

*From the desk of GS Wealth Management*

# MONTHLY ECONOMIC UPDATE

February 2021

## MONTHLY QUOTE

*“Believe you can and you’re halfway there.”*

*- Theodore Roosevelt*

## MONTHLY TIP

*At a 4% rate of inflation, expenses will double every 18 years. That’s a pretty good argument for maintaining some equity exposure in retirement.*

## THE MONTH IN BRIEF

### ***U.S. Markets***

Stocks were mixed in January, giving up much of the month’s gains in the final days of trading, as unprecedented activity in a handful of companies roiled markets.

The Dow Jones Industrial Average dropped 2.04 percent and the Standard & Poor’s 500 Index fell 1.11 percent. By contrast, the Nasdaq Composite gained 1.42 percent.<sup>1</sup>

### ***Mixed Signals***

The stock market stumbled at the start of the month, retreating amid the slow pace of vaccine distribution and concerns that the economic recovery might take longer than anticipated.

However, stocks regained some upside momentum on news of strong manufacturing data, firmer oil prices, and hopes for an additional fiscal stimulus.

### ***“Act Big,” Says Yellen***

After touching record highs, stocks drifted lower again, weighed down by rising interest rates, which caused some concerns over current stock valuations.

Market sentiment improved after testimony from incoming Treasury Secretary Janet Yellen to the Senate Finance Committee that lawmakers needed to “act big” on fiscal stimulus, thereby raising hopes for substantial federal spending.

### ***Earnings Season***

Investor enthusiasm was further supported by a strong start to the fourth-quarter earnings season. With 37 percent of the S&P 500 index companies reporting at month-end, 82 percent reported a positive earnings surprise.

Nonetheless, quarterly reports haven't always translated into higher stock prices. In fact, the share prices of the companies that reported positive earnings surprises fell an average of 1.2 percent in the two days preceding and following the earnings release.<sup>2,3,4</sup>

### ***Lesson in Short Selling***

Stocks closed the month on a volatile note as many retail investors were introduced to the concept of short selling and how it can influence a stock's price. This unexpected buying activity roiled markets and fueled a sharp rise in several stocks.

To sell short, investors are required to open a margin account. Selling short is not suitable for everyone, as margin trading entails greater risk, including the risk of unlimited losses in a position and the incurrence of margin interest debt. You should consider your financial situation and risk tolerance before trading on margin.

## ***Do Our Biases Affect Our Financial Choices?***

*Even the most seasoned investors are prone to their influence.*

Investors are routinely warned about allowing their emotions to influence their decisions. However, they are less routinely cautioned about their preconceptions and biases that may color their financial choices.

In a battle between the facts & biases, our biases may win. If we acknowledge this tendency, we may be able to avoid some unexamined choices when it comes to personal finance. It may actually "pay" to recognize blind spots and biases with investing. Here are some common examples of bias creeping into our financial lives.

Letting emotions run the show. An investor thinks, "I got a great return from that decision," instead of thinking, "that was a good decision because \_\_\_\_\_."<sup>5</sup>

How many investment decisions do we make that have a predictable outcome? Hardly any. In retrospect, it is all too easy to prize the gain from a decision over the wisdom of the decision, and to, therefore, believe that the findings with the best outcomes were the best decisions (not necessarily true). Putting some distance between your impulse to make a change and the action you want to take to help get some distance from your emotions.<sup>5</sup>

Valuing facts we "know" & "see" more than "abstract" facts. Information that seems abstract may seem less valid or valuable than information that relates to personal experience. This is true when we consider different types of investments, the state of the markets, and the economy's health.<sup>6</sup>

Valuing the latest information most. In the investment world, the latest news is often more valuable than old news. But when the latest news is consistently good (or consistently bad), memories of previous market climate(s) may become too distant. If we are not careful, our minds may subconsciously dismiss the eventual emergence of the next bear (or bull) market.<sup>6</sup>

Being overconfident. The more experienced we are at investing, the more confidence we have about our investment choices. When the market is going up, and a clear majority of our investment choices work out well, this reinforces our confidence, sometimes to a point where we may start to feel we can do little wrong, thanks to the state of the market, our investing acumen, or both. This can be dangerous.<sup>7</sup>

The herd mentality. You know how this goes: if everyone is doing something, they must be doing it for sound and logical reasons. The herd mentality is what leads many investors to buy high (and sell low). It can also promote panic selling. The advent of social media hasn't helped with this idea. Above all, it encourages market timing, and when investors try to time the market, they frequently realize subpar returns.<sup>8</sup>

Sometimes, asking ourselves what our certainty is based on and reflecting about ourselves can be a helpful and informative step. Examining our preconceptions may help us as we invest.

### ***What Investors May be Talking About in February***

In the month ahead, expect President Biden to continue outlining his agenda. A newly elected president's first 100 days often set the tone for the next four years.

Investors will be looking at his initial priorities as well as how he and Congress will work together. Policy changes can sometimes introduce uncertainty into the markets even as companies wait to learn of new businesses and investment incentives.

## ***The Fed***

Fed officials believe that economic weakening due to the resurgence of COVID-19 cases is temporary. They also noted that despite the hiccups in the vaccine distribution, they would wait and see how the rollout proceeds in the weeks ahead before considering any actions.<sup>9</sup>

“The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals,” Fed officials said in a prepared statement at the conclusion of their two-day meeting on January 27, 2021.<sup>10</sup>

### **MARKET INDEX**

### **Y-T-D CHANGE**

### **January 2020**

DJIA	-2.04%	-2.04%
NASDAQ	1.42%	1.42%
S&P 500	-1.11%	-1.11%

### **BOND YIELD**

### **Y-T-D**

### **March 2020**

10 YR TREASURY	+0.17%	1.09%
----------------	--------	-------

Sources: Yahoo Finance, January 31, 2021

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

**214-276-0808**

**[www.gswealthmgmt.com](http://www.gswealthmgmt.com)**

***Please feel free to forward this article to family, friends or colleagues.  
If you would like us to add them to our distribution list, please reply with their address.  
We will contact them first and request their permission to add them to our list.***

---

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. The information herein has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All market indices discussed are unmanaged and are not illustrative of any particular investment. Indices do not incur management fees, costs, or expenses. Investors cannot invest directly in indices. All economic and performance data is historical and not indicative of future results. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalization in the FTSE Developed Europe Index. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. Established in January 1980, the All Ordinaries is the oldest index of shares in Australia. It is made up of the share prices for 500 of the largest companies listed on the Australian Securities Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The FTSE TWSE Taiwan 50 Index is a capitalization-weighted index of stocks comprising 50 companies listed on the Taiwan Stock Exchange developed by Taiwan Stock Exchange in collaboration with FTSE. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting, or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

CITATIONS:

1. The Wall Street Journal, January 31, 2021
2. FactSet Research, January 22, 2021. "Earnings Insights."
3. FactSet Research, January 29, 2021
4. FactSet Research, January 25, 2021
5. CNBC.com, September 28, 2020
6. Forbes.com, March 26, 2020
7. Forbes.com, March 19, 2020
8. CNBC.com, June 26, 2020
9. The Wall Street Journal, January 27, 2021
10. FederalReserve.gov, January 27, 2021