Smart Investing Simplified®

Spring 2020

Client Newsletter

"These are the times that try men's souls...What we obtain too cheap, we esteem too lightly."
Thomas Paine

Should The Stock Market be in Quarantine?

First of all, I hope that all is well with you and your family and that you are staying safe during this challenging time. Many aspects of everyday life have been drastically altered, and I am sure you noticed that the financial markets have been shocked along with everything and everyone else. I am aware that there is no cliche or chart I can share with you to make you feel better. But....I'll try anyway!

Fear over the economic impact of the continuing spread of the novel (new) coronavirus (2019-nCoV) and the oil price war between the Middle East and Russia have delivered several weeks of historic volatility in global stock markets. The S&P 500 stock index recently fell into what's historically referred to as bear market price territory (a 20% decline from its most recent all-time high).

And, as usual when we experience short term market declines, you don't have to look very far to find plenty of alarming headlines predicting apocalyptic disaster if this current trend continues.

While it may be tempting to read these dire predictions, in truth, they offer little that's useful to an investor. Instead, these guesses about impending doom simply feed irrational fear. Fear, when acted upon, often works to your disadvantage.

Discipline + Patience > Fear + Worry

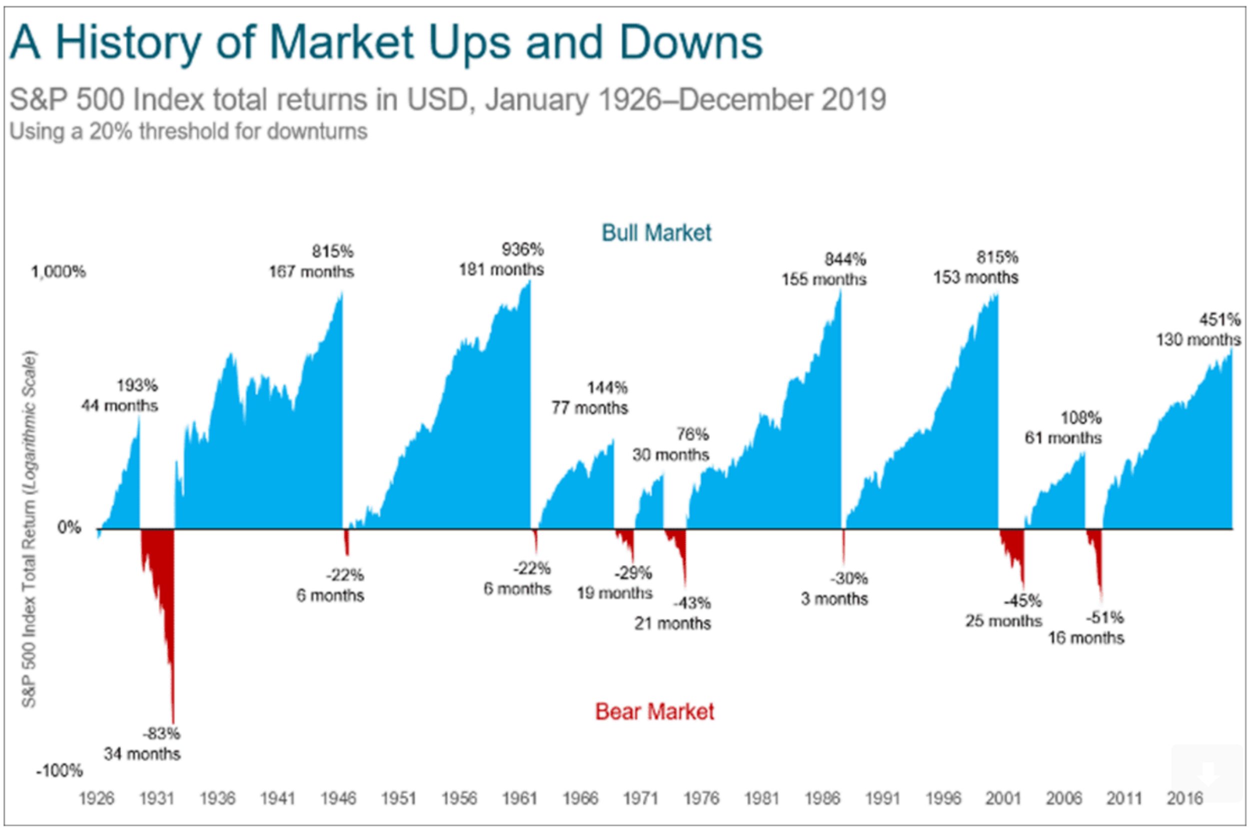
Discipline and patience are the most meaningful elements for prudent investors. Fear and worry aren't a foundation for long term-success.

"But this time it's different!"

Every market decline seems to be accompanied by this recurring theme. It's like the movie *Groundhog Day* where the main character wakes up and keeps repeating the same thing over and over. You could easily find other market-related scary headlines and fear-inducing stories in January of this year or May of last year. Don't bother looking for them, they won't actually enhance your investment experience or your long-term investment outcomes.

Informed investors who acknowledge the history of volatile markets understand that it's ALWAYS different. The future is random and unknowable. The likelihood we'll have to endure scores or perhaps hundreds of "this time it's different" scenarios over our investing lifetime is why we have an expectation that disciplined investing rewards the persistent investor.

Volatile Short-Term Markets Are Why We Reasonably Expect Long-Term Returns



Some historical S&P 500 Index facts that accompany the chart above:

- Markets tend to go up more than they go down, even after dramatic downturns
- Average intra-year pull back (temporary decline) for S&P 500 since 1980 is 13.8%
- The annualized rate of return (with dividends reinvested) for the entire period: 9.92%

Persistence
Volatile market periods like these are great reminders to return to the core principles of discipline. Here are three worth remembering and repeating:

Avoid the Noise: The Financial Media's job is to entertain you with controversy [fear, greed and speculation] so they can sell advertising. The truth is, nobody knows what will happen next. If they did, they wouldn't be on TV [or writing articles]. But if they can keep your interest with thinly-veiled guessing about what's next, you'll see lots of ads for so-called "superior" mutual fund managers, shiny luxury cars and certain pharmaceutical products.

Panic Pays No Premium: It's not always easy or fun along the way, but maintaining your investment strategy during times of short-term uncertainty allows your long-term investment program to work for you. As investors, we're depending on uncertainty and volatility to fuel the engine that beats inflation over meaningful time periods. Don't let emotion take over! It can have you buying and selling at exactly the wrong time. The one sure way to take a temporary decline and turn it into a permanent loss is to sell in the middle of the decline.

Marathons Are Not 26.2 x 1-mile Sprints: Long-term investing historically includes scores, if not hundreds of 1-day events that temporarily jolt markets in different directions. You should be following a strategy that does not require you be "correct" about short-term price movements in order to pursue market returns reliably. The disciplined investor following this path is more likely to be rewarded for maintaining long-term dedication to their strategy despite short-term volatility.
So, what should you do? Bolster your resolve to maintain long-term discipline and diversification rather than changing your current investment strategy. As always, if you have questions, concerns or just want a brief reassuring conversation about investing for the long haul, please let us know and we will schedule a time to connect.

Stay safe!
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All investing involves risk. Past performance is not indicative of future results.