The Price of Panic

Today’s COVID-19 Pandemic is scary—so scary that “playing it safe” to avoid losing your money may seem like the only rational strategy. However in the past 50 years, we’ve seen repeating patterns of crises. Despite these crises, the market continues to be resilient. The Dow Jones Industrial Average rose from 800 points in 1969 to over 29,000 in February 2020.* But by March 23, 2020, the market dropped 34% from its all-time high, prompting many investors to change their investment strategy. But history shows that long-term investors who stayed the course through crises and didn’t lose sight of their financial goals have been rewarded.

What We’ll Cover:
- Stress, Anxiety, and Crises
- The Risk of Mistakes
- Maintaining Perspective in Crises

There’s Always a Reason to Panic: 30%+ Drops in the S&P 500 Index 1969–2019

When the market is declining and the news is depressing, the urge to panic and “play it safe” can be intense. How an investor chooses to respond to this turmoil can dramatically affect his or her long-term performance. Investors are more likely to find the courage to re-enter the market after things quiet down. Unfortunately, by this time, they’ve already missed much of the recovery. (Source: Ned Davis Research, 12/19)

*PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. Indices are unmanaged and not available for direct investment.
First, Stress, Anxiety, and Crises

This crisis has most of us stuck at home and that means lots of news watching. From March 16-20, 2020 Fox News saw its ratings climb 89% over the same time last year, while CNN was up 193%, and MSNBC climbed 56%.  

In addition to more news consumption, we're Googling CNBC more often to see how the market is performing. All this watching and Googling can make us more anxious about the economy. In a March 19-24, 2020 survey, 88% of Americans surveyed said the Coronavirus is a major threat to the US economy.

When we’re anxious, we’re more likely to allocate our attention to information that’s negative. Given the choice between information that may offer an optimistic perspective or data that paints a bleak future, an anxiety-influenced investor will naturally focus on threatening information.

Second, The Risk of Mistakes

Let’s face it, there are good reasons to be anxious about this crisis’ effect on our economy. It feels like the US has come to a sort of standstill. The effects of many shutdowns have rocked markets. The equity market has fallen 34% from its all-time high. Many investors have responded to that drop by trying to make their portfolios safer. US money market funds, which

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**When the Market Drops, We Search, Especially for CNBC**

CNBC Google Searches vs. S&P 500 Index

- **Google Searches for “CNBC”**
- **S&P 500**

![Chart](chart.png)

This is a study of Google searches for “CNBC” compared with S&P 500 Index performance. The blue line represents the S&P 500 Index and the red line represents Google searches. Do you see a pattern? There’s a correlation between poor market performance and CNBC searches. (Source: Google Trends/Factset, 12/19)

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Google Trends Methodology: Google Trends enables you to compare the world’s interest in various internet topics; it shows how frequently topics have been searched on Google over time. The numbers on the graph reflect how many searches have been done for a particular term, relative to the total number of searches done on Google over time. They don’t represent absolute search volume numbers, because the data is normalized and presented on a scale from 0-100. Each point on the graph is divided by the highest point, or 100. A rising line for a search term indicates a growth in the term’s popularity.
offer high liquidity with a low level of risk, were on track for a record-quarter of inflows, with $677 billion this year.\(^5\)

Making a portfolio safer seems perfectly rational in this environment. Nobody likes losing money, especially when the market plummets. In fact, the pain of losing money is psychologically about twice as intense as the pleasure of gaining it.\(^6\) Since 2000, we’ve had some big losses. From 2000–2019, the market dropped more than 30% five times.\(^7\)

Although safer investments can calm our anxiety when the market’s tumbling, choosing safety can be a mistake for long-term investors. The graph below illustrates how a hypothetical “reactionary” investor, who made their portfolio safe when the market dropped 30%, missed gains time and time again during market recoveries. The reactionary investor traded long-term results for short-term comfort.

**Third, Maintaining Perspective in Crises**

Nobody likes to go through a crisis alone. Trying to manage your investments by yourself in a crisis, with extreme market volatility, can be mind boggling. In March of 2020, the market dropped several times between 6–12% a day in both directions. One day the Dow Jones Industrial Average was down 2,000 points and a few days later up 2,000 points. We’ve recently heard “best day ever” and then “worst day ever” in terms of market point moves.

Many investors try to time the market’s ups and downs and change their portfolio investments accordingly. Research shows that this strategy hasn’t worked well for investors. Dalbar’s Quantitative Analysis of Investor Behavior studied has measured the effects of investor decisions to buy, sell, and switch into and out of mutual funds over short and long-term time frames. The results consistently show that the average investor returns are less—in many cases, much less—than market indices returns.\(^8\)

Hopping in and out of investments to prevent losses or capture gains can be a primary reason why investors have underperformed the market. Anxious investors tend to overestimate the risk of holding stock investments and

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**The Price of Panic**

Despite repeated, sometimes verbatim, predictions of dire global catastrophe or outrageous economic boom, the markets have been resilient to either hyped extreme.

$10,000 Invested S&P 500 Index 12/31/69–12/31/19

- **Equity Investor** S&P 500 Index
- **Balanced Investor** 50% S&P 500 Index and 50% Bloomberg Barclays US Long Treasury Total Return Index
- **Bond Investor** Bloomberg Barclays US Long Treasury Total Return Index
- **Reactionary Investor** Invests in S&P 500; Moves 100% into 90-Day T-Bills each time the market drops 30%, and then moves 100% back into S&P 500 two years later.
- **Cash Investor** 90-Day T-Bills

- **Market Drops of more than 30%**

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For illustrative purposes only. Indices are unmanaged and not available for direct investment. U.S. Treasury securities are backed by the full faith and credit of the U.S. Government. Equities and bonds are subject to risks and may not be suitable for all investors. Source: Ned Davis Research, 12/19
underestimate the risk of not holding them. In the past 30 years, individual investors underperformed equities (as represented by the S&P 500 Index) by an average of 4.92% each year and bonds (as represented by the Bloomberg Barclays US Aggregate Bond Index) by an average of 5.53% each year. The bottom line: investor behavior can determine success more than investment performance.

That’s why it’s important to have the support of a financial advisor who can help you control impulsive reactions to market volatility and practice disciplined investing. In addition to helping you find suitable investments for your financial goals, your financial advisor plays a more crucial role by acting as a counter to the market’s mind games that can tempt even experienced investors.

“But It’s Different This Time”

Many feel that this crisis is different than previous crises. It is. Every crisis is different. Today, with all the crisis news coverage, we’re feeling like today is bad and tomorrow will be worse. It’s easy to get overwhelmed with pessimism. But despite all the bad news, there’s amazing innovation taking place that won’t get media attention. Uber Elevate has a goal of offering flying cars, air taxis, by 2023. Ministry of Supply uses 3D printing to create clothing using NASA-developed material that regulates your body temperature and is 19 times more breathable than cotton.

In 2019, researchers 3D-printed a heart using a patient’s cells. This technique may be used to heal hearts or engineer new ones for transplants in the future. Sometime in the summer of 2020, SpaceX, a private American aerospace manufacturer, is planning the first crewed launch from US soil since the end of the shuttle era in 2011. New screen protectors from OtterBox and Corning will contain EPA-registered antimicrobial technology that kills up to 99.99% of common microbes found on display surfaces. The US has experienced 25 bear markets from 1929–2019. Our recovery record? 25 for 25. While we can’t predict the future, as Warren Buffett has said, “It’s never paid to bet against America.”

Three Things to Remember About Maintaining Perspective

First, crises influence us to focus on the negative. The flood of 24/7 crisis news coverage can contribute to our anxiety about the economy. Second, that anxiety makes us more vulnerable to making investment mistakes that can damage our long-term results. Third, consider working with a financial advisor to help you maintain a long-term perspective through the crisis.

Next Step

Talk to your financial advisor to hear their perspective on this crisis. If you don’t have one, consider finding one.