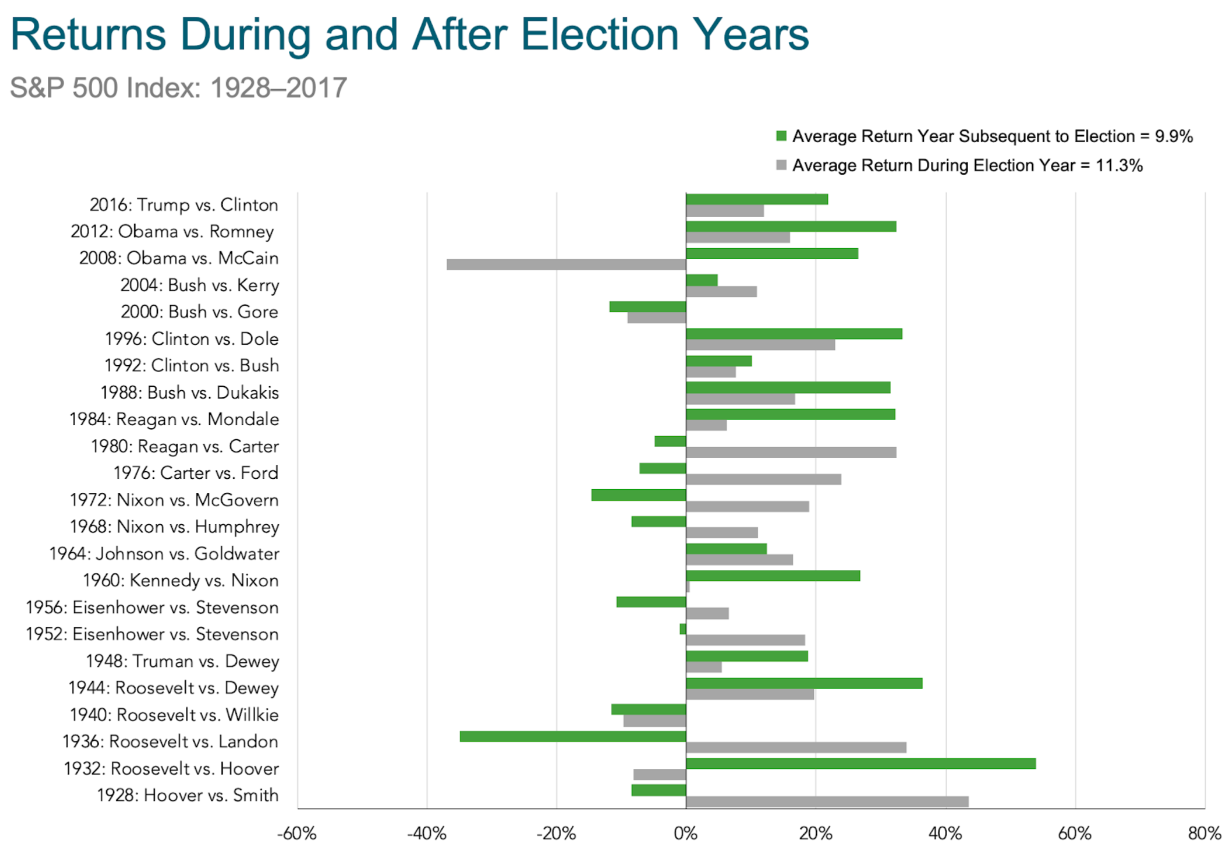
Current Events and Your Investments

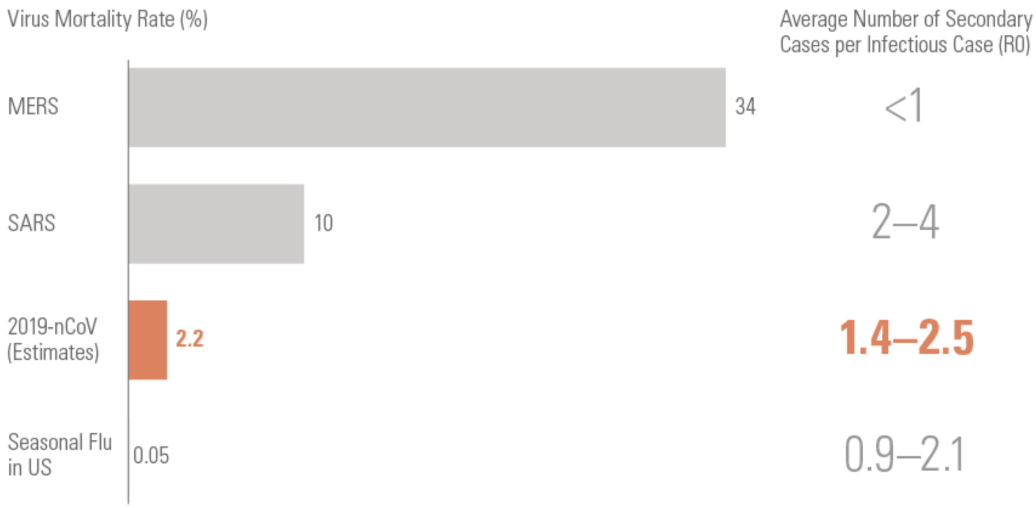
We have received a few questions about the stock market and current events such as impeachment, the upcoming elections, and the outbreak of a new coronavirus (2019-nCoV). Negative news, especially after the stock market has done so well is troubling, but there is no good evidence to suggest we should do anything. As you know, for investments, we filter the world through a statistical lens. Let's take a closer look:

ELECTIONS: Historically, the US stock market performance in election years has been quite good as it averaged an 11.3% gain and was up 83% of the time going back to 1928.[1] This is actually better than non-election years! This doesn't mean that we should add to stocks because it is an election year but it does mean that an election year in and of itself is not a reason to sell stocks.

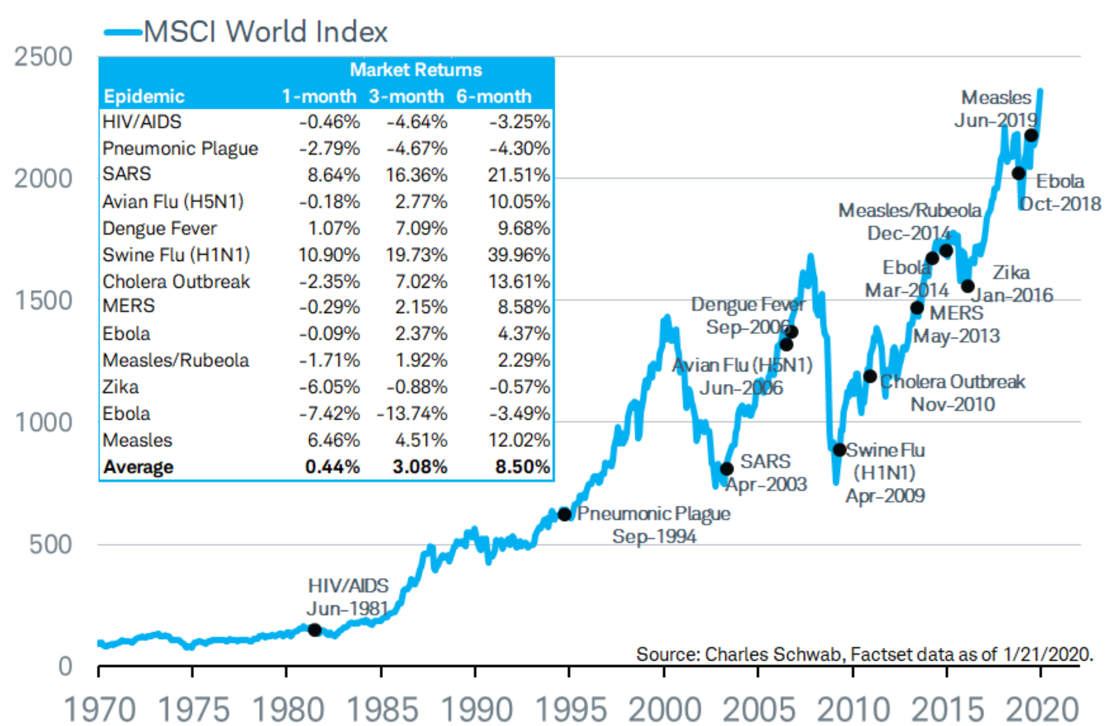


[1] Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Source: S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

EPIDEMICS: Similarly, during past epidemics, the markets have also done well. The following chart and table looks at the short term performance of the total world stock market. The market was up 69% of the time and the average return was 8.50% in the 6 month period after a new world epidemic was identified.[2] Also, per the World Health Organization the current estimates of the mortality rate of this virus are meaningfully less than that of MERS and SARS which did not have a negative effect on the market.[3]



Immune: world epidemics and global stock market performance



	Market Returns		
Epidemic	**1-month**	**3-month**	**6-month**
HIV/AIDS	-0.46%	-4.64%	-3.25%
Pneumonic Plague	-2.79%	-4.67%	-4.30%
SARS	8.64%	16.36%	21.51%
Avian Flu (H5N1)	-0.18%	2.77%	10.05%
Dengue Fever	1.07%	7.09%	9.68%
Swine Flu (H1N1)	10.90%	19.73%	39.96%
Cholera Outbreak	-2.35%	7.02%	13.61%
MERS	-0.29%	2.15%	8.58%
Ebola	-0.09%	2.37%	4.37%
Measles/Rubeola	-1.71%	1.92%	2.29%
Zika	-6.05%	-0.88%	-0.57%
Ebola	-7.42%	-13.74%	-3.49%
Measles	6.46%	4.51%	12.02%
Average	**0.44%**	**3.08%**	**8.50%**

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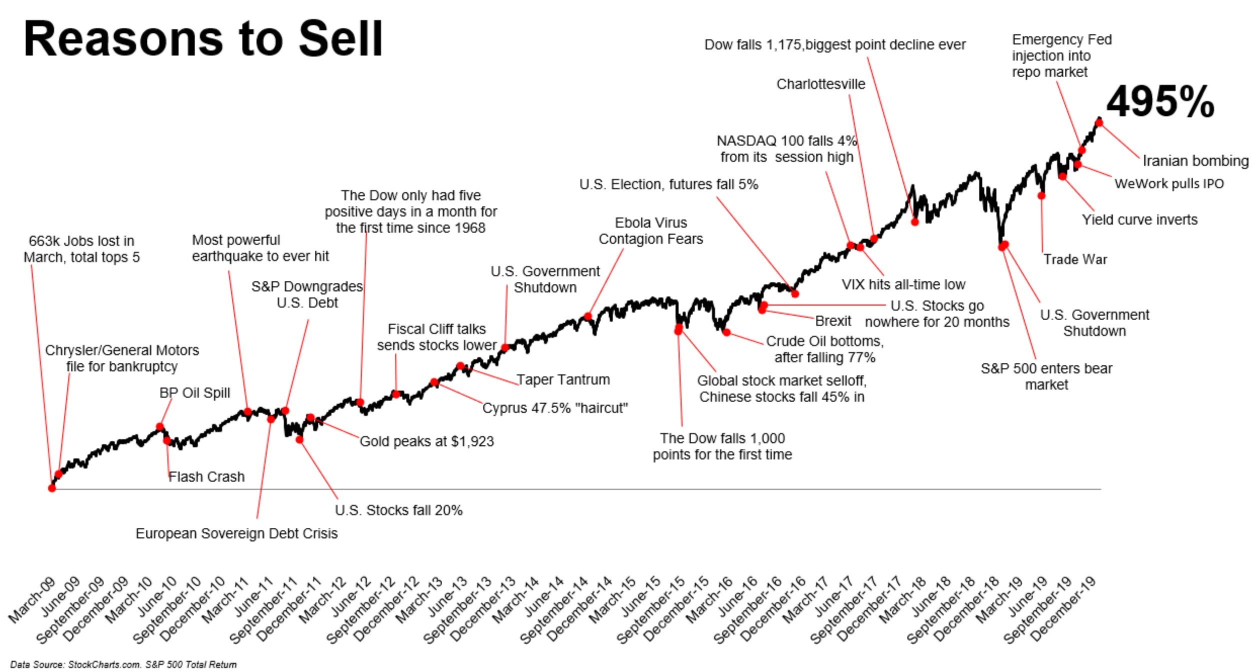
[2] The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,646 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Source: Charles Schwab, Factset data as of 1/21/2020.
[3] Source: World Health Organization and GSAM. As of January 23, 2020.

The evidence leads us to believe there is a greater likelihood of miss-timing the market in attempts to avoid losses based on the news cycle. Sure, the markets could go down as a result of how an election unfolds, or how an epidemic is managed, but if we exited the market every time this was a possibility, we would have severely damaged your returns. We believe that attempting to get in and out of the stock market based on news events or the political climate is playing a loser's game.[4] We don't currently see any compelling evidence that is uniquely risky to your investments and thus our recommendation is to hold the course.

When is it ever a good idea to sell stocks?

A common theme that has been voiced over the years has been, "Don't just do something, stand there!" We are constantly reminding everyone (ourselves included) to not worry about the news when it comes to their portfolio as there is a preponderance of evidence that world events are not good predictors of stock market performance. In fact, there have been some really "good reasons" to sell stocks over the last decade, but the best returns came from tuning them all out.



From time-to-time, we recommend selling stocks, but they are based on internal, not external factors. A good reason to sell stocks and invest more in bonds would be if we jointly (client input) determined that you were not comfortable with the amount of risk in your portfolio or that you do not need to take as much risk to meet all of your goals.

[4] A loser's game is where on average everyone loses or the majority of players lose. Examples include slot machines, roulette, and the lotto.

Another reason could be that your goals have changed and you are going to need to spend more money sooner than anticipated, or plan to make a major purchase that wasn't originally expected.

The last reason that we sell stocks is simply to rebalance your portfolio. If the stocks in your portfolio have earned meaningfully more than the bonds, then we would sell some of the stocks and buy more bonds. The research shows that rebalancing too often can hurt performance so we only rebalance when the difference between your portfolio and the target ratio of stocks and bonds exceeds a certain level.

Should you wish to discuss this email in further detail, or would like to revisit your investments in the context of your customized financial plan, don't hesitate to reach out or schedule an appointment.

Mike & Michael