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STEVE ROBBINS, CFP®
WEALTH MANAGEMENT FOR A FLOURISHING RETIREMENT

Lines & Squiggles…
Pre-Election Market Volatility

Making long-term decisions while dealing with short-term challenges. It's the acid test of being a successful investor. It's also a test *every* investor will be taking for the rest of 2020.

On Monday, October 26, the stock market experienced its most dramatic slide in several weeks. The Dow and S&P 500 both plunged around 2%.[1] On Wednesday, October 28, the markets fell even further, to the tune of around 3.5%.[2]

It's not hard to understand why. Cases of COVID-19 have surged in recent weeks. Unemployment claims have also begun to climb again. Meanwhile, Congress has failed to pass a second stimulus package, with gridlock still the name of the game. These are all stark reminders that, while *we* might be through with the year 2020, the year 2020 isn't through with us.

And that stirs up one thing: Fear.

When you boil it down, market volatility has always been about fear. Of course, fear can manifest itself in many ways. Fear of loss, for example, often leads to market meltdowns. (We saw this in March.) Fear of missing out, on the other hand, can lead to "melt-ups", when the markets rise sharply even if the overall economy is on shaky ground. (We saw this in the summer.) And when you read the headlines and look at all the question marks we face in this country right now, it certainly seems like there's a lot to fear.

It's not hard to add to the list, either. As of this writing, the election is less than a week away. We often see increased volatility immediately before and after a presidential election, and if the results of *this* election are in any way delayed, volatility may surge. Whoever wins the election will bring question marks, too. What will the outcome mean for the coronavirus situation? Or the trade war with China? (Yes, that's still going.) Or taxes? What if one party takes control of the House while the other wins the Senate? How long will it take before the government can strike a deal to provide more coronavirus relief?

There are so many scenarios to consider for the rest of this year. So many possible timelines to plan for. As a recent article in CNN Business put it: *"Investors trying to decide how to place their bets heading into the last two months of the year face a daunting task."*[3]

But here's the thing: The real test investors face is not the one the media, or Hollywood, or even Wall Street would have you believe.

It's not about parsing through all these storylines and data points to predict what will happen next week, next month, or even next year. *It's not about placing bets.* Yes, it can be exciting to try, and if you get your predictions right, you'll look like a genius. And yes, we *do* use data to be more informed and to mentally prepare ourselves for whatever lies ahead. But you and I, we're not investing because it's exciting. We're not investing to make ourselves look like geniuses. We're investing for *your* retirement. We're investing so that you will have the means to do what you want, where you want, when you want. We're investing to ensure your family will always be taken care of. In short, we're investing for the long term. That's why making long-term decisions while dealing with short-term challenges is the *real* test. The true task.

But it doesn't have to be daunting. Here's why:

The factors that move markets over the short-term are different from those that drive the markets over the long. For example, here are a few things that impact the markets over weeks to months, and a few that impact the markets over years to decades:

Short-term factors (Weeks to months)	Long-term factors (Years to decades)
Political headlines and elections	Broad changes to monetary policy
Current events	Economic bubbles
Company earnings/announcements	Long-term demographic changes
Speculation	Long-term economic changes, like major inflation

The reason the items in the left column are short-term factors is because they rarely change how our economy operates on a fundamental level. They're the market equivalent of the weather. The weather may alter our short-term plans, but it almost never alters how we live our lives. **Naturally, if these short-term factors trigger our technical signals, or come as part of a more significant trend, we may make changes.*** But we will never overreact to them. Remember, we make decisions based on the *rules* we have in place. Not headlines.

On the other hand, the right column contains factors that lead to lasting, sometimes *permanent* changes. To give you an example, consider how the world changed during and after World War II. To support the war effort, factories increased their output dramatically. Millions of women began working outside the home, causing unemployment to drop. Federal spending skyrocketed, while interest rates plummeted. This permanently changed how our economy – and the country itself – operated. The result was a kind of golden age for the markets. For most of the 1940s, 50s, and 60s, the Dow grew at a steady clip with only a few brief interruptions.

Here's why I say all this. Much of the current market stress can be attributed to factors that probably belong in the short-term column. While the upcoming election is a momentous event, all the headlines that go with it will soon be replaced by newer, more immediate concerns. And even skyrocketing COVID cases, while unquestionably important from a social point of view, is a short-term event in the grand scheme of things.

Now, make no mistake: COVID-19 may well result in some long-term changes to our country and our economy. But as of *right now¸* these potential changes are the sort of thing that prompt editorials and opinion pieces, not headlines. We probably won't know what those long-term changes are, or what kind of effect they'll have, until years later. The headlines we're seeing – the stressors that investors are currently reacting to – are likely more short-term in nature.

Here's another way to look at it. If you search for "Dow Jones" on Google, the first thing you'll see is a graph of how the index has performed. Above that graph, you can specify the timeframe you want to see: **1 day, 5 days, 1 month, 6 months, Year-To-Date, 1 year, 5 years,** or **Max**. Whichever you choose, you'll see a line dominated by what a child would call "little squiggles."

If you look at the S&P over the last 5 days, or even 6 months, those squiggles will seem very big, very steep, and very frequent. But if you "zoom out" and look at the market over the last five years, the biggest squiggles get fewer and farther apart. Look at the market since 1980 and the squiggles are barely even perceptible.

Choose any squiggle from any point in time. Can you remember which headlines caused it? Probably not – but I can guarantee that at the time, they probably seemed like the end-all, be-all. And yet, each time, the squiggle ended, and the line continued. Of course, we're always prepared to move to defense whenever the line begins trending downward over a longer period. That's how we work to avoid major market corrections and bear markets*. But we never overreact to short-term squiggles!

I said at the beginning of this message that the acid test for investors is the ability to make long-term decisions while dealing with short-term challenges. To do that, we must weather the short-term squiggles so we can stay on the long-term line.   So, as you digest the headlines over the next several days and weeks, always ask yourself: Does this belong in the long-term column, or the short? Is this a line or just a squiggle? The more we do that, the easier it is to remain undaunted. To pass the test.

The weeks and months ahead will demand our attention. They'll require us to be at our best. That's because elections are important. Staying safe and getting through this pandemic is important. Enjoying the holiday season as best we can is important, too! So, spend your thoughts on those things. Because when it comes to the markets, my team and I have it covered. We'll get you through this squiggle, and all the squiggles to come.

As always, call or email with any questions or concerns related to the markets and economy, or in regard to your personal portfolio or financial situation.

Have a great rest of autumn!

-STEVE ROBBINS, CFP®

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*No investment strategy, including asset allocation and diversification can guarantee a profit or protect against loss in periods of declining values.

SOURCES

[1] "Stocks Slide on Coronavirus Uptick, Fading Stimulus Hopes," *The Wall Street Journal,* October 26, 2020. https://www.wsj.com/articles/global-stock-markets-dow-update-10-26-2020-11603706439?mod=hp_lead_pos1

[2] "Dow drops 800 points on mounting concerns over the coronavirus and the global economic recovery," *CNBC,* October 28, 2020. https://www.cnbc.com/2020/10/27/stock-market-futures-open-to-close-news.html

[3] "3 reasons the markets could be in for a bumpy week," *CNN Business,* October 26, 2020. https://www.cnn.com/2020/10/26/investing/premarket-stocks-trading/index.html