BURNS INSIGHTS

STIFEL | Burns Investment Group

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STIFEL

Market Volatility: Worthy of Worry, Not Worthy of Panic

Over the past few weeks, the markets have been rocked by higher volatility in reaction to coronavirus concerns and to turmoil in the oil markets. The equity markets are well into "bear market" territory (down greater than 20%). As expected, we have been getting many calls inquiring about how one should react. As always, we want to be a source of comfort and knowledge when confronted by these type of unforeseen circumstances. In light of these concerns, we are getting out our newsletter a couple of weeks early.

On one such call, a client said to me: "You've always told me not to worry when the market goes down." Let me set the record straight: I don't tell people not to worry. Money represents different things to different people. With most of our clients of senior age, it represents financial security and independence. Any downward movement in your portfolio occurs to you as a threat to your security. We get it. In fact, it would be an unreasonable expectation on our behalf for you not to have some level of concern or visceral reaction. Heck, I have reactions as well! What we do say is that market declines are worthy of worry, but not worthy of panic.

Logic Over Emotion.

One of the basic tenets of our team's Successful Investor Mindset is "Logic over emotion." In uncertain times, it is easy to let emotions dictate your actions. During sharp market declines, it is usually fear that becomes that prime motivator. A famous quote states, "History doesn't repeat itself, but it rhymes." This coronavirus-induced bear market may seem new, but it is not.

I think it is important to remember that the market topped out (as measured by the S&P 500) on February 19, just over a month ago. No one could have predicted four weeks ago that we would find ourselves with such a drastic change. Even though the circumstances that are causing the downturn are new, we have been through tough markets before. What I have learned from those events is that selling after the declines has never worked out for long-term investors. And, short-term investors often find themselves being on the wrong side of the trade. I have studied market extremes for myself to understand investor behavior and psychology. I am convinced that investors should not use this downturn as a reason to get out.

Structure Over Prediction.

In portfolio reviews, we spend a great deal of our time discussing (and reminding our clients) what tools we use to manage risk. We have always asserted that we are unable to control or predict the future, but we know that the future will be complex and confusing – and it will be more complex and confusing than that which is being reported by the media. Good investing is conceptual and long term. Unfortunately, the media encourages investors to become short-sighted and reactionary. Since we can't predict the future, the most effective tools in our quiver are the strategies that have worked in the past, namely diversification, balance, asset allocation, consistent communication, periodic reviews, and doing all of this in the context of who you are as an investor. Our team takes the time to understand you and your family's particular situation, time frame, income needs, and risk tolerance. These are the factors under our control, and therefore, those are the areas that deserve most of our attention.

Newsletters Revisited.

I have been writing quarterly newsletters for many years. When I sit down to write one, I usually begin by saying to myself, "What needs to be said right now?" With the level of recent volatility, my mind explodes with what I would like to say right now. There is so much that needs to be said at this moment. I decided to review my past newsletters, and I was happy to see that many of the things about which I have written

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are already in print. You can access all of the newsletters (going back to 2012) by going online to our team's website at burnsinvestmentgroup.com and clicking on the Quarterly Newsletter tab. I would encourage you to go back and read some of these – especially if you are fraught with worry. Remember, good investing is about being disciplined, consistent, and patient. We need to have our brain override our heart and stomach. I stand by what I have written, and I think it may be helpful at this time.

Resolution.

I don't know exactly how this will all play out, but I do know that we will get through this. And hopefully, we can do it together. We have no choice. Please know that my team and I are always there for you. Don't hesitate to call if you want to talk about anything. Our team's core belief is "Life is about relationships and experiences." This recent turmoil can serve as a reminder as to what is most important in life. Our recommendation is to cleave to your loved ones (it may have to be by telephone), and to use this time of isolation to do activities that can be done in your home – watch a classic movie, call an old friend, do a puzzle, re-read a book. On the financial side, review your cash flow needs and asset allocation. Keep your eye on the long term and be ready to consider increasing your equity allocations. One last thing, if you are a senior citizen and are unable to get out to get food and other staples, don't hesitate to call me personally. I am a member of Rotary, and we would be happy to help anyone in need. Each of you mean the world to us, and we thank you for being our clients.

Noah's Corner

"It's never been this bad before!"

This is a quote I've heard from a few different clients now. While it might seem this way as we all stock up on groceries for a potential quarantine, I can assure all of you that we have seen and persevered through worse.

As I write this, the S&P 500 is down approximately 27%, and this is undoubtedly terrible news for our clients invested in the stock market. However, I think we can thank the 24-hour news cycle for some investors' short memories. I'd like to look back to 2007-2009 and the great recession. This was a housing crisis, credit crisis, financial crisis, and moderately large global recession all rolled into one. By March 2009, the S&P 500 was down over 55% from its peak. If that wasn't bad enough, one month after the market bottomed, the world was facing H1N1 (a.k.a., Swine Flu). By the end of pandemic, there were over 115,000 confirmed cases of H1N1, but the market had begun its recovery despite this. From start to finish, the S&P 500 was up 23% in 2009.

Here is a great illustration about how markets can rebound. Let's consider the 15 largest single-day percentage losses in the S&P 500 dating 1960-2019 and its returns after those days. In 13 out of 15 instances, the market returns were positive after 12 months for an average annualized return of 22.38%. It is again positive in all 15 cases for the three- and five-year time periods. Now that we have seen a couple of those terrible market days in the past few weeks, Robert and I are hoping for the same type of market rebounds that we have seen several times before. Of course, no one can predict the market with any certainty and past performance is no guarantee of future results.

There is no denying the huge amounts of volatility in the market that we are seeing in just a few weeks' time and the toll that can have on the psyche of an investor. Like Robert said, worry is normal and times like these are worthy of worry. We are, however, asking for your trust and for cooler heads to prevail.

Diversification and asset allocation do not ensure a profit or protect against loss.

The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. Past performance is no guarantee of future results. Index returns do not include dividends or adjustments for brokerage, custodian, and advisory fees. Indices are unmanaged and are not available for direct Investment.

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