Five Ways to Keep Your Financial Cool During a Global Crisis

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While we can't predict the outcome of the current Russia-Ukraine war or its impact on the U.S. and global economies, we can offer some perspective. Here are five keys that should continue to guide our thinking as we consider our investment portfolio amid a geopolitical crisis, inflation and market turbulence.

An Investor Action Plan

1. Invest with Intellect and Not Emotion

Our first key is a reminder that many of us are invested for the long term and it's always best to remain focused and follow a plan.

A Historical Perspective: The U.S. Economy is Resilient

You may be surprised that U.S. markets were not impacted for long following some of the biggest geopolitical shocks since World War II, according to LPL Research.[1] Historically, the economic fallout has been short-lived, with markets on average typically edging higher within 12 months.

Consider these examples, shown in Fig. 1:

- The 1941 Japanese attack on Pearl Harbor shows the most extreme market reaction, with a 19.80% drop over 143 days (essentially a bear market at nearly -20%). Within the year, it returned 7.3%.
- The 1963 assassination of President John F. Kennedy shows a short, one-day drop of -2.80% and returned 27.80% within the year.

Event	Total Drawdown	# of Days	# of Days to Recovery	1-Year Return
Cuban Missile Crisis	-6.60%	8	18	32.10%
JFK Assassination	-2.80%	1	1	27.80%
Iraq Invades Kuwait	-16.90%	71	189	14.00%
Pearl Harbor Attack	-19.80%	143	307	7.30%
North Korea Invades South Korea	-12.9%	23	82	20.60%

(Fig. 1) Source: LPL Research, S&P Dow Jones Indexes, CFRA, 1/24/21

Attempting to Time the Market is Fruitless

If we had acted on an emotional urge to SELL! during previous global crises, we may have missed out when the markets bounced back significantly. Let's look at it another way. Fig. 2 illustrates market returns during every decade since 1930.[2] The Price Return column reflects the results for those who held on to their stocks during the entire nine-plus decades period—a **17,715%** cumulative return. If, on the other hand, the investor who opted out and missed the 10 best days of each decade would have received a cumulative return of 28%. What this suggests is that trying to time the market doesn't pay.

Decade	Price Return	Excluding Best 10 Days Per Decade
1930	-42%	-79%
1940	35%	-14%
1950	257%	167%
1960	54%	14%
1970	17%	-20%
1980	227%	108%
1990	316%	186%
2000	-24%	-62%
2010	190%	95%
2020	18%	-33%
Since 1930	17,715%	28%

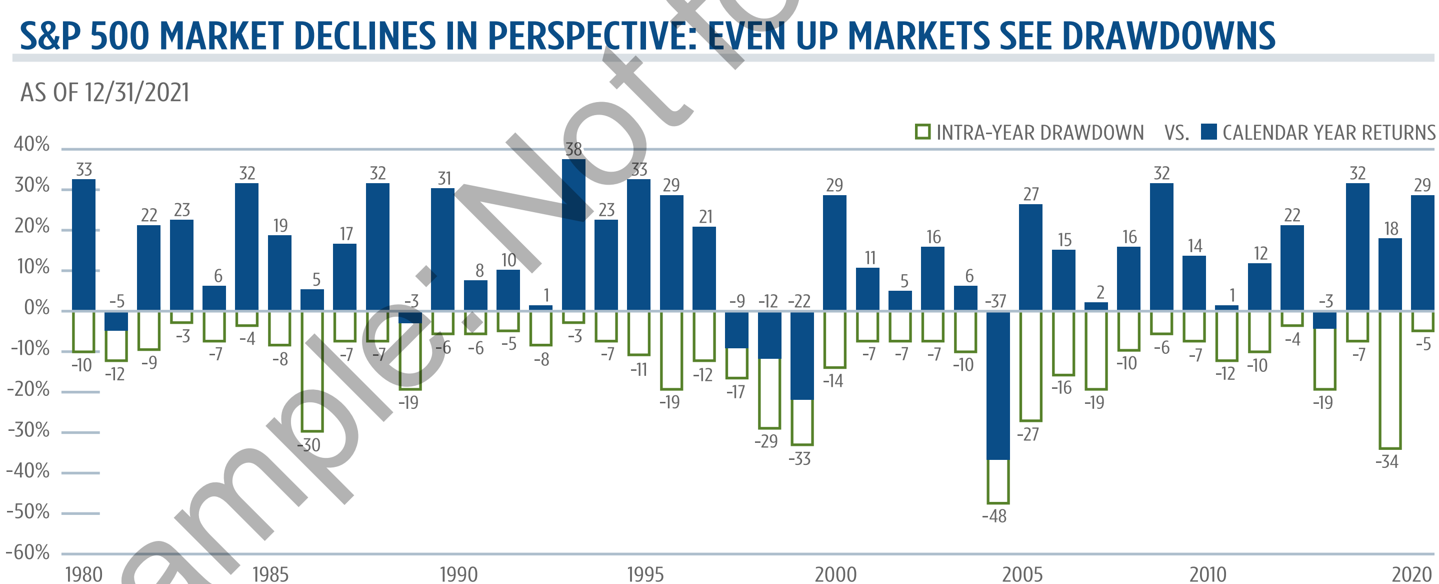
(Fig. 2) Source: Bank of America, S&P 500 Index, March 2022

2. Brace for Short-Term Turbulence

To put market declines into perspective, we see that even "up" markets have experienced negative periods—during every year from 1980 to 2021, the S&P 500 witnessed an intra-year decline (Fig. 3):

- 1980: the market returned 33% overall, with a 10% decline that same year
- 2020: the market returned 18% overall, with a 34% decline that year due to the pandemic

Those who can weather short-term turbulence may benefit when the market swings upward following a downturn.

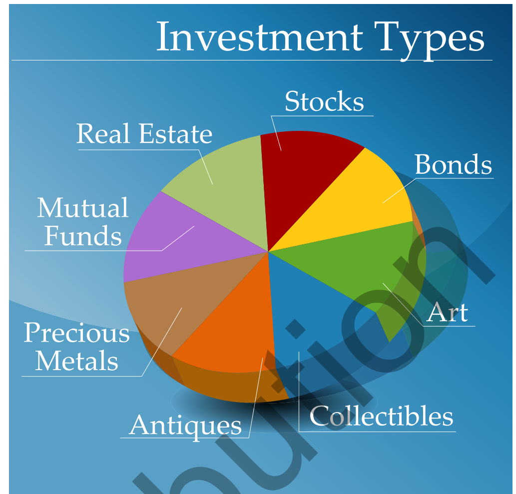


Past performance is no guarantee of future results. Source: Morningstar using daiy total retum data, The S&P 500 Index is generally considered representative of the U.S. stock market

(Fig. 3) Source: Calamos Investments, December 31, 2020

3. Remain Diversified: 6 Tactics to Review

Diversification is exceptionally important and can protect against the unknown when your portfolio has a balance of investment types.



1. Look at rebalancing and assess whether your overall allocations should be tweaked.
2. Discuss assets not related to the stock market: real estate/REITs, precious metals and others that may bolster your portfolio in an inflationary period.*
3. Consider shortening the duration of your bond portfolio which can mitigate price swings and losses as interest rates rise.
4. Explore Treasury Inflation Protected Securities [TIPS] or Government Series I Savings Bonds.
5. Consider adding protected assets, like annuities and structured products.
6. Think about the careful and tactical use of Inverse Exchange Traded Funds (ETFs), that make money when a market or sector goes down.

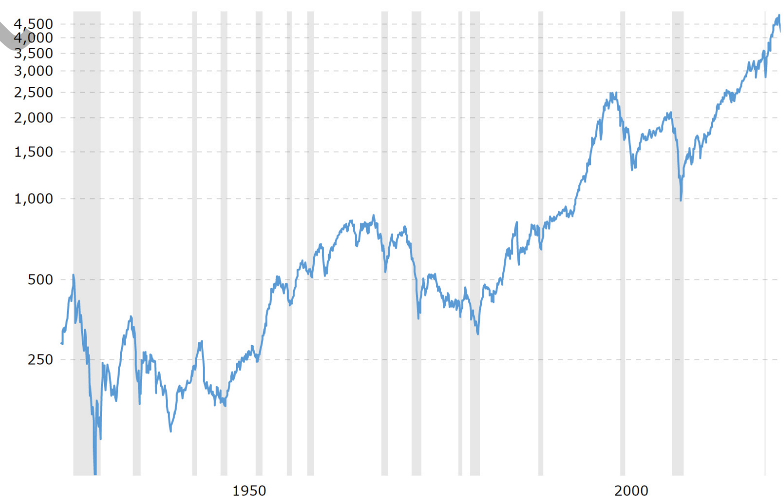
*Beware lack of liquidity in certain asset classes. Consider adding exposure to these asset classes through ETFs or mutual funds which feature daily liquidity.

4. Recognize That Bear Markets and Corrections Occur More Often Than We Think

First, some definitions:

Correction: loss of 10% or more in a market index, e.g., S&P 500
Bear Market: loss of 20% or more

We've been spoiled during the record-breaking bull run that lasted until the pandemic and, while we enjoyed nice returns, it wasn't the norm. Corrections, even bear markets, are common and sometimes healthy. In fact, downturns may offer great buying opportunities when stock prices are depressed.



(Fig. 4) **S&P 500 Index, January 1928–February 2022**[3]

Most importantly, stocks can be critical for creating wealth long term. Not only does more growth mean more income in retirement, but it also can help you keep up with inflation. In the end, despite corrections and bear markets, the average annual total return of the S&P 500 is 10.49% over time, according to Investopedia,[4] supporting the notion that keeping a long-term view can help you grow your money.

Investment professionals say the market "Climbs a wall of worry." In Fig. 4, the choppy blue line represents a market that's now reached historic highs. The grey vertical lines create the "wall," representing various bear markets, including the Great Recession (2007–2009), Tech Bubble, (2000–2002) and the crash of 1987.

5. Rule of Thumb: Buy Low, Sell High

Investors can get caught up in the emotions of market highs and lows. At market peaks we may feel euphoric since our holdings may have increased in value. At that point, we could be tempted to try to capture more gains and allow more risk to creep into our portfolios. But historically, peaks are followed by corrections and buying up perceived winners prior to that downturn can be costly.

On the other end of the spectrum, market lows invoke feelings of depression, “Can it get any worse?” “I better sell my stocks now.” You could. But you could also miss the upside that may be coming when the market turns around.

For some, there may be investment opportunities during a geopolitical crisis, and it can be a time to look at buying beaten down stocks and sectors.

Keep Your Cool

Perspective and sticking to your plan are the keys to winning during turbulent times. We want to make smart and responsible decisions about financial security, and this is a great time for a conservation or a portfolio review.

[1] LPL Research, S&P® Dow Jones® Indexes, CFRA, 1/24/2021.
[2] Bank of America, S&P 500® Index annual return analysis, conducted in March 2022.
[3] Macrotrends (January 1928–February 2022) Daily price of the S&P 500.
[4] Investopedia (1926–2021) Average annual total return of the S&P 500.

Indexes are unmanaged and cannot be invested into directly.
Past performance is no guarantee of future results.