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The Importance of Maintaining Confidence in the Market During Periods of Volatility

At Weiss, Hale & Zahansky Strategic Wealth Advisors, we understand that investors are easily shaken during times of significant market volatility. However, in this article we will discuss why it is important to maintain confidence in the financial markets during uncertain times, like those we are facing today due to COVID-19, along with strategies to support a positive outcome. You may be wondering how anyone could maintain confidence in the market considering the levels of volatility we are currently facing. First, remember your financial life goals to motivate long-term planning. Second, our unique and strategic Plan Well. Invest Well. Live Well.™ process is based on the principle that prices are set to deliver positive future expected returns for holding risky assets; our clients are in a position where volatility is expected and planned for. Finally, position your portfolio using diversification and asset allocation so that in the event of volatility like we are currently experiencing, if one area of your portfolio is not performing well, another may make up for it. We will discuss each of these, along with many other considerations to prepare for volatility.

History Speaks for Itself

To understand how people can maintain confidence in the market, it is important to look at what is happening now and compare it to historical context. History is a good indicator of market performance and turnaround after an event like we are experiencing now. While this pandemic is different from other historical events we have experienced in recent history, the financial markets have maintained its resiliency throughout other world events that have caused bear markets.

Since 1950, when you look at all 13 bear market events, you see that for those who stayed in the markets saw during these significant downturns were rewarded with a 35.6% return one year after the bear market, three years later saw a 14.1% return annually, and five years later saw an 11.2% return annually.[1] These figures illustrate a stock market represented by S&P 500 stocks PR Index. While past performance

[1] BlackRock, Inc "Student of the Market"

is not a guarantee of future results, the historical returns of the markets shown here prove resiliency from past events.

Diversification Plays A Role

It is clear from the above paragraph that equities have proven to be resilient over time and reward the long-term investor. Additionally, diversification of asset classes is an important consideration for maintaining confidence in the markets. For example, including fixed income as an investment vehicle in addition to equities in your portfolio may be important to provide stability. In the recent downturn, fixed income played its defensive role as the Federal Reserve cut interest rates to zero and announced unlimited quantitative easing – buying an unlimited amount of government debt, as well as corporate and municipal bonds in the biggest expansion of its balance sheet in history. In times like these, a balanced approach to asset allocation is essential for long-term investors, with a focus on high-quality companies that can weather this downturn and thrive in the economy that will emerge.

Even though April will continue to show signs of volatility, the underlying trends continue to look somewhat better. We are starting to see some leveling off of the market because global daily increases of new virus cases are slowing down despite death cases in the US increasing – growth rates hover around 10% per day. Whereas two weeks ago it was at 15%, and 30% a few weeks further back.[2] This gives the markets some confidence that the light at the end of the tunnel is nearing, therefore they have responded more positively. However, we expect continued market volatility for the foreseeable future as we all better understand the economic impact of the sudden stop of pre-COVID-19 economic activity.

The markets are responding to new information as it becomes known, but the market is pricing in unknowns, too. As risk increases during a time of heightened uncertainty, so do the returns investors demand for bearing that risk, which pushes prices lower. In these uncertain times, it's easy to let fear guide your decision making, but when it comes to your investments, a more rational outlook may be your strongest ally.

Maintain Confidence and Stick to Your Plan

A volatile market is not the best time to do a complete makeover of your portfolio, rather, stay calm and consider your unique long-term financial life goals that you're trying to achieve. Maintaining a firm grasp on your fundamental investment strategy can help you be more thoughtful about making any significant changes.

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[2] Brad McMillan, CFA, CAIA, MAI, "Is There an End in Sight for the Coronavirus Crisis?" Commonwealth Financial Network

To demonstrate why buying and holding is better than attempting to time the market, consider this quick hypothetical data set:

At a -10% market downturn, an investor who is out of the market for 100 days gains 7.11% annualized return. When the market downturn threshold rises to -30%, an investor out of the market for 100 days could gain 8.71% annualized return. However, utilizing a stay in and diversify strategy, you could gain 9.57% annualized return.[3]

Another example to help you visualize the importance of maintaining confidence in your strategic long-term plan, is the hypothetical growth of $1,000 invested in US stocks in 1970. Someone who stayed in the market, despite volatility and timing when to buy and sell, had their $1,000 turn into $121,353 by 2020. However, missing the S&P 500's best-performing day, brought that down by over $12,000. Missing the best 25 days brought them down $94,364 to growth of just $26,989 from 1970 to 2020.[4]

Market index tracking data since 1926 in the US shows that stocks have generally delivered strong returns over one-year, three-year, and five-year periods following steep declines.[5] The impact of missing just a few of the market's best days can be profound. Staying invested and focused on the long-term helps to ensure that you're in a position to capture what the market has to offer. There's no proven way to time the market, so history argues for staying put through good times and bad.

Stay Calm, Stay Confident

Although our investment committee tracks certain economic and market data, we can't tell you exactly when the markets will turn around or by how much, but our expectation is that bearing today's risk will be compensated with positive expected returns. That's been a lesson of past health crises, such as the Ebola and swine-flu outbreaks earlier this century, and of market disruptions, such as the global financial crisis of 2008–2009. Additionally, history has shown no reliable way to identify a market high or low to maximize long-term performance. These beliefs argue against making portfolio changes based on fear or speculation, even as difficult periods occur.

We are firm believers in the long-term prospects of the market, and we have confidence that investors who take risks may be rewarded over time. Weiss, Hale & Zahansky Strategic Wealth Advisors is here as your partner in the community as we all navigate the changes occurring due to COVID-19. For more resources, including

[3] "US Equity Returns Following Sharp Downturns," Dimensional Fund Advisors LP
[4] "The Cost of Trying to Time the Market," Dimensional Fund Advisors LP
[5] "US Equity Returns Following Sharp Downturns," Dimensional Fund Advisors LP

information pertaining to COVID-19 and the CARES Act, as well as podcasts, articles, and more, check out our resource page at www.whzwealth.com/covid19-resources. If you feel you are not receiving holistic financial planning and advising, please call us at 860-928-2341 or email us at info@whzwealth.com for more information.

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