Client's Corner

Exhaustion Is Not an Investment Policy

A 100-YEAR GLOBAL PUBLIC HEALTH CRISIS, IN WAVE AFTER wave. A bitterly partisan presidential election that didn't end on Election Day. A 40-year inflation spike—paced by soaring oil prices—that so far gives no indication of being "transitory."

And now, Russia's invasion of Ukraine.

You might not be human if, after two years and counting of this kind of chaos, you didn't just want to sell all the long-term investments in your financial plan, get to the "safety" of cash, get some rest, and look again "when things settle down."

You're exhausted. We all are, most probably including the financial advisor who sent you this essay, and who wants nothing more than to see you and your plan succeed.

But exhaustion isn't an investment policy. (And cash, in a seven percent inflation environment, certainly isn't "safe" by any definition I can understand.) Getting out of the market to make the pain/anxiety stop is an impulse, and a very powerful one. But it isn't a plan. And chances are you're not going to make it without a plan.

So let's think this through together.

First, let's realize that the tragic situation in Ukraine is essentially unrelated to the other nightmares we've endured recently, most notably those cited above: the pandemic, the election, the inflation spike and the specter of significant Fed tightening. There may very well be a cumulative effect on our psyches—much akin to running the gauntlet—but objectively these are different phenomena.

Next, let's embrace the fact that we don't know how this situation is going to be resolved. No one does. Thus we realize that what's called for here is that most elusive of human qualities: ***rationality under uncertainty.***

If we can't look into the future—since there are no facts about it—we're forced to ask: what other terribly shocking events have we lived through, and what do they teach us about their effect on the long-term values of America's most successful companies?

To me there've been four genuinely cataclysmic "Black Swan" events in the last third of a century or so, that seemed to come out of nowhere and shake the very financial foundations of this country, and even of the world. None of these is perfectly analogous to Russia/Ukraine—indeed, none is exactly like the others. But I think it might be useful to see where the S&P 500 was as each of these tsunamis hit, relative to where it is now.

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As I write, the Index stands at 4,500—a bit more than six percent below its all-time high in early January. The four earth-shattering events I'm thinking of are (in chronological order) the 1987 Crash, 9/11, the Lehman Brothers bankruptcy, and the onset of the COVID-19 pandemic.

• The 1987 Crash—the largest one-day decline in stock prices ever—took place on Monday, October 19, 1987. The S&P 500 closed the previous Friday at 283.

• On the night before the terrorist atrocities of September 11, 2001 the Index closed at 1,093.

• It closed at 1,252 on the Friday before the Lehman Brothers bankruptcy filing in September 2008 set off the Global Financial Crisis.

• Finally, the Index closed at 3,386 on February 19, 2020, just as the world was shutting down amid the pandemic.

If you didn't live through all those episodes as an adult, please take my word—and/or your advisor's—that these were all, each in its own unique way, trumpeted to the skies as The End of the World. In the event, they were not. Life went on. The economy healed, as did the markets. Superior companies continued to grow and innovate, increasing earnings and dividends over time.

Is Russia/Ukraine greater than/less than/about the same as any or all of these global shocks? We don't know yet. It's therefore very easy to say—without a shred of solid evidence—"This time is different," and head for the exits.

But the more you know about past crises—and how the great companies in America and the world absorbed them, regrouped and went on to new heights—the more you may be inclined to entertain the thesis that "This too shall pass."

Remember always that it's not a market of stocks. It's a market of ***companies.***

Sources: Standard & Poor's, Yahoo Finance.