



Rodney's Take

December 21, 2020

Time To Take Out the Trash Before Everyone Else Does

Today marks the shortest day and the longest night on the calendar. We're just a few days from Christmas and 10 days from the end of a crazy year. Over the past several decades, we've had horrible events like 9/11 and wars and we've had terrible economic meltdowns like the Great Financial Crisis. But a pandemic compounded by economic lockdowns, a polarized election, and racial unrest? This year is unlike any other.

To make it more surreal, the markets are screaming.

Everyone has a theory as to why. Investors are looking toward the end of the pandemic, not at what's happening today. Companies are squeezing more productivity out of existing assets and will shed expensive fixed costs like office space. The indices are heavily weighted to tech and goods-producing companies, so we're not seeing the harm to the services sector in stocks. And my personal favorite, the Fed (and other central banks), made us do it. By printing trillions of dollars, holding assets near zero, and pledging to continue these policies for at least a year, the Fed has created excess demand for risk assets.

I think it's all of these things combined, with a heavy emphasis on the Fed, which should make next year very interesting. But before we get there, we have to close out 2020. A great way to do that is to take out the "trash"—and to do it before everyone else fills up the dumpster.

With just eight trading sessions left, investors should be laser focused on examining their investments to determine what should stay there and what needs to go. We've been given the gift of time to match fabulous gains in index funds from the Nasdaq 100 (QQQs) to the S&P 500 (SPX) and in individual stocks like Tesla and Zoom against laggards such as airlines and financials. "Cleaning house" financially takes on extra significance as we get ready for a new presidential administration. While it's unlikely that Biden & Co. will be able to push through significant tax changes like higher capital gains and personal income tax, it's still possible, and such changes are definitely part of Biden's economic vision. Why risk it when you can lock in low rates today?

This is Personal Financial Management 101, but it also holds true for funds, family offices, and hedge funds. Everyone is looking at the same set of facts: we've had a great year, with some areas doing much better than others, and the political future is uncertain. As the year winds down, the markets could swing, as investors of all size reallocate their portfolios to jettison laggards and to position for next year. Individual investors aren't likely to move the markets. Instead, we're likely to be pushed around by institutions and program traders. The best thing we can do is take out our financial trash early, position ourselves for the first quarter of 2021, and then give ourselves the best present possible this holiday season: time to relax.

If you haven't already, take a hard look at your portfolio today. Decide what to keep, what to cut loose, and what to buy. Make your closing trades of 2020, and then take a well-deserved rest. It's been a long year.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.