DEALING WITH MARKET VOLATILITY IN TIMES OF WAR

"History doesn't repeat itself, but it often rhymes."
-Mark Twain

Financial markets dread uncertainty, and times of war certainly qualify—especially because it is currently unclear what the involvement of the U.S., E.U. and other allies will be in the Russia-Ukraine conflict. Unfortunately, war is part of the world we live in and always will be. Combine this conflict with the high inflation we are currently experiencing in our economy, and the results have been significantly negative. As I write this on February 24, 2022, the S&P 500 is now down 11.34% for the year, and the NASDAQ is -16.67%.[1] Oil prices are skyrocketing as well, with WTI Crude reaching over $99 per barrel. While it is easy to focus on all the negatives and uncertainties and make knee-jerk reactions, that is not the prudent thing to do for most investors.

In the past six months, we were recommending to many clients to rebalance their portfolios back to the allocation percentages they had in the prior year if they had become too aggressive. (See my article from last quarter's magazine.) Rebalancing is key to keeping risk levels where they should be in portfolios, and the time to do that is when markets are up. If you did not do so at that time, all is not lost. It may be a bit more of a roller coaster ride, but the markets will recover.

Let's take a bit of a look at history. The chart below illustrates the S&P 500 returns from 1926-2020.[2] As one can see, we have seen several downturns over this time frame, but the bullish markets have far outweighed the bear markets. Obviously, the worst period was during the Great Depression. However, World War II actually pulled us out of it quicker. The S&P companies were up 210% in the 49-month period from 1942 to 1946, after losing 19.8% initially in 143 days.[3] If one looks at the Gulf War of 1990-91, the S&P 500 performed well after losing 16.9% over a 71-day period and recovered fully in 189 days.[4] There are many other examples of this initial drop and subsequent recovery in history.

Even without wars, markets are volatile historically. In fact, from 1928-2021, 63% of years have had a 10% drop or more, and 26% of years have had a 20% drop or more. That equates to a 10% drop every two years and a 20% drop every seven years on average.[5] In 2020, when we faced the pandemic, a frozen and plummeting economy, a contentious political climate, and social unrest, the S&P 500 took less than six months to recover all of the 34% it dropped beginning in February.

So, what are the best steps to take now? For people who have cash on hand, it might be a good time to start buying a bit now or in the near future. Things are on sale from the previous highs. It may not be the bottom, but the deals are significantly better than a few months ago. We are back to where the S&P was in April of 2021 currently. For people who are retired and taking distributions from portfolios, it is important to avoid selling investments with the biggest losses for distributions that are needed. For those who do not need money anytime soon, the best policy for most is to ride it out. Timing the markets rarely works, because it requires one to rebuy when prices are lower than they were when the investments were sold. Most people do not feel good about doing that because the news gets more negative as it drops, especially those who panic and sell in the first place. Remember, investing is a marathon and not a sprint, and a long-term focus will benefit investors the most.

1. marketwatch.com
2. Dimensional Fund Advisors
3. LPL Research, S&P Dow Jones Indices, CFRA, 1/6/2020
4. LPL Research, S&P Dow Jones Indices, CFRA, 1/6/2020
5. awealthofcommonsense.com

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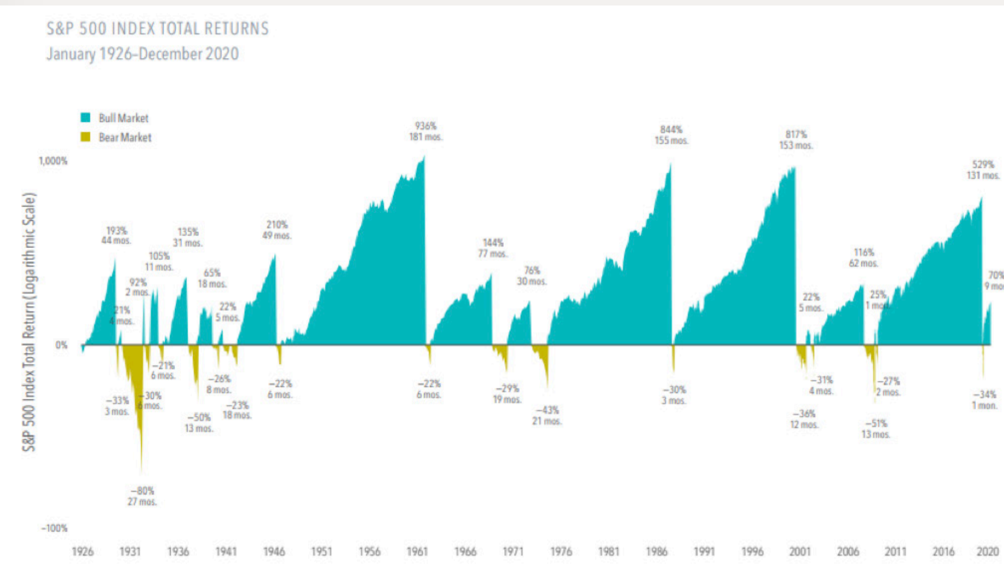

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