**Covid—A Year Later**

This time last year, the World Health Organization recently had declared that the spread of Covid-19 constituted a [[<https://www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020> worldwide pandemic]].

Stringent measures in the U.S. were being taken to slow the spread of Covid and “flatten the curve.” The lockdowns and shelter-in-place orders dealt a body blow to U.S. economic activity.

Investors, who attempt to price in economic activity over the next six to nine months, had no prior experience to handicap a shutdown and eventual reopening of the economy. It was if we were driving through a dark and foggy night with no headlights to guide our path.

Consequently, investor reaction was swift, and the first bear market since 2009 descended upon investors. Volatility was intense. In just one day, the Dow Jones Industrial Average lost nearly 3,000 points, or 12.9% (March 16, 2020 St. Louis Federal Reserve DJIA data).

That day accounted for over 25% of the Dow’s nearly 11,000-point peak-to-trough loss.

The major market indexes bottomed on March 23 (St. Louis Federal Reserve). The bear market lasted barely over a month if we use the broader-based S&P 500 Index as our yardstick. It was a swift decline, but it was the [[<https://www.reuters.com/article/us-usa-stocks-s-p500-bear-graphic/say-goodbye-to-the-shortest-bear-market-in-sp-500-history-idUSKCN25E2R9> shortest bear market we’ve ever experienced]].

The ensuing rally has been nearly unprecedented. Since bottoming, the S&P 500 Index advanced an astounding 77.6% through March 31. It is 3,972.89 close at the end of the first quarter put it within 1.65 points of the prior March 26 closing high. And that is on top of a series of new highs since the beginning of the year. Since the end of the quarter, the S&P 500 has gone on to top 4,000.

Let us back up and take a broader view.

If we review the six longest bull markets since WWII, the S&P 500’s advance over the first year tops all other prior bull markets. In second place at 72.4% is the bull market that began in March 2009. That run lasted into February 2020 (St. Louis Federal Reserve).

But I want to caution you that past performance does not always guarantee future results.

If we gauge the first year of the 1990s bull market, the S&P 500 had advanced 32.8% during the same period. It is an excellent performance for a period that runs about one year, but it would place the start of the long-running 90s bull market in last place among the six longest periods since WWII.

Where are we headed from here? You have heard me say that no one has a crystal ball. No one can accurately and consistently predict what may happen to stocks.

Nevertheless, let’s look at what’s happened in the second year of bull markets that were born out of [[<https://www.lpl.com/news-media/research-insights/weekly-market-commentary/look-back-bull-bear-market.html> bear markets that saw the S&P 500 Index fall at least 30%]].

Since World War II, there have been six other bear-market selloffs of at least 30%. In each case, the market posted strong returns in the first year, with an average gain of 40.6%. Gains ran into year two, with an average increase of 16.9%; however, the average pullback during those six periods: 10.2%.

So, let us not discount the possibility of a bumpy ride this year.

Treasury bond yields have jumped as the government has embarked on an expensive $1.9 trillion stimulus package and talk of new spending from Washington is gaining momentum. Further, bullish enthusiasm can sometimes spark unwanted speculation.

Might the economy overheat and spark an unwanted rise in inflation? Might rising bond yields temper investor sentiment? Up until now, investors have focused on the rollout of the vaccines, reopening of the economy and the benefits these are providing.

Today, momentum favors bullish investors, but valuations seem stretched, at least over the shorter term. When markets are surging, there is a temptation to load up on risk. Yet, we would counsel against being too aggressive.

Just as the investment plan takes the emotional component out of the investing decision when stocks are falling, it also erects a barrier against the impulse to load up on riskier investments when shares are quickly rising.

Life changes, and when it does, adjustments may be appropriate. Ups and downs in stocks are rarely a reason to make emotion-based decisions in our portfolios.

**Table 1: Key Index Returns**

|  |  |  |
| --- | --- | --- |
|  | **MTD %** | **YTD%** |
| **Dow Jones Industrial Average** | 6.6 | 7.8 |
| **NASDAQ Composite** | 0.4 | 2.8 |
| **S&P 500 Index** | 4.2 | 5.8 |
| **Russell 2000 Index** | 0.9 | 12.4 |
| **MSCI World ex-USA\*** | 2.1 | 3.4 |
| **MSCI Emerging Markets\*** | -1.7 | 2.0 |
| **Bloomberg Barclays US Agg Total Return Value Unhedged** | -1.2 | -3.4 |

Source: MSCI.com, Bloomberg, MarketWatch

MTD: returns: Feb 26, 2021—Mar 31, 2021

YTD returns: Dec 31, 2020—Mar 31, 2021

\*in US dollars

**Avoiding 7 retirement traps**

You have saved and invested for decades and you are gearing up for retirement, or maybe you have already left your job. While the idea of leaving your career behind may be appealing, it is a monumental change that can also be unsettling for some folks.

You will be sailing in a new direction, and you will take on new challenges. Your daily routine will dramatically change, and you will begin to rely on a lifetime of savings.

What should you do?

1. **A more conservative investment posture may be in order**. There was little reason for concern when you were 30-years old, and volatility struck. In fact, the idea of dollar-cost averaging and buying shares at a lower price may have been appealing. Besides, the market has a long-term upward bias, and it would be decades before you would tap into your 401k or IRA.

But today, market volatility can be much more disruptive. A big decline in stocks at the onset of retirement could create significant problems down the road. We will handle these conversations at your leisure, but a shift towards assets that are not as volatile may be more suitable.

It is not that we want to completely avoid equities. Some may be tempted to exit stocks. That might not be the right choice either.

Instead, we want to take on the right level of risk. In most cases, some exposure to stocks is the best path. But the growth-oriented strategies of your youth that helped build your nest egg should probably be tempered in retirement.

1. **Be careful taking Social Security too early**. There are some reasons to opt for Social Security when it becomes available at 62. For many, however, that will reduce their lifetime earnings from Social Security.

Today, the full retirement age runs between 66 and 67 years old, depending on the year you were born.

Individuals who collect Social Security beginning at age 62 receive [[<https://www.ssa.gov/oact/quickcalc/earlyretire.html> 25% less in monthly benefits]] than if they had waited until full retirement age. This assumes a full retirement age based on a date of birth between 1943 and 1954.

Delaying Social Security until 70 allows you to receive the maximum benefit that is available. It will provide you with an additional 32% over what you’d pocket at full retirement age, [[<https://www.ssa.gov/benefits/retirement/planner/1943-delay.html> assuming full retirement age based on a birthdate between 1943 and 1954]] (both examples are for illustrative purposes only).

Rules governing Social Security are complex, and the information we have provided is simply a general overview. Much will go into your decision to begin collecting your monthly benefit. It goes without saying that we are happy to lay out various strategies so that we can best position you when the time comes.

1. **Implementing the correct distribution strategy**. If all your retirement assets are locked up in a Roth IRA, taxes are much less of an issue when you withdraw for living expenses. However, many of us have our savings in a traditional IRA or 401k. Distributions will be taxed at your marginal tax rate. You may also be liable for penalties if you withdraw before the age of 59 ½.

Watch out for the required minimum distribution, or RMD, for your IRA, which now begins at 72 (70½ if you turned 70½ prior to Jan 2020). You may decide to leave your IRA alone until RMDs are required.

Some may choose to take withdrawals prior to 72 to reduce future RMDs and the potential tax implications of large withdrawals when they become mandatory.

Let me add that these ideas are general in nature. It is a complex topic that could be explored in depth. My goal is to make you aware of the idea. There are ways to maximize your benefits and minimize costs. We will tailor our recommended strategies to your specific needs.

1. **Spending too much or spending too little**. When you retire, your lifestyle will change. You will have the opportunity to enjoy new experiences and enjoy them on your terms.

But let me gently caution you not to overspend in the early years of retirement. Recognize that you will be living on a fixed income, and you have a finite ability to earn extra cash. This is especially true as you get older.

At the same time, some retirees can be too cautious about spending. They have ample reserves but sometimes guard them too closely. We applaud those who want to leave a financial legacy to their children, but balance that desire and have some fun in retirement.

1. **Be aware of scams**. I will not spend much time on this as I have written about fraud in the past and will gladly provide you with more information if you would like.

But be very leery of individuals and companies that prey on the elderly and their desire to grow their savings. We are always happy to provide you with an objective review of any investments you are presented. Remember, if it looks to good to be true, it usually is.

1. **Watch out for medical expenses**. You have Medicare and you probably have a supplemental policy. But deductibles and health expenses that are not covered by insurance are always a challenge.

It is important to budget for insurance and medical expenses that will likely occur as you get older.

1. **You may live longer than you expect.** Do not let the success of your retirement plan be predicated upon saying goodbye to your loved ones shortly after leaving the workforce. Life expectancy and longevity can only be estimated.

Some folks will live well into their 80s and 90s. Continue to plan as if you will be tapping your savings long after you have retired.

Lastly, stay active and volunteer. It will help keep you physically fit and mentally sharp. Just as we have a plan for your finances, it is critical to have a plan that keeps you active and helps you enjoy retirement.

I trust you have found this review to be educational and informative.

If you have any questions or concerns, I would love the opportunity to meet with you to discuss your retirement and investment goals.

Kind Regards,

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