Client's Corner

A Season Of Fear

INVESTORS HAVE HAD, IN RECENT MONTHS, TO DEAL WITH a trifecta of significant uncertainties. Will the Democrats and Republicans in Congress—locked in an unyielding death grip like Sherlock Holmes and Professor Moriarty at the Reichenbach Falls—pitch the U.S. into the abyss of default? Will the dollar lose its status as the world's reserve currency? Will the several recent bank failures develop into a contagion, threatening the entire banking system?

All of which leads to the ultimate uncertainty in the backs of everyone's minds: What will happen to the stock market if any—much less all—of these disasters eventuate? ***Shouldn't we just get out and wait to see what happens?***

There are any number of rigorous answers to the first three questions, which would lead a reasonable observer to a general conclusion that might be summed up in four words: ***this too shall pass.*** Your financial advisor will, I'm sure, be happy to recite these answers to you, if he/she has not already done so.

The question of what the stock market will do is just plain unanswerable. Always was; always will be. No help there.

Accepting that, we are left with the essential decision: run for cover or ride it out? Is there any historically reliable way to improve one's long term return by exiting the market in stressful times, vowing to re-enter it "when things settle down"? Permit me to suggest that this is the real question, and the one you most probably want to be discussing with your financial advisor these days.

(Parenthetically, one might ask: if the market holds any—much less all—of the said potential disasters to be likely, why doesn't it go down? Why, since October 12 of last year, has it failed to make new lows? If you are at all inclined to head for the exits here, ***what exactly do you think you know that the market doesn't?***)

The whole issue, for a long-term, goal-focused investor, comes down to what you own and why you own it. For example, if you owned an S&P 500 Index fund, you would indirectly have ownership of about 500 of the largest, most profitable, most soundly financed, most innovative companies headquartered in America and operating throughout the world.

It's possible that your family purchases the goods and services of some of these large companies regularly—sometimes perhaps daily—and has been doing so for decades. The dividends of these companies—and the value of their shares, taken together—have appreciated significantly over these decades, despite all manner of economic, financial, political and geopolitical crises.

Indeed, it seems that one of the key attributes of these companies has been their ability to absorb crises, navigate around them, and continue to prosper. Though the market for their shares has often declined significantly, it has then recovered, even as the companies' earnings have recovered, and gone on to new heights. (Granted, there is no guarantee that this will continue.)

To the extent you decide that that those trends will most likely be maintained over time, you'll probably be inclined to ride out the current crisis (or crises). To the extent that you think "this time is different," take a deep breath and talk it through with your advisor.

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Source: October 12, 2022 low: S&P, Yahoo Finance.