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Coronavirus Concerns? Consider Past Health Crises

Putting current market volatility into historical perspective can help you stay the course during turbulent times.

During the last week of February 2020, the S&P 500 lost 11.49% — the worst week for stocks since the 2008 financial crisis — only to jump by 4.6% on the first Monday in March.[1] By all accounts, the drop was largely driven by ever-increasing fears about the potential effects of the coronavirus (COVID-19) and its ultimate impact on the global economy. Although many market observers contend that the market was overvalued and due for a correction anyway, the unpredictability, strength, and suddenness of the historic tumble was unnerving for even the most seasoned investors. If recent volatility is causing you to consider cashing out of your stock holdings, it may be worthwhile to pause and put recent events into perspective, using history as a guide.

A look back

Since the turn of the millennium, the market's negative response to health crises has been relatively short-lived. As this table shows, approximately six months after early reports of a major outbreak, the S&P 500 bounced back by an average of 10.47%. After 12 months, it rebounded by an average of 17.17%. Although there are no guarantees the current situation will follow a similar pattern, it may be reassuring to know that over even longer periods of time, stocks typically regain their upward trajectory, helping long-term investors who hold steady to recoup their temporary losses, catch their breath, and go on to pursue their goals.

Epidemic	Month end*	6-month performance, S&P 500	12-month performance, S&P 500
SARS	April 2003	14.59%	20.76%
Avian (Bird) flu	June 2006	11.66%	18.36%
Swine flu (H1N1)	April 2009**	18.72%	35.96%
MERS	May 2013	10.74%	17.96%
Ebola	March 2014	5.34%	10.44%
Measles/Rubeola	December 2014	0.20%	-0.73%
Zika	January 2016	12.03%	17.45%

Source: Dow Jones Market Data, as cited on foxbusiness.com, January 27, 2020. Stocks are represented by the Standard & Poor's 500 price index. Returns reflect the change in price, but not the reinvestment of dividends. The S&P 500 is an unmanaged index that is generally considered to be representative of the U.S. stock market. Returns shown do not reflect taxes, fees, brokerage commissions, or other expenses typically associated with investing. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in any index. Actual results will vary.

*End of month during which early incidents of outbreak were reported.

**H1N1 occurred during the financial crisis, when, as during other periods, many different factors influenced stock market performance.

Dollar-cost averaging does not ensure a profit or prevent a loss. Such plans involve continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, this can be an effective way for investors to accumulate shares to help meet long-term goals.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

What should you do?

First, keep in mind that market downturns sometimes offer the chance to pick up potentially solid stocks at value prices, which could position a portfolio well for future growth. Again, there are no guarantees that stocks will perform to anyone's expectations — and decisions could result in losses including a possible loss in principal — but it may be helpful to remember that some investors use downturns as opportunities to buy stocks that were previously overvalued relative to their perceived earnings potential.

Moreover, if you typically invest set amounts into your portfolio at regular intervals — a strategy known as dollar-cost averaging (DCA), which is commonly used in workplace retirement plans and college investment plans — take heart in knowing you're utilizing a method of investing that helps you behave like the value investors noted above. Through DCA, your investment dollars purchase fewer shares when prices are high, and more shares when prices drop. Essentially, in a down market, you automatically "buy low," one of the most fundamental investment tenets. Over extended periods of volatility, DCA can result in a lower average cost for your holdings than the investment's average price over the same time period.

Finally and perhaps most important, during trying times like this, it may help to focus less on daily market swings and more on the fundamentals; that is, review your investment objectives and time horizon, and revisit your asset allocation to make sure it's still appropriate for your needs. Your allocation can shift in unexpected ways due to changes in market cycles, so you may discover the need to rebalance your allocation by selling holdings in one asset class and investing more in another. (Keep in mind that rebalancing in a taxable account can result in income tax consequences.)

Questions?

After considering the points here, if you still have questions about how changing market dynamics are affecting your portfolio, contact your financial professional. Often a third-party perspective can help alleviate any worries you may still hold.

[1] Based on data reported in WSJ Market Data Center, February 28, 2020, and March 2, 2020. Performance reflects price change, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.
