Quarterly Newsletter

Q4

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Glass Half Full

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Like many of you, my wife Ellie and I found plenty of time in 2020 to watch television. Whether it was after a long day of work or after chasing a crawling baby around for hours and hours, it felt so nice to act like “bumps on a log” while lying on the couch with some entertainment flashing before our eyes. We marveled at the cinematography and the intense drama of The Crown, we were inspired by Michael Jordan’s greatness in The Last Dance, and we tried to guess the twists in each court case on Suits. However, the television series that we recommend the most that, frankly, shocked us by how much we enjoyed it was Ted Lasso, only to be found on Apple TV+ (one of the many new entrants in the “streaming wars” trying to take market share from Netflix.)

Ted Lasso tells the tale of an American Division II college football coach who, after becoming a minor internet sensation based on a viral video of a locker-room victory dance, is hired by an underperforming English Premier League soccer team to be their new head coach – even though he does not know the first thing about English “football.” The hilarity initially comes from him being a “fish out of water” in a new country with a new sport but using the same types of inspirational coaching that lead him to be a success in college football (albeit Division II.) Lasso is an eternal optimist who, though faced with an underperforming team who think they will continue to be a laughingstock with Ted at the forefront, finds a way to lift the spirits of those in the organization and [spoiler alert] bring the team together.

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Watching an optimistic show, such as *Ted Lasso*, made me realize how easy it is to fall prey to the whims of pessimism in our own lives. Pessimism is addicting and can easily be fanned on by simple things, such as watching/reading the news. Fear is a much stronger emotion than hopeful anticipation. I find that many "soothsayers" in the financial media like to partner the two – pessimism and fear – and provide what sounds like really thoughtful and intelligent analysis to take advantage and, more easily, convince the listener to follow their advice ("it's what the 'smart' money is doing.")

Case in point: it is common for the investment community to make a case about what is going to happen in the days and weeks following an election. They use probability charts to map out which political party will win the presidency and Congress to attempt to determine what is "priced" into the markets and predict which asset classes will outperform once the results are announced. Up front, they sound really smart – mission accomplished! Depending on the listener's point-of-view and potential rooting interest in the elections, it is easy to be swayed by the predictions: fear of higher taxes and more debt if Democrats win vs. more trade uncertainty and slower near-term economic growth if Republicans win (due to less potential stimulus.)

In 2020, investors that let their pessimism overwhelm them entering November missed a large rally for the month following the announcement of an effective COVID-19 vaccine. The announcement provided plenty of optimism for 2021, with the economy expected to bounce back close to the trendline from pre-COVID and with plenty of pent-up demand (and cash) for experiences and purchases that were not possible in a locked-down 2020.

With that optimism, though, came the temptation of pessimism from loud voices – voices that state that to be optimistic is to be complacent. The temptation to think of what could go wrong is enticing for multiple reasons. For one, it makes you want to act. Anxiety causes a reaction in us that makes us feel that if we do nothing, we are just waiting to get picked off and are therefore weak. It narrows our timeframe to days, weeks, and months as opposed to years, decades, and generations.

One of our goals as financial planners is to help you define the timeframes in which you need the funds for the things you want to do and accomplish with your savings and then invest accordingly. Cash, for example, is not necessarily pessimistic if held for the purposes of being used for needs/wants in the next year or so. This is not pessimism – it is realism. Markets can do anything in the short-term, due to the emotions of those who are buying/selling. It is very pessimistic to hold cash, however, if thinking about the many years that you, your spouse, or the generation(s) that follow you will have.

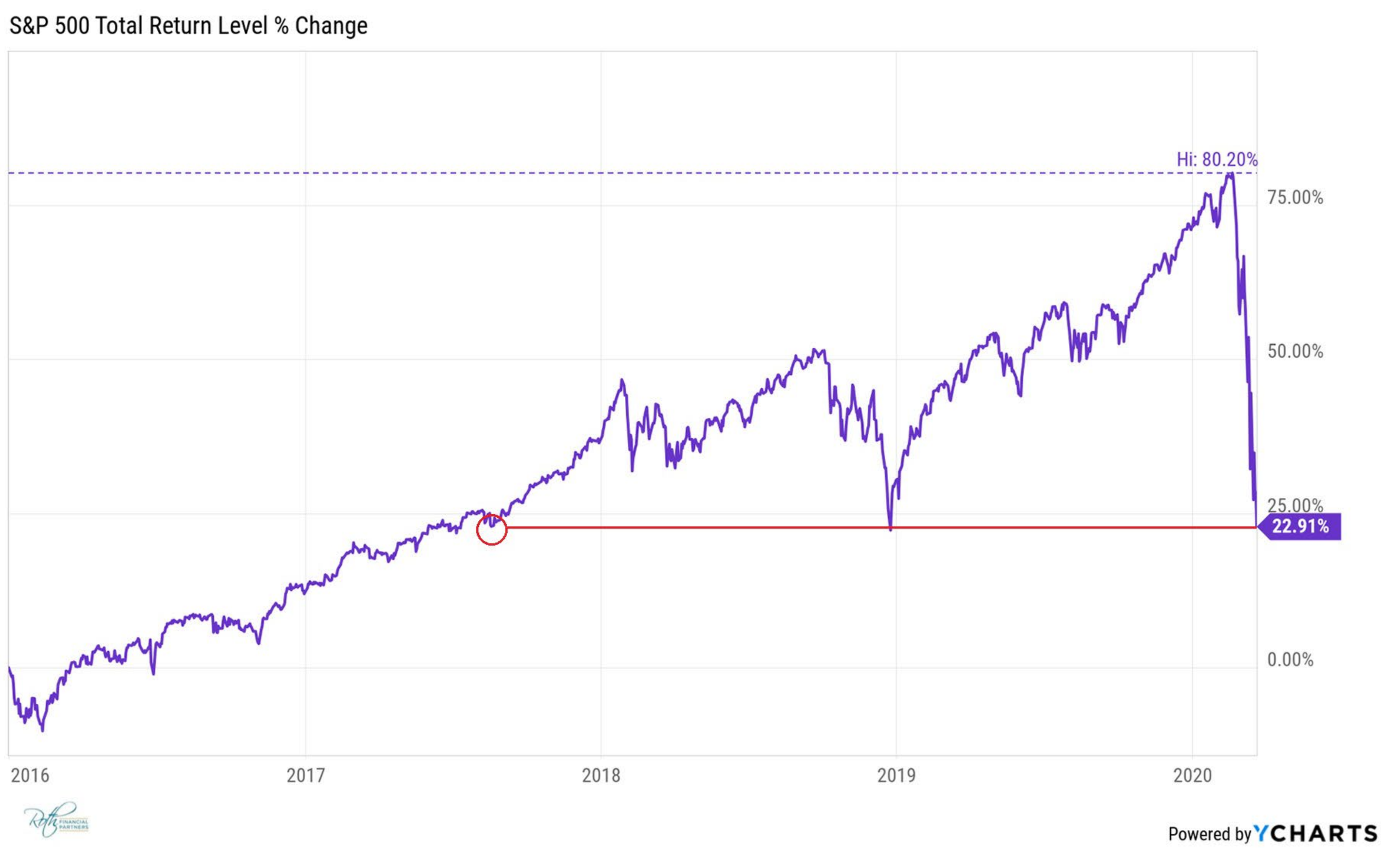
It has been said that the longer the time horizon, the safer it is to own stocks and the riskier it is to own cash – for this we agree. Per Harris Associates, since 1950, the worst possible single calendar-year return you would have experienced by investing in the S&P 500 was a 39% calendar-year decline. Lengthen that timeframe to ten years, and the worst ten-year period was a loss of 1% annualized – not great but not destructive to a plan if that potential is considered. Finally, by adding one more decade to make it a 20-year time horizon, the worst return was a gain of 6% annualized - hence, the importance of a long-term time horizon.

It is easy to fall back on pessimism. However, if we look at the long stretch of history and the developments that humanity has accomplished, it is worth the extra effort to look forward with optimism and excitement for what is to come.

Surprises

Daniel Kahneman, the Nobel Prize-winning psychologist and author of Thinking Fast and Slow, once said "…what you should learn when you make a mistake because you did not anticipate something is that the world is difficult to anticipate. That's the correct lesson to learn from surprises: that the world is surprising." This belief is humbling and is in opposition to the "soothsayers" previously discussed. It is enticing to look back to mid-March 2020 and kick yourself for not knowing that the drawdown (which was the fastest 30%+ decline in history) was a mere "flash-crash" and that we would be at all-time highs again within the calendar year.

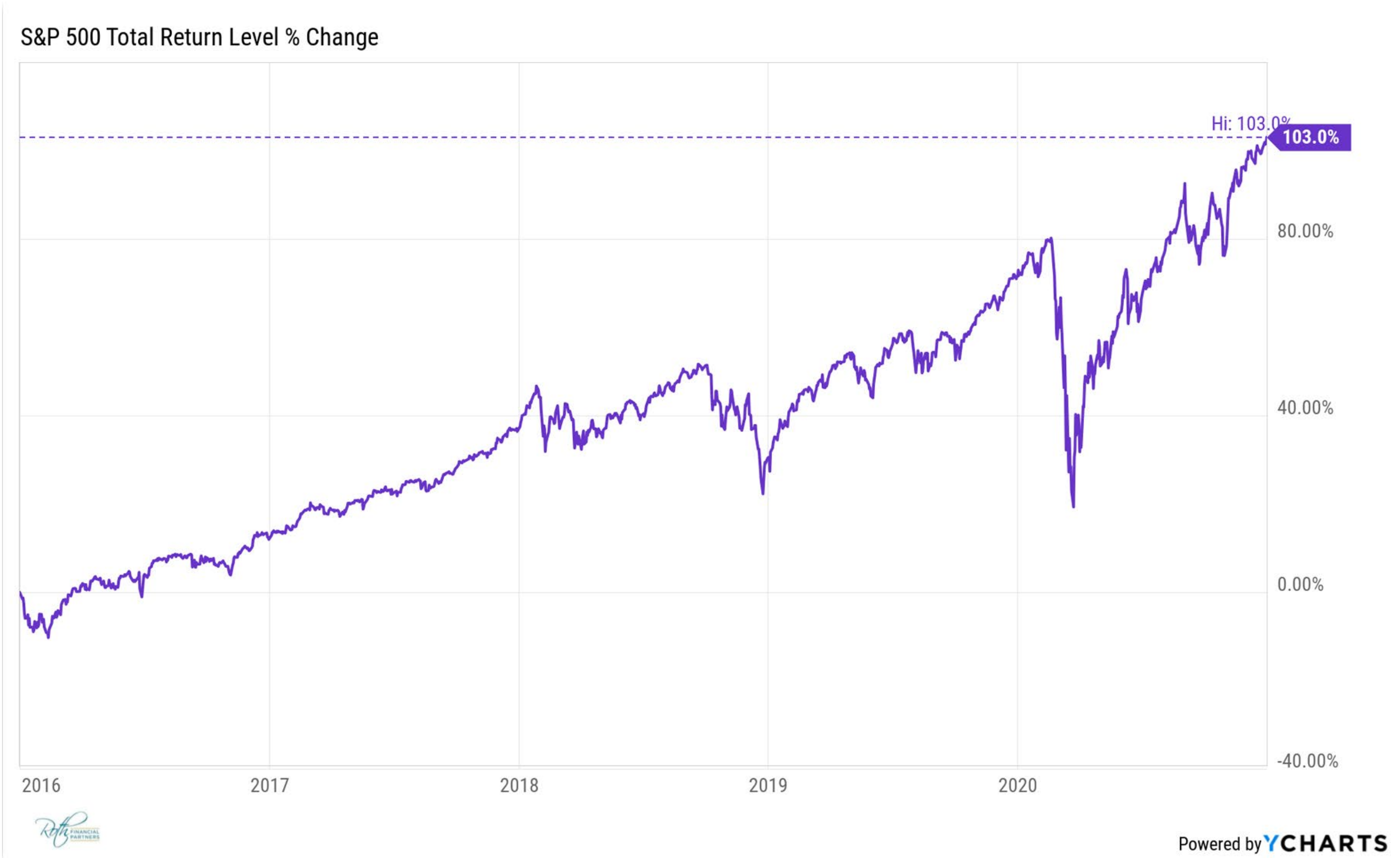
Please, do not kick yourself and scuff those shoes! It is okay to be surprised. This is what you saw if you looked back at the S&P 500 (with dividends re-invested) from the end of 2015 to the trough of the 2020 drawdown (for a timeframe of a little over four years):



An investment in the S&P 500 on 1/1/2016, a group of the largest American-domiciled publicly traded companies, which was up over 80% through mid-February 2020, fell to total return levels that were first "accomplished" in mid-2017. This was not fun. Seeing almost three years of returns seemingly disappear is galling.

I specifically remember Pete giving Jimmy and me a very-Ted Lasso-esque speech on March 16th, following a day in which the S&P 500 fell almost 12%. Though he had not witnessed a drawdown at this speed (no one had!), he understood and helped impart to us the truth that these surprises happen and that all we can do is seek to create financial plans that can weather such surprises.

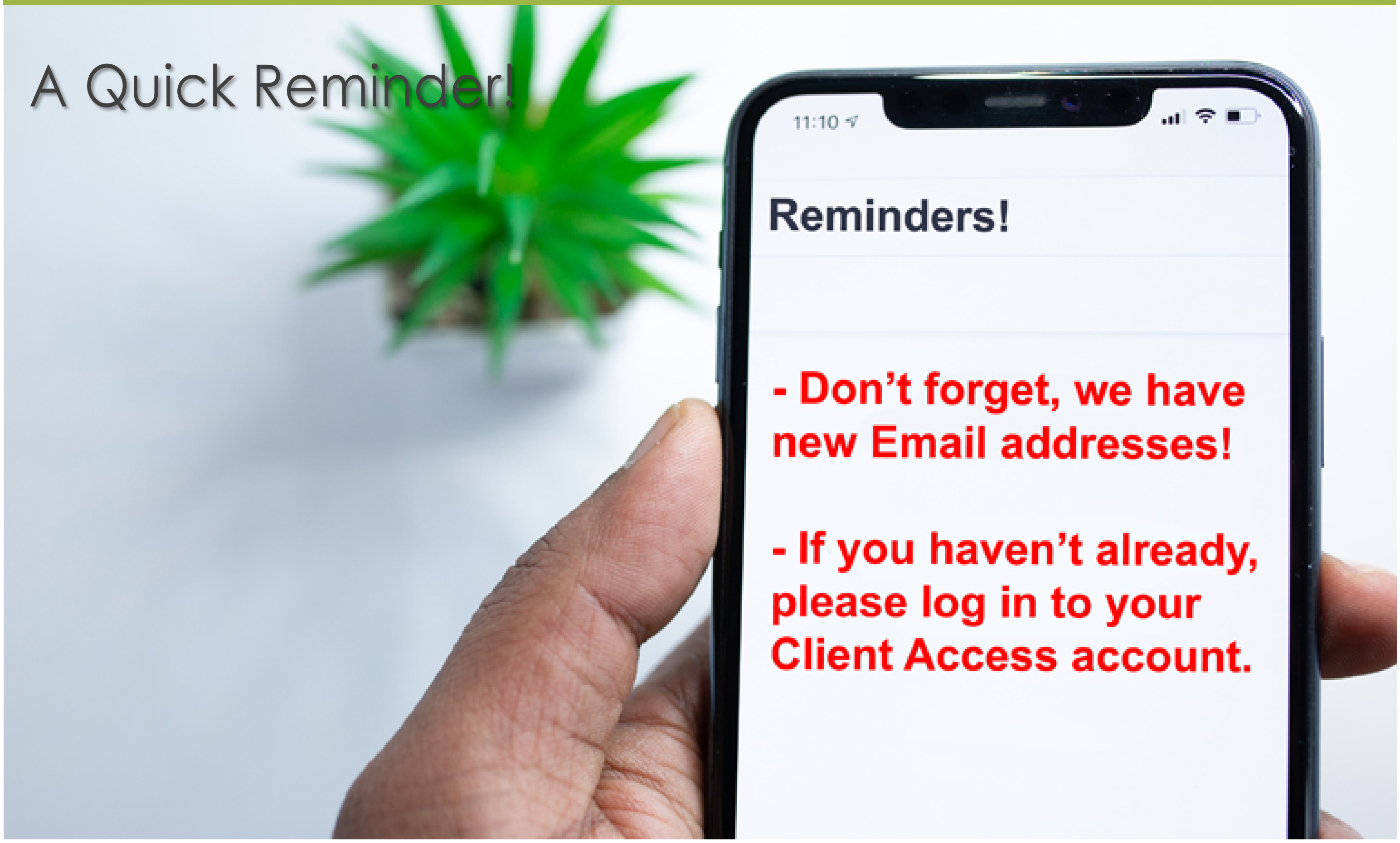
Well, fast forward several months, and the five-year total return chart for the S&P 500 looks like this, as of 12/31/2020:



The index more than made up for the March losses and we find ourselves again at all-time highs. To reiterate, it is okay to be surprised by this fact!

Anything can happen in the short-term. Once again: the world is surprising!

We are excited to continue to be able to serve you as your financial planners and look forward to many more years and many more surprises to come. If you need anything, please reach out to us – we look forward to our next interaction!



As we have mentioned to you during recent conversations and email exchanges, our transition to becoming a fully independent registered investment advisor (RIA) last fall is complete, and everything went very smoothly. To reiterate, nothing has changed on your end. Raymond James continues to be the custodian of your assets and our relationship with them remains intact, just in a different way behind the scenes. The *only* things that have changed are our email addresses (which are no longer @Raymondjames.com). As a reminder, our new email addresses are:

Peter.roth@rothfinancialpartners.com
Jimmy.roth@rothfinancialpartners.com
Eric.johnson@rothfinancialpartners.com
Cindy.guynes@rothfinancialpartners.com
Stephanie.powers@rothfinancialpartners.com

Additionally, if you have not logged in since our transition last October, we ask that you take a moment to do so as it then will re-enable our ability to mirror what you see on your account page for future phone calls and reviews.

You can continue to log in to your online account directly via Client access: https://clientaccess.rjf.com/ or by visiting our website www.rothfinancialpartners.com and clicking the yellow button in the top right corner titled, "Client Access." As mentioned above, your login credentials all remain the same.

If you have any questions, please don't hesitate to call **(281) 973-8816** or email us.

Around The Office Updates

Looking Into Q1

Preparing for Tax Season

Round one of 2020 tax documents (i.e. 1099) will be sent by February 15th. If necessary, rounds two and three will be February 28th and March 15th respectively.

Christmas With The Kiddos

The days of a quiet, slow, and peaceful Christmas morning have come and gone. The age of over-excited children eagerly tearing open their Christmas presents at 6:00 am has arrived! Kaylee (3) could not contain her excitement this year as she ripped open her presents and discovered troves of new costumes and clothes to wear. Meanwhile, Maggie (1) thoroughly enjoyed crawling in and out of cardboard boxes for most of the day. In a year where Christmas parties and festivities were mostly non-existent, Jimmy and Sandi found lots of joy in watching their kids light up on Christmas morning. Additionally, after many months of consideration and debates, they made the jump and bought a minivan! 15 minutes into the inaugural drive, Kaylee christened it by going to the bathroom in her pants. Hooray!

Moving And Grooving

With each passing day, Abe (1) is learning to maneuver around the house with both incredible skill and speed. Eric and Ellie have gone from chasing their dog, Sprout, around the house to chasing both Sprout and Abe. While Sprout may be faster when it comes to racing, Abe is able to open cabinets and pull himself up on the furniture (such behavior is often frowned upon for dogs). With each passing day, Abe continues to grow quickly and put smiles on the faces of everyone he sees – he is a very happy baby. In a year that has been filled with lots of ups and downs, Eric and Ellie are extremely thankful for their family and count themselves blessed to have such a joyous child in their lives.

Ending The Year On a High Note

As the end of 2020 approached and winter descended upon us, Pete was buried deep in his workshop completing his 7th handmade acoustic guitar! As you may know from conversations with Pete, it takes many months to complete one of these guitars. Each step of the way requires planning, accuracy, precision, and care. But building guitars is more than just detailed work – there is a remarkable level of joy and accomplishment that comes from completing a custom guitar, and this particular one was a special project. Pete spent most of the year planning and crafting this guitar as a surprise Christmas gift to his sister. The look of surprise on her face when she received it was the perfect way to end 2020 on a high note.