaining all our normal daily functions. While we continue to take precautions regarding inter-office meetings, if you have suggestions for how we can improve your client experience, please let us know.

Finally, while we have all seen in the past week terrible examples of the political divisions within our country, we remain remarkably generous with one another. Former President Bush noted this generosity in his essay earlier in 2020, stating: "Each day, reminded that the suffering we experience as a nation does not fall evenly, ordinary Americans have committed extraordinary acts of kindness and compassion."

In spite of record unemployment, job displacement, bankruptcies, and business closures, donations to charities rose in 2020. While so many continue to need our support, we can be hopeful that the generosity of those who can give will continue to be there through the end of the pandemic and beyond.

Even after a year where time seemed to stand still, the pain, struggle, and hope will obviously continue as the calendar turns to 2021. At Clayton Wealth Partners, we remain optimistic to see the end of this pandemic in the new year and will continue to be here for you. So here is to a better new year, if not a happy new year!

2020: Just When You Think You've Seen It All



BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

In 2020, we saw the worst global pandemic in a hundred years. Efforts to mitigate COVID-19's impact led to the worst quarterly U.S. gross domestic product (GDP) number on record. The S&P 500 fell -34% from peak to trough.

And yet ... we also saw the best quarterly GDP growth on record, too. The S&P 500 closed 2020 at an all-time high with a total gain of 18%, including dividends, for the entire year.

And yet, indeed.

At first blush, this may not make sense. COVID is surging once again as we write this, and we haven't fully regained all the jobs and economic output lost during the year.

Over the long term, equity markets are highly correlated with economic growth. But in any given short term, the stock market can decouple from the economy.

Stocks are leading economic indicators. They tend to turn down before economic activity begins to decline, and they generally start to recover before the economy does. Such was the case here as investors were able to look through the deep but short recession of 2020.

Also, equities benefited from massive relief measures from both the Fed and Congress that dwarfed the response to last decade's housing crisis.

2021: Into the Great Wide Reopen

We think the path the global economy and financial markets take in 2021 will continue to hinge on COVID trends. The winter resurgence of the virus presents near-term headwinds. However, several vaccines have been approved and are being distributed. More could be on the way, further increasing inoculation.

We assume that life returns much closer to normalcy by mid- to late 2021. Then pent-up

demand for many of the things we've had to sacrifice should lead to meaningful economic growth later this year.

As the global economy continues to recover in 2021, we'll be watching inflation and interest-rate trends closely. To mitigate the impact of the coronavirus shutdown, global policymakers injected a ton of money into the system. The Fed has indicated it would like to see inflation run higher than it had previously targeted, suggesting short-term rates remain historically low for quite some time.

We wouldn't be surprised to see an inflation scare this year, but we also note that long-term drivers of disinflation (e.g., global trade, technology, and an aging U.S. population) remain in place to counter rising inflation.

Stock valuations are elevated to start the year. Compared to their own historical measurements, equities look expensive. But importantly, what's different are today's interest rates.

With short-term rates around 0% and the yield on 10-year U.S. Treasury bonds less than 1%, stocks look comparatively more attractive, albeit far from bargains. Further, the economic recovery we anticipate should accompany strong corporate earnings growth, making stocks look less expensive on that basis.

We do see relative bargains, though, in international equities. They are significantly cheaper than U.S. equities, and a broad-based global economic recovery should continue to put downward pressure on the U.S. dollar. (A declining dollar benefits the U.S. holder of international assets denominated in foreign currency, all else equal, as a stronger foreign currency will buy more U.S. dollars.)

In addition, many emerging markets continue to have better growth prospects than the relatively mature United States.

Elevated market volatility is a theme we've been hammering on the past few years. We'll continue this year. A lot of good news about the vaccines and economic recovery seems to be priced in already. Any hiccup along the

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way could cause some distress. And we haven't even mentioned politics yet.

As we write this, control of the Senate is up for grabs as Georgians head to the polls for their runoff elections. Even if the Democrats win both contests and effectively gain control, it will be difficult for President-elect Biden to achieve everything on which he campaigned with such small Democratic advantages in both chambers of Congress.

Aside from market returns, 2020 was a rough year for many of us. Here's to a better 2021 for all of us! Happy new year!



Cybersecurity and Your Fidelity Accounts

We had inquiries from several clients after the recent cybersecurity attacks that have made national news. Fidelity has verified that they are not a client of SolarWinds and were not impacted by the breach. Fidelity also has hardened their security with the recommended detections as published by investigators and is monitoring this evolving event.

Fidelity does have numerous security features for online access to your accounts at www.fidelity.com.

These include:

- 2-factor authentication for logins and sensitive transactions

- Security text alerts for certain transactions and profile updates
- Fidelity MyVoice to verify it is you calling

These features require you to opt in. We recommend you consider whether they would be a good fit for your account access. You can learn more about these features at www.fidelity.com/security/overview.



NEW CFP® IN THE HOUSE!

Next time you see Zac Pohlenz give him some kudos. The busy Associate Wealth Advisor and new father still found the time to pass the exam for the CERTIFIED FINANCIAL PLANNER™ (CFP®) certification. That's no small feat, given the CFP Board's stringent requirements.

We are proud to report that we now have six CFP® professionals on the team.

In addition to the CFP® mark, Zac has a Bachelor of Science in personal financial planning from Kansas State University. A Topeka resident, he likes to spend his free time hiking, woodworking, gardening, and playing guitar.

YOUR ADVISORY TEAM

BARBARA DUNCAN, CFP®
Partner, Senior Wealth Advisor

ERIC PURCELL, CFP®
Wealth Advisor

ELIZABETH YOUNG, CFP®
Partner, Senior Wealth Advisor

ZAC POHLENZ, CFP®
Associate Wealth Advisor



716 S. Kansas Ave.
Topeka, KS 66603

832 Pennsylvania St., Suite 1005
Lawrence, KS 66044

785-232-3266

claytonwealthpartners.com