Panic is not a Strategy: Considerations About Recent Market Volatility

We wanted to reach out to offer clarity and insight into the issue that is likely on many investors' minds at present — the current (and certainly temporary) market volatility that is ostensibly brought about by the arrival of tariffs and trade wars.

We firstly wanted to remind you that we have already built your portfolio in advance for the certainty that equity markets will experience volatility from time to time. By design, portfolios are engineered with a bond and cash component that serves as a protective reserve during periods of stock market downturn. These resources ensure that if and when you need cash, you do not have to sell high quality assets (the stock part of your portfolio) at temporarily low prices. Moreover, these funds mean that you have dry powder in reserve to purchase stocks at low prices when others panic.

"Panic is not a strategy." That is a really good mantra for times like these. You already have an investment strategy, one that involves proactive portfolio rebalancing, tax-loss harvesting, and a process-driven formula to ensure your portfolio remains in proper balance.

If we were to look back at every other market decline, we would see there were plenty of smart sounding "investors" or journalists who were emphatically forecasting the coming financial apocalypse from which no market could recover. Perhaps unsurprisingly, they were wrong. They were wrong every single time. In each instance, their fearmongering amounted only to the production of unnecessary anxiety as markets regressed temporarily and then uneventfully recovered.

When markets sell off sharply, it will often test your command of behavioral finance. Ill-advised investors often appear to lack self-control, act against their own best interests, and make decisions based on temporary and personal biases instead of evidence. Irrespective of news cycles, tariffs, trade wars, a weakened US Dollar, inflation, the Fed, ongoing conflict in Ukraine, etc., etc., it continues to hold categorically true that **permanent loss of capital in a well-diversified portfolio remains a purely human accomplishment**.

We wrote about this very issue during the most recent period of market downturn in the summer of 2022. Properly diversified portfolios, in spite of frequent temporary declines, have always roared back to levels surpassing their pre-decline market values. The issue is not that markets all of a sudden are acting differently than their natural state; the issue is that it is the investors who can sometimes get in their own way.

Someone will always say, "This time is different" as a mantra for rationalizing their wealth-crippling behavioral finance mistake of selling stocks in a bear market. Quite obviously, every market decline of any magnitude has its own unique precipitating causes. What is not different is that equity prices always go back up.

That certainty informs our firm's investment policy, which is founded in acceptance of the idea that the only way to be reasonably assured of capturing the return premiums above inflation to which investors are entitled is by riding out occasional and sometimes steep declines in asset prices.

Past performance is not a guarantee of future results. Source: Standard & Poor's

S&P 500 Since 1945		Forward Performance		
Quarter Ending	Quarterly Performance	One Year	Three Years	Five Years
Sept 1974	-25.2%	38.1%	72.7%	117.5%
Dec 1987	-22.6%	16.8%	48.8%	109.0%
Dec 2008	-21.9%	26.5%	48.6%	128.2%
June 1962	-20.6%	31.2%	69.2%	94.8%
Sept 1946	-18.0%	6.5%	24.5%	115.4%
June 1970	-18.0%	41.9%	57.4%	56.3%
Sept 2002	-17.3%	0.3%	27.0%	66.3%
Averages	**-20.5%**	**23.0%**	**49.7%**	**98.2%**

Taking the Risk, but not Sticking Around for the Return?

Anyone who is academically rigorous and has examined stock market data with an empirical lens would conclude that expected market returns are quite robust after a bear market. Let us refer to those higher expected returns as "the return." So why do ill-advised investors often take "the risk," but fail to stick around to collect the higher expected return?

The data shown above is incredibly powerful. Expressed succinctly, time periods that follow market declines are incredibly attractive times to remain invested. The reason that many investors fail to capture these returns is that, in hindsight, all past declines look like amazing opportunities to invest/remain invested. However, every current decline feels like a hurricane of unmitigated risk with no end in sight.

That phenomenon is exactly why it is difficult for most individuals to control their emotions. Often, down markets are the mechanism that serves to transfer assets from those with weaker stomachs and no strategy to those who are well-advised and have stronger stomachs and a well-formulated strategy.

You are firmly a member of the latter group, as you have an empirically derived investment strategy supported by a globally diverse, balanced, and risk-aware portfolio.

In other words, you have planned well, and you have earned the right to tune out the noise and patiently wait for the forthcoming recovery. That being said, we know there will still be moments of anxiety…that is perfectly natural. You need to know that we are here for you as your steady hand of evidence-based confidence and ironclad emotional control.

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