Financial Markets: Investors who panic

Markets go up long-term, so there is no need to fear volatility especially during uncertainties like the current Covid-19 pandemic.

BY ADAM FAYED

Common sense isn't always true. Those were my thoughts a few days ago whilst I was watching an excellent TV show, featuring two UK doctors, that tests widely held beliefs about health. It got my thinking that health and investing seem to have a lot of things in common. In particular many widely held views are often incorrect if you look at the empirical evidence. Which leads me to the important point here; the coronavirus and how it might affect me and you. It has certainly got people worried about their health, but also their wealth.

Many people are wondering that the virus will cause their money to be at risk if the stock market crashes. If we look at the academic data, however, we find two incredible facts; stocks have historically gone up during recessions and various geopolitical turbulences including pandemics and there is little or no connection between recessions and stock market growth.

> **"Stock market forecasters exist to make fortune tellers look good." - Warren Buffett**

Stocks have gone up during wars, and down during wars. They have gone up during presidential impeachments and government shutdowns, and down during the same events.

During the majority of previous health pandemics, stocks have been up in the following six months, with some markets up 21 per cent barely a few months after the SARS virus, 40 per cent during Swine Flu and 13 per cent on the Cholera outbreak.

None of these events have affected the general direction of the stock market.

Starling statistics to illustrate the point

US Stock Markets, including the Dow Jones and S&P500, rose by over 30 per cent from 2001 until 2007, despite 9/11 attack and the Iraq war. The UK Stock Market, the FTSE 100, hit a record high on May 2018, barely 2 years after Brexit, and in the midst of geopolitical volatility in the UK. The major Indian Stock Exchanges have been up on countless occasions, barely weeks after various terrorist attacks. After an inverted yield curve, US Stock Markets have risen by an annual average of 12 per cent per year compounded for the 20 years after, despite some suggestions that an inverted yield curve is a sign of pending doom for stocks. Stocks have risen on countless occasions during recessions in the past.

One of the worst performing stock markets in the last fourteen years has been China's Shanghai Index which has fallen in half, despite seemingly impressive GDP numbers.

The Dow Jones fell just 1.2 per cent during the Cuban Missile Crisis of 1962, and ended the year up by 10 per cent. Stock markets have often fallen during periods of geopolitical calm, with little or no logical or rational explanation.

Stock Markets don't behave rationally

Recent years provide a more potent reminder of this unpredictability and the fact that stock markets don't usually behave rationally. Markets went up on Donald Trump's election night of 2016, and for a few years after that despite the fact that political risks were heightened. The Dow Jones hit various record high in the first half 2018, in spite

of a looming threat of nuclear war with North Korea, and an ongoing US-China trade dispute.

During this year, various indexes, such as the S&P500 Nasdaq, hit record highs when the virus was rampaging through Mainland China, Iran and South Korea in February, before falling hard in March. They have since clawed back a lot of those losses, with the Nasdaq index now up for the year as of May 7. That's right. A person that invested on January 1, 2000, into the Nasdaq, would now be slightly up!

The Nasdaq isn't a complete outlier either. The S&P500 and Dow Jones indexes are back to where they were about 15 months ago in January 2019. So maybe we should all listen to Warren Buffett's advice that stock market forecasters exist to make fortune tellers look good.

What can the average investor global do?

We should all invest for the long-term, in both stocks and government bonds, and never engage in speculation. Above all else, we should all ignore fear, which is a much stronger emotion than greed, especially in situations like this. We should all have some perspective as well. There always will be, and there always has been bad news.

Every generation thinks that we live in extraordinary times. Imagine if you were an investor in 1941, with Hitler's Germany looking strong in the war. The future looked bleak. And yet USD10,000 invested in the S&P500 in 1941, would be worth over USD50 million today. USD10,000 invested in 1990, would be worth about USD120,000 in 2020.

Fear volatility? No need

Markets go up long-term, so there is no need to fear volatility. We should all be long-term, globally diversified investors, that don't get too excited during the good times, and also aren't overly depressed in the bad periods. I am not saying markets will go up tomorrow, next week, or next year. They might go up or down. Nobody knows, and that is the point. There are little or no correlations between stock market performance and various geopolitical factors.

So save yourself time, worry and money by investing through rain and shine. The four most expensive words in investing are this time is different, to quote Sir John Templeton.

Covid-19, climate change and terrorist attacks might be huge issues for our time, but they are in some ways no more serious than previous events, which had little or no long-term impact on stock values.

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