How to handle market fluctuations

By Dean Stange, J.D., CFP®, Principal, Senior Financial Advisor | March 20, 2020

The world stock markets have had a swift and stunning decline due to the COVID-19 (coronavirus) pandemic.

While the full impact of the virus is yet unknown, it may provide some financial comfort to consider that the stock market has continued to increase in value through all kinds of terrible world events for the last 50 years.

In fact, the U.S. stock market had hit record highs just as recently as February 19, 2020. While there is a lot of uncertainty right now, history tells us that markets do eventually recover and continue to increase in value.

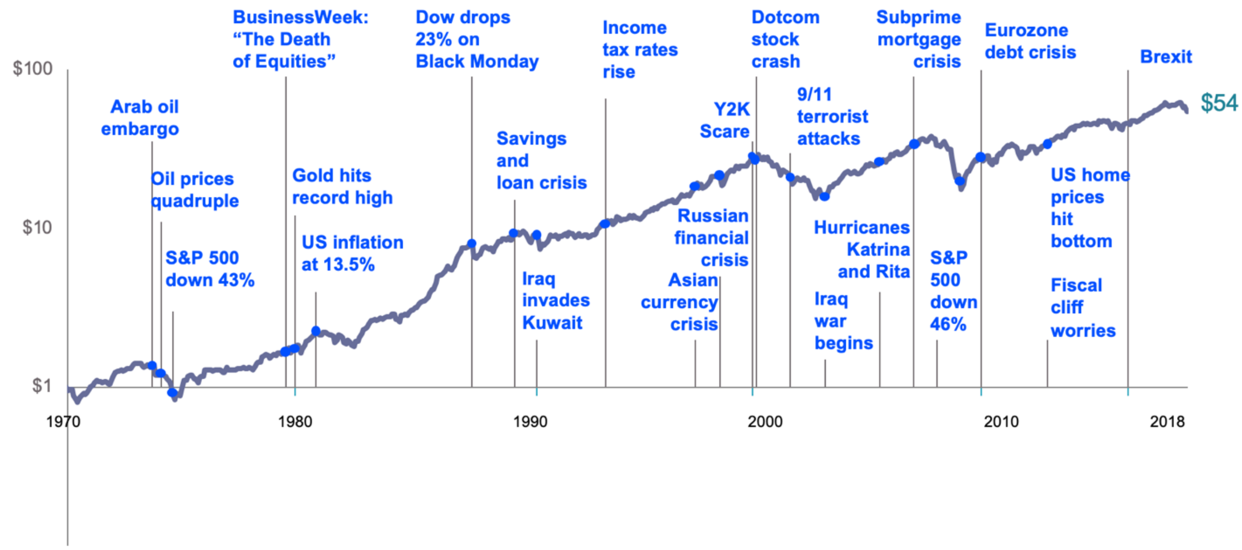
Overlaying world events onto a line graph of world stock market returns helps remind us of some of the difficult financial events that have occurred during the last 50 years and how the markets have reacted to events such as wars, financial crises and high inflation.

At the time, the markets often reacted negatively in the short term, sometimes significantly, as one would expect. Yet, markets always eventually recovered and proceeded to new highs. The stock market can often react emotionally to events in the short term, but eventually investors recognize the fundamental value of the companies in the stock market. Investors who don't panic or try to time the markets are often rewarded.

WIPFLi
FINANCIAL ADVISORS

Markets have rewarded discipline

Growth of a dollar — MSCI World Index (net dividends), 1970–2018



In U.S. dollars. MSCI data © MSCI 2019, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

Here are three things to keep in mind:

1. **Occasional significant declines should be expected.** Living through occasional severe corrections is a feature of successful long-term investing, not a “bug” in the system that needs to be fixed. We have been through this before: 1972-1973 bear-market declines of over 40%, 1987 one-day crash of 23%, the terrorism fears after 9/11, 2000-2002 burst of the dot-com bubble, 2007-2008 decline of 46%.

2. **Stock markets go up over time.** Markets generally go up over time. This chart shows stocks markets sometimes go up significantly. Investors typically earn a much higher return for being in the stock markets and dealing with the uncertainty of returns from year to year than holding cash or short-term bonds. As the chart reflects, since 1970 a dollar in the world stock market has increased in value to $54

as of December 31, 2018. Similarly, since 1928 the average annual return of the S&P 500 has been almost 12%, and the compound annual growth rate has been about 10.5%.[1]

"Time" is a critical caveat in that the more time you have, the more you can allocate to stocks in your portfolio and live through the ups and downs. But, in any timeframe, to reap these rewards you must have the discipline to stick with investing and let the markets work. No one can accurately predict short-term market moves, and investors who sit on the sidelines risk losing out on periods of meaningful price appreciation that inevitably follow downturns.

Why do markets continue to go up?

Because capitalism and innovation work to grow world economies and because billions of people around the world want to improve their standard of living. Companies like Amazon, Google, Apple and Facebook that dominate the stock market in 2018 didn't even exist in 1970. Entire new industries like 3-D printing, artificial intelligence and others we cannot even imagine today will likely lead the continued growth of innovation moving forward. If you believe in capitalism, human innovation and a desire for people to improve their standard of living, there is no reason to think that similar growth in the stock market won't continue.

3. **Many of the bad things that happen are not predictable.** Many of the events on the chart were not predictable, or at a minimum the scope of severity and how the markets would react was not predictable (be careful of hindsight bias in responding, "I knew it was going to be bad!"). No one can consistently and accurately predict

world events or how markets will respond, but as the chart reflects, investors who stay patient and don't try to time the markets are usually rewarded.

We believe in that sticking with your long-term plan and trying to shut out some of the noise has been, and will continue to be, a strong strategy.

---

[1] Morningstar Direct, data from January 01, 1937–December 31, 2019. See disclosure for more information.