Jim Armstrong: Hello and welcome to Market Insights. Thank you for joining us today. I’m Jim Armstrong with Fidelity. Looking back at 2020, and, yes, we probably should, without a pandemic playbook to guide us, a lot of folks began kind of living in the moment, financially speaking anyway. There really hasn’t been a ton of opportunity to reflect on the year. To be sure, there’s still a lot happening in the coming months. We have got COVID vaccinations, a potential increase in lockdowns during the holiday season, a runoff election in Georgia. But, of course, it’s not too late to start thinking about and planning for tomorrow. That’s what we are here to discuss, sort of taking the opportunity of where we are now on the calendar, to take a look at lessons learned from 2020 and what they might mean for your plans in 2021. Of course, we’ll take a look at what the market is doing and why, and we’ll have some thoughts on where things might head in the coming year.

For today’s webcast, we are happy, as always, to be joined by Jurrien Timmer, who is going to be sharing his latest thinking about the markets and about the economy as a whole and what it means to us as investors. Leanna Devinney is also here with us as well. She will be talking about how she and her team of Fidelity representatives are working with customers who are also taking stock of 2020, looking at the learnings from the previous year and planning ahead to 2021 and beyond.

Remember, as always, the views and opinions in this webcast are those of our speakers. This discussion is for educational purposes and should not be considered investment advice.

With that said, Leanna and Jurrien, great as always to have you here. This is our 36th consecutive episode of this webcast series. I just want to say thank you both for making the commitment to be here for us and for our customers.
Leanna Devinney: Thank you. Wow, 36. I can’t believe it is almost the end of 2020.

Jurrien Timmer: Yeah. Happy holidays. And a great job to you guys and the people behind the scenes for creating this whole series basically out of thin air nine months ago or so.

JIM: Yeah. You’re exactly right. It was created back in March. It’s going to keep going because people are providing—it’s providing value for people and that’s what is most important.

We are live today, Tuesday, December 22nd, just on the cusp of 2021. Jurrien, I want to start with you. A new administration coming into power in Washington in the new year. I’m curious sort of what’s on your mind as we look to potential policy changes that might have the most impact on the economy at large and then ultimately on our investments and our money. I will say kind of there’s almost a breaking news element to today as well, too, because as we broadcast live right now, Congress has essentially just authorized another $900 billion stimulus package. If you could sort of incorporate that into your reflections a well.

JURRIEN: Of course. Yeah. From the market’s perspective -- and we can talk a little bit later about kind of the year as it evolved -- it is really a question of what is priced in, what is coming. So we have now that additional fiscal relief which, of course, was very much needed. We were really supposed to get that before the election, and that’s already six weeks ago. So better late than never. Some of these programs were due to run out at the end of the year, so there is still time to bridge that gap. We, of course, have news on the vaccine which has been very positive and certainly rolling out, I think, faster than a lot of us expected. In fact, my daughter, who is an ICU nurse in Boston, got vaccinated this morning, so that is good news. Again, juxtaposed against COVID cases really surging again. My other child, my son who studies in Dublin, just heard today that they are going to have another two-month lockdown starting on Christmas. It is kind of like an extreme, right? You have all this good news and then you still have those setbacks.

But at least the fiscal is coming. We will know in a few weeks who is going to be controlling the U.S. Senate. That, of course, has a lot of implications for fiscal policy. We know that the Federal Reserve, of course, our Central Bank will continue to be very accommodative in terms of monetary policy. The thinking I think in the market is that the gap between where the economy was and where it is now and where it should be heading as the pandemic comes to an end, that gap will be closed at some point. But it is unknown whether it is going to be closed in the second quarter, in the fourth quarter. Hopefully, sooner rather than later. And the fiscal policy element, you know, we don’t know yet. But as we learn in early January who will win the two run-off elections in Georgia, we’ll get a sense of whether it will be a double-barrel fiscal and monetary stimulus in 2021 or a single-barreled one where you have gridlock on the fiscal side but still that monetary accommodation.
There are still a lot of questions out there. But generally speaking, I think things are moving in the right direction, and you see that reflected in the stock market as it continues to go to new all-time highs.

**JIM:** Let me ask you while I have you, though, Jurrien, to reflect a little bit on 2020 in terms of lessons learned. They can be lessons that you learned in your role or lessons that you think sort of individual investors have learned. I mean, as I look back personally, I think about sort of where my head was back in March and April versus where it is now. What do you think we learned in 2020 that might be useful for us in 2021 and, as I said before, beyond that?

**JURRIEN:** Yeah. For me, the main lesson -- as you just said, back in March-April, things could not be more uncertain, right? So I’m a student of market history. I have been looking at market history for my whole career, 35 years. And back in March as the market was going down 30, then 35%, I saw the statistics. Like the market when it gets this over-sold, it tends to rally. So rationally from my left-brain perspective, we knew that. But then you look at just the devastation around us and the economy imploding, and it is like, well, you know, it puts you in a state of sort of paralysis, if you will. And it was so tempting just to get out, sell everything, and just take a look at it another day. And it turns out that the process worked, that those market statistics actually did give the correct signal and the market now 6-12 months later is higher. So trusting the process, as difficult as it was in real-time, to me was the big lesson for 2020 as a market strategist.

**JIM:** Looking back, too, I feel like even an optimistic person back in March and April wouldn’t have expected things to get better at the speed with which they did. Is that fair to say?

**JURRIEN:** Yes. Yes. This is where the policy response that I mentioned earlier really comes into play. You know, the speed and the magnitude of not only the fiscal policy response via the CARES Act, that was about $3 trillion, and then the monetary response, the Fed adding $3 trillion to its balance sheet in very, very short order, bringing rates down to zero and basically promising, for lack of a better word, that rates are not going to go up until inflation not only reaches 2% but averages 2% for a while. That could be years away. So the magnitude and speed of that double-barreled policy response is something that we’ve really never seen before and in real-time. Because you’ve never seen it before, it’s hard to know what the impact is. But in retrospect, it was a huge impact, and it allowed the market to kind of jump the gun and recover much faster than the economy. Remember how often we were talking about the disconnect between the markets and the economy. The markets turned out to be pretty, pretty darned correct back in March, April, May.

**JIM:** Leanna, I’d love to get your take on this part of the conversation as well now, too. You have that great boots on the ground perspective from talking to customers, you and your team, literally pretty much every day. What are they saying about lessons learned from 2020? And what are they thinking about what’s to come?
LEANNA: What I think I hear most from clients on lessons learned or hindsight 2020 is that I wish I had started sooner, and that is not just for the year 2020, but we had a lot of curveballs. So we heard that a lot. But if it’s clients who sit down to begin retirement planning, they say and ask: What if I did start saving in my 30s or 40s? What would have retirement looked like? I think outside retirement, even 10, 20-year goals, it can feel far away. I know my husband and I, we’re having our first baby on the way, and so many relatives are saying: All right, start saving for college now. We are thinking about the cost to get a nursery set up and we’re like that’s 18 years away. But we know that if we save early, save often, it will make a big difference over time. That’s the power of compounding.

This chart, it does show the potential effect of compounding. You can see the dark blue here is contributions. That’s assuming $5,500 per year annually. And then the green is showing the earnings, how much it grows. So this is showing age 40, so it is assuming retirement planning. But even if it isn’t retirement and longer-term goals, we can see the impact of investing over the years and how much greater the earnings come with time. So at ten years, your contributions are $55,000, and then the earnings with that compounding growth is $81,000 over ten years. But fast forward. Let’s even look at 30 years of investing. Those contributions are $165,000, but the earnings are at $385,500. So that’s the power of compounding.

And just to say what compounding is, it’s when your invested money is earning a return and that return is then added to the balance. But the key point is remaining invested. We are not taking the earnings out. So we show this to clients and some will say: Gosh, it’s too late, or I need to play catch-up. I would just say it’s never too late to get started. You can do it as early as today. You don’t have to wait until January 1st. Set up that plan, automate it, and invest. And a little goes a long way.

JURRIEN: Yes. I would just add to that. Sorry, not to interrupt. But part of the magic of compounding is to let it actually do its work, right? So selling when the market goes against you and then trying to re-time or time the re-entry, you are breaking that chain of compounding. Part of the magic here is that you do it and you stick with it no matter what.

JIM: I’m glad you brought up the idea, too, of college savings, too, because that’s where my mind goes with two younger kids, not necessarily—retirement is a concern for me, too, but retirement is more of my long-term things to think about. School is sort of the more medium term. Before I forget, congratulations again on expecting. That’s great. Your webcast family knew about it, but this is the first time we’ve talked about it to the larger audience. Congratulations. That’s awesome news.

LEANNA: Thank you.
JIM: I wanted to ask two—maybe just take it down a little bit more tactical, too, for folks who might be thinking about different strategies, what should they do in the new year that maybe they haven’t done before, or maybe it’s a resolution that sort of fell off the tracks a little bit. What are some more tactical steps people can take?

LEANNA: I think starting with the foundation and what is needed. I always say have a plan, stick with your plan, staying invested. But also, first, starting with goals. We do goal-based planning in helping our clients. These four tiers are a great way to help build that foundation and organize.

So, first, budgeting. No one likes the B word, but we do recommend spending no more than 50% of your income on essential expenses. And when you are retired and that paycheck goes away, it is really important to know your spending. We actually see that about 85% of your preretirement income is used as expenses in retirement. So knowing your expenses is again really important in helping build that plan.

Second is debt management. So we saw a lot this year. We have been home a lot more and some of our costs have gone down if we are not going on vacations or restaurants more. So we’ve actually seen some positive news of clients being able to pay down some credit card debt, some of the bad debt. But we are also seeing with this interest rate environment being low, as Jurrien just mentioned, and staying low, we have seen a lot being able to refinance their homes as well. That’s debt management.

Third is saving and investing. So it does start with an emergency fund, having three to six months of expenses in cash, and then understanding the goals. So, Jim, if it’s college for the boys or a longer term for retirement, we want to build a diversified portfolio and invest. Save and invest.

And then last, protecting what you have. Really important this year, looking at your beneficiaries, will, estate, insurance for protection needs, and then also here you can see healthcare proxy. Those four areas.

JIM: I’m not sure if you remember, middle of the summer we were talking about protecting your legacy and your will, and I mentioned that my wife and I were working on updating ours. It took several months. As a matter of fact, the final copies of everything just came in this week. Tons of work. But to your point exactly, huge relief off our shoulder now or huge relief now to know that that work is done.

LEANNA: Yes.

JIM: Jurrien, I would love your perspective. I know that sort of as a student of history, you must get a variant of this question a lot. But as we look ahead to 2021, what are you looking for in terms of guideposts or signals from the market that might give folks sort of a toe-hold in terms of what to expect about what is to come?
JURRIEN: Sure. As we know, the markets always look ahead, they are always discounting the future. After this very big run-up, the S&P 500 is up about 70% from the low. Very, very impressive performance. The market is expecting that gap that I talked about earlier to close, right? I talked about this in the past. If the economy was at 100% in February, it fell to 20% in March and April. It is back to—it got back to maybe 70% a month or two ago. It is maybe kind of going back down a little bit to 60% or so just because of the incremental lockdowns that we all know are happening. And the expectation is that that gap will obviously eventually close, especially with vaccines now being rolled out and more fiscal relief, which again builds that bridge to the other side of the pandemic.

But now it becomes a question of how long does it take? How many setbacks are there? We heard the story in the UK about a new strain of COVID. So there are still questions to be answered. But the market is expecting that gap to be closed. And I think, as a result, I personally am not expecting a huge gain next year even though the economy actually could have a huge gain as everyone sort of gets back to normal eventually because the market always looks ahead. I think a lot of that is priced in.

So, for me, 2021, when I look at what’s ahead for the market, it is less about the top line. The DOW is going to be up 10 or it’s going to be up 20 or the S&P or this or that. It is going to be more the internals of is it going to be the large cap growth stocks or is it going to be value? Because value is more tethered to economic activity and the large growth is more if everyone is staying home, they are still buying stuff online. So I’m looking more at kind of the sausage-making below the surface in the markets rather than saying a market is going to be up or down because a lot of that is already priced in. And so that’s where I’m going to take my cues in 2021.

JIM: Perfect. All right. Before we go, one more question for both of you. I would love it if you could suggest one financial New Year’s resolution to our viewers. If you could suggest one thing, what would it be? Leanna, you first.

LEANNA: All right. I’m going to have conservative New Year’s resolutions. I would say creating that emergency fund. So if 2020 taught us anything, it is important to be prepared for the unexpected. Having three to six months of expenses in cash, keep it in a savings account safe. And if that is too much, it is that rule of let’s set up an automatic investment in monthly out of sight/out of mind until that emergency fund is built.

And I’m going to give one more bonus. Two, make sure your beneficiaries are in order. We did see a lot of curveballs again thrown, and so you want to make sure your beneficiaries are up to date. God forbid something happens. With that, there were many health tragedies and health scares, so adding an authorized individual or power of attorney to your accounts as well.
JIM: Yeah. I bet you hear stories all the time about a beneficiary that didn’t get updated, the unthinkable happens, something tragic happens, of course, no one was expecting it to happen, and then the names are blank, or the names are the wrong names. It is an ex-spouse or something like that. That can be compounded.

LEANNA: That is contract. So, yes, that’s why you want to make sure it’s up to date, absolutely.

JIM: Definitely. Okay. Jurrien, to you?

JURRIEN: Yeah. I man, this is always a subject near and dear to my heart because I’m a firm believer in actually not having New Year’s resolutions but having everyday resolutions, not only financially but just in life in general. Wake up every day, instead of waiting until January 2nd to join the gym—nobody is really joining gyms right now anyway—just get on the bike and just do it. And I think that doesn’t necessarily mean that every day we have to wake up and say: Oh, my God, what am I going to do with my investment portfolio? It just means don’t wait until some arbitrary date like a birthday or New Year’s Day. Just have that plan in motion. Make sure that all the—you know, you’ve checked all the boxes. And then, like we said earlier, let the process do its thing. Talk to your financial person like Leanna or one of her colleagues. Make sure your portfolio gets rebalanced either proactively or automatically through some sort of portfolio that is being managed for you at Fidelity. But just always be kind of aware and just being present and in the moment. It is hard to do sometimes, especially in 2020 because we all just want it to be over with. But being kind of anchored in the moment basically allows you not to have to do that once a year because it can be very overwhelming and then you burn out and then it doesn’t work. If you do it in little increments every day or every week, I think that’s a good strategy.

JIM: Thank you both again for taking the time today and for pretty much every Tuesday for the past nine months to have this meeting with us and to share your insights with our viewers. Thank you for that. And thank you to our viewers as well.

Please remember that if you need help or if you just have questions about building or maybe updating your financial plans, especially as we look ahead to 2021, don’t forget that you can always call Fidelity to speak to one of our representatives. You can also visit our website or download the Fidelity app and check that out if you haven’t done so already. Those are great ways to get started getting your questions answered as 2020 ends, finally, and we move to 2021.

Again, tremendous thanks to Fidelity’s Leanna Devinney and Jurrien Timmer. Once again, thank you for joining us.

One quick programming note: We will be taking a couple of weeks off for the holidays, so our next live webcast will be January 12, 2021. Until then, stay safe, be well. Happy New Year. And we’ll see you in 2021.
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