INVESTOR LESSONS FROM THE COVID CRISIS TO THE ELECTION

EDWARDS ASSET MANAGEMENT

Bob Edwards
President and Senior PIM Portfolio Manager
Edwards Asset Management

During 2020, U.S. stock markets have experienced some of the most intense short-term volatility on record, with the benchmark S&P 500 Index ("The Market") suffering a stomach-wrenching 34% drop in just 23 trading days (February 20, 2020 - March 23, 2020) - according to Standard and Poor's, the fastest decline for that span ever recorded. The decline ended and a new rally began within hours of the Federal Reserve's announcement of several programs, including the most significant monetary stimulus package on record (Federal Reserve release March 23, 2020, www.federalreserve.gov). With that, The Market's switch went from Off to On, with the most considerable percentage advance for 100 days in decades, rallying an astounding 51% (Standard and Poor's).

The resulting damage may have become permanent for investors who responded to the declining volatility by selling out their high-quality stock positions during the Covid panic. "The four most dangerous words in investing are, 'This time, it's different,'" advised well-known investor John Templeton. Behaviorally responding to fear, abandoning long-term plans, is, for many investors, potentially permanent wealth destruction.

The DALBAR Quantitative Analysis of Investor Behavior, conducted annually since 1994, has become legendary with professional investors and academia. The study suggests, year after year, investors consistently do the opposite of "buy low, sell high." The average investor buys high as the market's rise, not wanting to miss out on easy money, and sells as prices decline and the easy money does not arrive. The public in total buys high and sells low, underperforming The Market, even though the long history of U.S. equities is one of sometimes increasing corporate revenues, earnings per share, cash-flows, and dividends, occasionally interrupted by cyclical or event-driven, but potentially temporary, corrections. As Warren Buffett has advised, "Be fearful when others are greedy, and greedy when others are fearful."

Behavior psychologists recognize that humans, by and large, are hardwired to do damage to themselves as investors. It's not easy to be contrarian in the face of sharply declining prices, a howling media, and loved ones who beg that we succumb to the temptations of self-damage "before it's too late." A valued financial advisor can be most meaningful to get you through the gyrations of quotation price swings without falling to the siren calls of the marketplace, often serving as a coach, psychologist, therapist, and optimist. We hope to teach these timeless investment principles to you and your family so that wealth can last for generations to come.

The virus continues to live among us, and its lingering effects upon the economy continue to be unnerving. As of this writing (October 5, 2020), The Market has traveled back above where we started the year. The recent events remind me of two worthwhile lessons I've learned over the past 30 years:

Lesson 1: The velocity and trajectory of a market recovery often mirror the preceding decline's speed and depth.

Lesson 2: The Market most frequently has resumed its advance before the economic picture becomes rosy and the outlook clear. If we wait for "clear skies," history has often shown that we might have missed a very significant part of the market advance and overall performance.

Regarding the upcoming hyper-partisan election, history has taught us that it may be damaging to exit the quality stock investments we've accumulated toward our lifetime financial goals because of the swirling uncertainties surrounding the upcoming election and its possible outcomes. Aside from possibly incurring capital gains taxes, your chances of selling out and then buying back into your significant advantage are historically abysmal; neither you nor your financial advisor will be able to have a plan fix it.
