

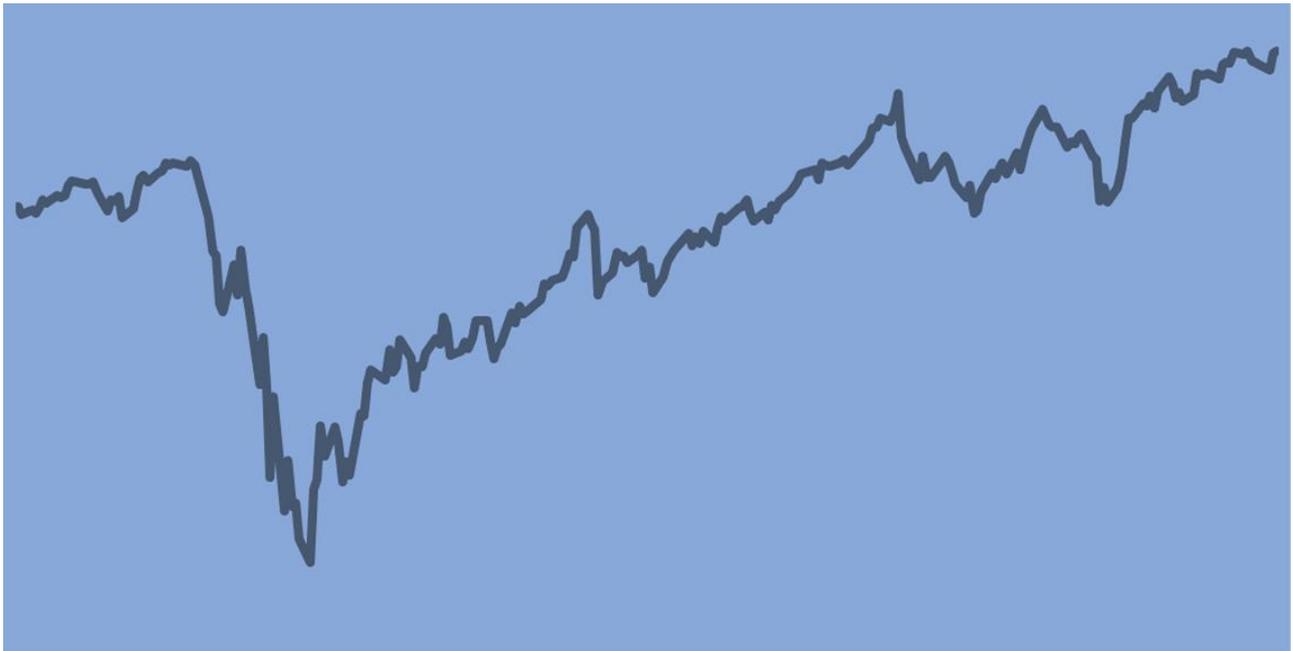


PRATO CAPITAL

An Eventful Year

January 2021

There is little disagreement that 2020 was a volatile and turbulent year in many ways. With a pandemic and a very divisive election, emotions ran high for many and finding reliable information became difficult. At Prato Capital Management, our goal is to always provide our clients with the information needed to make the best decisions for their long-term financial goals.



Relevant Information in Volatile Times

The chart above is a representation of the S&P 500 in 2020 and it shows just how volatile the equity markets were last year. 2020 generated many questions from our clients not only about the impact of this volatility to their portfolios but the long-term impact to their Financial Life Plan (FLP). Since the FLP is the foundation of our clients experience at Prato Capital, our communications strive to show the benefits of having a long-term investment strategy as part of an FLP.

Last year, we published newsletters, blogs, and videos to our website. If you have not visited our website recently, it has been redesigned and we are proud of the information on it ([click here for our website](#)). This is in addition to many posts on social media, hosting webinars, and emails and calls to our clients.

Several of our newsletters and blogs covered general financial information that our clients and other investors may find relevant and can be an important part of an FLP. Our March newsletter discussed taxes and the benefits of filing your taxes early. We think it is a good idea this year also. The August newsletter about Health Savings Accounts generated many great client discussions about the potential long-term financial benefits of this program. That is the purpose of these communications - to start conversations and answer questions from our clients.

Many of our communications over the past few years fall into the general investing category and this was true last year also. The main theme among these is the benefits of having a sound investment strategy and a portfolio appropriate for an investor's risk tolerance. Turns out that with the Covid-19 pandemic and resulting financial market volatility, this was especially important in 2020. Before the pandemic, our February newsletter discussed the advantages of a balanced and globally diversified portfolio, and in July the topic was fixed income and its role in that portfolio.

Through the stock market volatility of last spring and again this fall the theme of our communications turned toward maintaining a proper balance of an investment strategy and risk tolerance as part of a Financial Life Plan. Many of the communications focused on using “history as a guide” to show how past events have affected market returns and if any similarities can still be used as a guide now.

Our newsletter in May looked at whether the market volatility of the spring was different this time. The pandemic is different but the market reaction to economic and business uncertainty was similar to past market disruptions. The June newsletter and some of our videos discussed the “disconnect” between the stock markets and the overall economy. History has shown and we still see today that the stock market does not always go in the same direction as the overall economy. Our blogs from February through May focused on showing previous market disruptions and the market outcomes that followed. Markets can and often do reverse direction with no warning and rise quickly and dramatically. In the spring, as in past market disruptions, investors were rewarded by sticking with their investment strategy and risk tolerance by rebalancing portfolios to maintain a balanced and diversified portfolio.

As the Presidential election drew closer, volatility returned to the markets. Through our videos, webinars, and the October newsletter, we focused on past election market volatility and how the markets reacted once the election results were known. When using history as a guide we had seen short-term volatility return to more normal levels rather quickly. We have also seen throughout history that whoever sits in the White House does not have as much of an effect on future stock prices as the financial media would like everyone to believe. Again, investors were rewarded to look past short-term volatility associated with the election and maintain their balanced and diversified portfolio.

Most of our communication is focused on market downturns and the benefits of sticking to an investing strategy as a part of the long-term FLP. Emotions (fear and panic) can make any investment plan tenuous during market declines. It is equally important to keep the same investment strategy when markets rise. Again, emotions (greed) can get in the way of a sound investment strategy. The idea of maintaining an appropriate risk tolerance with a balanced and diversified portfolio through rebalancing can make investing less stressful and improve the chances of long-term success of an FLP.

Conclusion

A sound financial strategy starts with an FLP and has an appropriate investment plan designed before markets turn volatile. Using history as a guide through the market volatility in 2020, we have helped many of our clients avoid emotional and rash decisions that could have long-term negative impacts on their portfolios and their Financial Life Plan. The communications with our clients are meant to be timely and relevant to their financial needs. Not just as information but also as a conversation starter through the market's ups and downs.

No review of 2020 would be complete without recognizing the sacrifices and extraordinary response of all the essential workers in our economy to the public health crisis of the pandemic. This includes many of our clients and we are grateful for everything they do. We are also grateful to all our clients who place their trust in us and allow us to advise them through their life's financial journey.