

## 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.

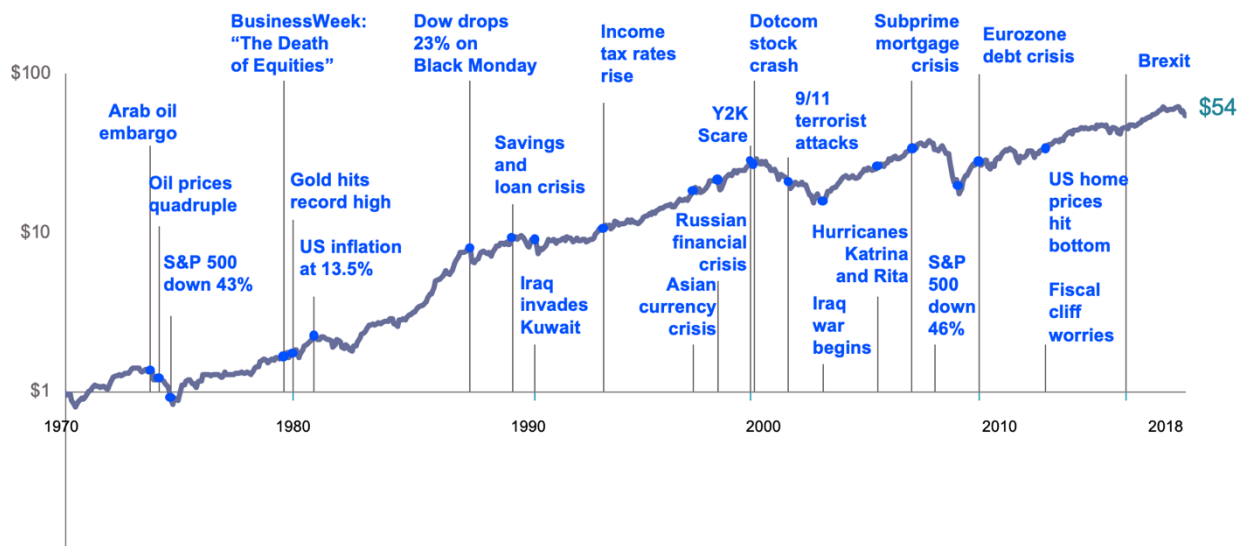
In fact, the U.S. stock market had hit record highs just as recently as February 19, 2020. While there is a lot of uncertainty right now, history tells us that markets do eventually recover and continue to increase in value.

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.

## 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%.<sup>1</sup>

“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.

---

<sup>1</sup> Morningstar Direct, data from January 01, 1937–December 31, 2019. See disclosure for more information.

Source: © [2019] Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Wipfli Financial Advisors, LLC ("Wipfli Financial") is an investment advisor registered with the U.S. Securities and Exchange Commission (SEC); however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made. Wipfli Financial is a proud affiliate of Wipfli LLP, a national accounting and consulting firm. Information pertaining to Wipfli Financial's management, operations, services and fees is set forth in Wipfli Financial's current Form ADV Part 2A brochure, copies of which are available from Wipfli Financial upon request at no cost or at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Wipfli Financial does not provide tax, accounting or legal services. The views expressed by the author are the author's alone and do not necessarily represent the views of Wipfli Financial or its affiliates. The information contained in any third-party resource cited herein is not owned or controlled by Wipfli Financial, and Wipfli Financial does not guarantee the accuracy or reliability of any information that may be found in such resources. Links to any third-party resource are provided as a courtesy for reference only and are not intended to be, and do not act as, an endorsement by Wipfli Financial of the third party or any of its content or use of its content. The standard information provided in this blog is for general purposes only and should not be construed as, or used as a substitute for, financial, investment or other professional advice. If you have questions regarding your financial situation, you should consult your financial planner, investment advisor, attorney or other professional.

## STAY CONNECTED

at [wipflifinancial.com/education/articles](http://wipflifinancial.com/education/articles) for all of our client letters.



[onebiteblog.com](http://onebiteblog.com)



[/wipflifinancial](https://www.facebook.com/wipflifinancial)



[linkd.in/1akOSr4](https://www.linkedin.com/company/wipfli)



[@wipflifinancial](https://twitter.com/wipflifinancial)