The Market Sell-Off and Coronavirus: An Investor's Perspective

Investors have now experienced their first disruption of the year: The Coronavirus. The investing experience is no stranger to unexpected surprises and on Monday, February 24th, all three major equity indexes fell over 3%. The -3.35% return for the S&P 500 was the worst daily performance since February 2018.

While this downdraft was unexpected, it certainly was not unprecedented. If you look back to the beginning of 1928 till Monday February 25^{4h} (a period of 23,146 trading sessions), Monday's change for the S&P 500 and its predecessor indices was the 235th worst performance in percentile terms on record. That means that almost 99% of all days over that time period were better than February 24th. If you broaden this time period slightly to include all trading days where the S&P fell more than 3%, there were 326 occasions. A return of -3% or worse occurred on roughly 1.4% of all trading sessions. If all returns were normally distributed, you should expect a day as bad as Monday (2/24/20) to occur about 3.5 times per year. Historically, some of the worst market performance days tend to cluster in weak economic environments.

Long term investors cannot and should not try to predict if this is the start of a longer trend or an isolated time period. The only other 1,000-point drops for the Dow Jones Industrial Average (DJIA) were on February 5th and 8th of 2018. Since then, the DJIA went on to make many new highs.

The Coronavirus is serious and there is no surprise that its spread is affecting some companies' potential earnings. If this flu-like virus worsens, some corporate earnings in some specific sectors could be heavily impacted, and the stock market may continue to sell off. If this is like the SARS scare or other epidemics, it could prove to be only temporary. In fact, if the market sells off, behavioral finance teaches us that investors with cash could be looking at good entry points to buy high quality stocks on sale. Economic and stock market crises are frightening when they happen, but they can also provide entry points for investors that actually want to "buy equities at lower prices".

We are watching this and all other events carefully and want to take a moment to remind you that long term investors will experience volatility and periods of uncertainty. Our goal is to help clients invest and not speculate on their way towards meeting their financial goals. Thank you for having confidence in our firm representing you. We are here if you are concerned and need to talk. 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.

As always, we appreciate your business.

John C. Beane, III CFP®

Sources: Seeking Alpha 2/24/2020, 2/25/2020, © The Academy of Preferred Financial Advisors.