



sdw  
Solution Driven Wealth

290 West Mount Pleasant Ave., Suite 2300  
Livingston, NJ 07039

Office: (973) 994-0100 • Direct: (973) 716-7551  
Mobile: (973) 449-4274 • Fax: (973) 994-2986  
rdole@sdwemail.com • www.solutiondrivenwealth.com

## Market Volatility Update: Markets Go Up and Markets Go Down

The last few days of February created confusing and turbulent times for investors. The rough stock market fluctuations created a rollercoaster-type of ride that has attracted almost every media outlet. During this time period, the S&P 500 had its worst day since 2011, as it presented a historic streak of negative moves. Let's briefly recap some key points from the last few months. After strong equity returns in 2019, equity markets moved up another 5% by mid-February to reach all-time highs. Then, with news that the spread of the Coronavirus outside of China was growing, equity assets started to sell off.

On Monday, February 24<sup>th</sup>, we saw the S&P 500 decline over 3%. On Tuesday, February 25<sup>th</sup> the S&P 500 shed another 3%. Consecutive down days of this magnitude are rare. Then after a mild down day on Wednesday, on Thursday February 28<sup>th</sup>, markets were again shaken with a -4.4% return for the S&P 500, making this now "correction" (a downward movement of 10% or more) even more notable and potentially historic given the rapidity of the sell-off.

Investors should always be aware of market swings and movements, remembering that equity market pullbacks and corrections are a part of investing. While downward drops are typically unwelcome and unexpected, they are not unprecedented. Historically, a market correction, or a 10% decline, happens approximately once a year. A 5% pullback happens about 3 times a year, however in the last few years that has not been the case. The last major correction was in December of 2018 and 2019 was a year of limited and low volatility, so many investors were not ready for these large declines. Also, typically these pullbacks happen over a longer period than a few days. While this may not be the end of the equity markets fall, it might be helpful to put these media grabbing events into perspective.

In a dataset dating back to 1928, returns of -4% or worse for the S&P 500 have only occurred 146 times. Days where equity markets decline 4% or more are rare, and they tend to cluster in economic recessions.

When you add together the collective weak days investors experienced on Monday the 24<sup>th</sup>, Tuesday the 25<sup>th</sup>, and Thursday the 27<sup>th</sup>, you find that investors experienced a historic ride. The S&P 500 shed 10.7% over four trading sessions. While this was very uncomfortable and unpredictable, it was not unprecedented. Knowledge is helpful when analyzing your situation so let's review some facts. There were six historical periods dating back to World War II that were worse than the four days we just experienced. They include:

- Investors have not had a four-day sell-off this bad since the financial crisis in 2008 (a total of over 17% drop in four days ending October 9<sup>th</sup>, 2008).
- Prior to that, investors had not experienced as alarming of a 4-day stretch since July 2002, when the announcement of accounting regularities at Worldcom spooked a market already grappling with the tech bubble deflation and post-9/11 uncertainty. (-11.96% in four days ending July 23, 2002).
- Continuing the list, in August of 1998, global assets were frightened by the prospect of a Russian debt default (a decline of -12.41% ending August 31, 1998).
- Prior to 1998, we experienced the historic 1987 market sell-off (a drop of -28.5% ending October 19<sup>th</sup>, 1987).
- Before 1987, there was the Kennedy Slide of 1962 (a drop of -10.97% ending May 28, 1962).
- Prior to that sell-off, you have to go back to May of 1940, which included a German blitzkrieg into France (a drop of -15.1% through May 14, 1940).

Any way you look at it, the "Coronavirus 2020 Decline" will be remembered as a historic market drawdown.  
(Source: SeekingAlpha 2/28/20)

## Equity Markets and the Coronavirus

While the severity of the Coronavirus is still unknown, history shows that equity markets regained their strength quickly after other health crises occurred. For example, 6 months after the Avian Flu in June 2006, the S&P 500 was up 11.66% and after 12 months, was up 18.36%.

According to Seema Shah, chief strategist at Principal Global Investors, “Risk velocity – the pace at which major risks and ‘black swan’ events can affect asset prices – is elevated in today’s markets compared to 10 years ago for three key reasons.” (Source: *MarketWatch* 2/24/20)

These three reasons are:

1. Social media-driven news cycle;
2. Interconnectedness of global supply chains;
3. Pricey stock market

Epidemic	Month end	6-month % change of S&P	12-month % change of S&P
HIV/AIDS	June 1981	-0.3	-16.5
Pneumonic plague	September 1994	8.2	26.3
SARS	April 2003	14.59	20.76
Avian flu	June 2006	11.66	18.36
Dengue Fever	September 2006	6.36	14.29
Swine flu	April 2009	18.72	35.96
Cholera	November 2010	13.95	5.63
MERS	May 2013	10.74	17.96
Ebola	March 2014	5.34	10.44
Measles/Rubeola	December 2014	0.20	-0.73
Zika	January 2016	12.03	17.45
Measles/Rubeola	June 2019	9.82%	N/A

–Source: Dow Jones Market Data  
[www.marketwatch.com](http://www.marketwatch.com)

**We cannot stress enough: don’t let the media cause you to make irrational or rash decisions.** It is very hard to take all the information the media outlets push at its viewers with a grain of salt. With thousands of media outlets all thirsty for viewers, some outlets resort to scare and fear tactics to attract an audience.

## KEY POINTS

- **Volatility can be uncomfortable, but it is part of the investment experience.**
- **Beware of media magnification.**
- **Avoid making emotion-based decision.**
- **Focus on your personal goals and discuss changes with us before you make them!**

In a special news conference held on February 26<sup>th</sup> with officials from the Centers for Disease Control and Prevention (CDC), President Trump shamed the media for igniting panic about the financial markets.

Volatility is a part of the investment experience. Remember, it can be difficult to make rational investment decisions when the markets are fluctuating. During these times, it is prudent to resist the temptation of watching news reports and obsessively watching your portfolio performance.

Too often emotion, not logic, can overshadow investing habits, so the first step in declaring mental independence is realizing how these influences, known as biases, affect us. Sometimes, the closer you put a short-term lens to your investments, the more likely you consider decisions that deviate from your long-term strategy. While it is wise to remain vigilant, a strong plan is to adhere to the long-term investment plan you have created.

## In Addition to the Coronavirus...

**10-year Treasury Yield:** The 10-year Treasury yield hit an all-time record low on March 2<sup>nd</sup>, reaching down to under 1.10%. (CNBC 3/2/2020)

**Interest Rates:** As investors worry about the potential economic dangers of the Coronavirus, the Federal Reserve is telling financial markets they are paying attention. Fed Chairman Jerome Powell released a statement Friday, February 29<sup>th</sup>, promising to, “act as appropriate,” should the Coronavirus situation escalate. The Bank of Japan issued its own statement Monday March 2<sup>nd</sup> saying that it too will, “closely monitor future developments, and will strive to provide ample liquidity and ensure stability in financial markets through appropriate market operations and asset purchases.” (Source: CNBC 3/2/20)

Fed officials believe that monetary policy changes would not make a difference in the current scenario’s primary need of slowing the spread of the disease and opening global supply chains.

“No amount of rate cuts is going to be able to do that,” said Michael Reynolds, Investment Strategy Officer at Glenmede Trust. “What they can do is hasten the recovery after all this blows away with rate cuts. That is something that’s an option for sure. But the idea that they’re going to play offense on rate cuts to soften the blow on the Coronavirus may be a bit premature.” (cnbc.com)

**Political Arena:** With 2020 being an election year, this makes some investors cautious of potential changes in political parties, policy changes, including tax law changes, and financial environment uncertainty. While historically, only four of the last 23 election years saw the S&P 500 with a negative, as always, remember that past results do not guarantee future performance! (Source:thebalance.com 11/7/19)

### What should an investor do in a volatile market?

First, make sure you know what not to do: and that is panic. In times of market volatility, investors tend to become unnerved and anxious. Most often, this is not the best mindset to make rational decisions.

No one knows for sure how far the Coronavirus will spread and when it will be contained. We also do not know when equity prices will stop retreating, but we do understand that equity investors need to incorporate patience into strategies. Equity markets can bring more downward movements and volatility could continue.

When equity markets experience unsettling fluctuations, we suggest you ask yourself three questions:

1. *Have my financial timelines changed?*
2. *Have my financial goals changed?*
3. *Has my risk tolerance changed?*

If you can answer “YES” to any of these questions, we

### Focusing on your goals includes:

1. *Checking your comfort level with your time horizons.*
2. *Re-assessing your risk tolerance.*
3. *Re-confirming your investments are compatible with both your time horizon and risk tolerance.*
4. *Maintaining liquidity for all short- and near-term needs.*

### Our primary objective:

to continually understand our client’s goals and to match those goals with the best possible solutions.

*Let’s focus on YOUR personal goals and strategies!*

highly suggest that you discuss these changes with us. As an investor, you need a plan that includes risk awareness. One of our primary responsibilities as your financial advisor is to help you create a plan with risk awareness. We know that an integral part of this is to consistently keep in touch with you and monitor your situation. If you have concerns, some questions to ask us include:

- ✓ *Can we review my financial plan?*
- ✓ *Can we revisit my risk tolerance?*
- ✓ *Are my investments diversified?*
- ✓ *What are my fixed income investments?*
- ✓ *Has the recent volatility presented any good opportunities?*

**Discuss any concerns with us!**

*Our primary responsibility is to focus on your personal financial goals.*

*We still maintain our “proceed with caution” approach. If your risk tolerance or goals have changed, or if you have any questions or concerns, please call us.*

**Regardless of whether or not equities are rising or falling, investors should always put their main focus on their own personal objectives.** The current economic environment; political uncertainty; interest rate concerns; and, the newest variable in the economy, the Coronavirus; offers a prime opportunity to revisit your financial plan to make sure it is still situated on the best path toward your goals.

Just like your doctor needs to know if there have been any changes to your health, as your financial advisor, **let us know if anything has changed for you** (such as health issues or changes in your retirement goals) so we may be equipped with the most information about your unique financial situation.

**For the next few weeks, as always, please try to avoid making any emotional decisions based on media magnification. Remember, investing is a long-term attempt to achieve results that are satisfactory towards your specific goals.**

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance please call our office or discuss this at our next scheduled meeting.

#### **We pride ourselves in offering:**

- ✓ consistent and strong communication;
- ✓ a schedule of regular client meetings; and,
- ✓ continuing education for every member of our team on the issues that affect our clients.

A skilled financial advisor can help make your journey easier. Should you need to discuss your investments, please call our office. Thank you for having confidence in our firm representing you. We are here if you are concerned and need to talk.



We're  
here  
for you

***While no financial professional can guarantee any type of specific return, we strive to continually oversee your situation and provide informed recommendations. We pride ourselves in monitoring the market environment and are always open to discuss your situation. If you or any of your friends have any questions or items you'd like to discuss, we welcome you to contact us at 973-994-0100***

Securities and Investment Advisory Services offered through Royal Alliance Associates, Inc. Member FINRA/SIPC. Royal Alliance Associates, Inc. is separately owned and other entities and/or marketing names, products, or services referenced here are independent of Royal Alliance Associates, Inc. 290 West Mount Pleasant Ave, Suite 2300, Livingston, NJ 07039 (973) 994-0100.

This article is for informational purposes only. This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice as individual situations will vary. For specific advice about your situation, please consult with a lawyer or tax professional.

Note: The views stated in this letter are not necessarily the opinion of Solution Driven Wealth and should not be construed, directly or indirectly, as an offer to buy or sell any securities mentioned herein. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results. Material discussed herewith is meant for general illustration and/or informational purposes only, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. This material contains forward looking statements and projections. There are no guarantees that these results will be achieved. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Sources: Wall Street Journal, Seekingalpha.com, CNBC, MarketWatch, Yahoofinance.com, TheBalance.com; Contents provided by the Academy of Preferred Financial Advisors, Inc. ©