



“Wall Street hammered!” What now?

To this day, the closest we have seen markets get to a financial Armageddon was the Global Financial Crisis in 2008.

There really was nowhere to hide.

Not only were asset prices plummeting across the board, but almost every financial institution, regardless of its reputation and history, had its solvency questioned. Some of those financial institutions would, in the end, not survive.

The biggest example was the 158-year-old US investment bank Lehman Brothers who were at the time the fourth largest in America and were to find themselves with a new title; the largest bankruptcy in US history.

On the day of its collapse, the S&P 500 fell 3.4%.

Last Friday, that same index fell 2.7% as Donald Trump shocked the market by announcing new tariffs on China.

So, given that Friday's fall was less than 1% away from the event that started what is, arguably, the most turbulent period in financial history, should we be worried?

Well, no.

The price of admission

We often hear that risk is related to volatility. This is debatable because it can be easily postulated that volatility is not risk rather it is the price of admission that an investor is required to pay over the long term in exchange for access to one of the best wealth building tools in the world.

Risk, on the other hand, can be more accurately seen as the risk of permanent loss of capital. And with that definition in mind, we are better able to successfully navigate frequent market corrections and multiple share market crashes.

History does not repeat itself – but it does rhyme

During the GFC, many would lose a lot of money as they sold assets as they, and the wider markets panicked. However, for those that could choose patience, the experience would have been very different.

The American stockmarket is currently 423% higher than the level it was the day before the Lehman Brothers bankruptcy.

And it wasn't just the GFC that investors had to sit through during this period.

The COVID pandemic was also another turbulent period.

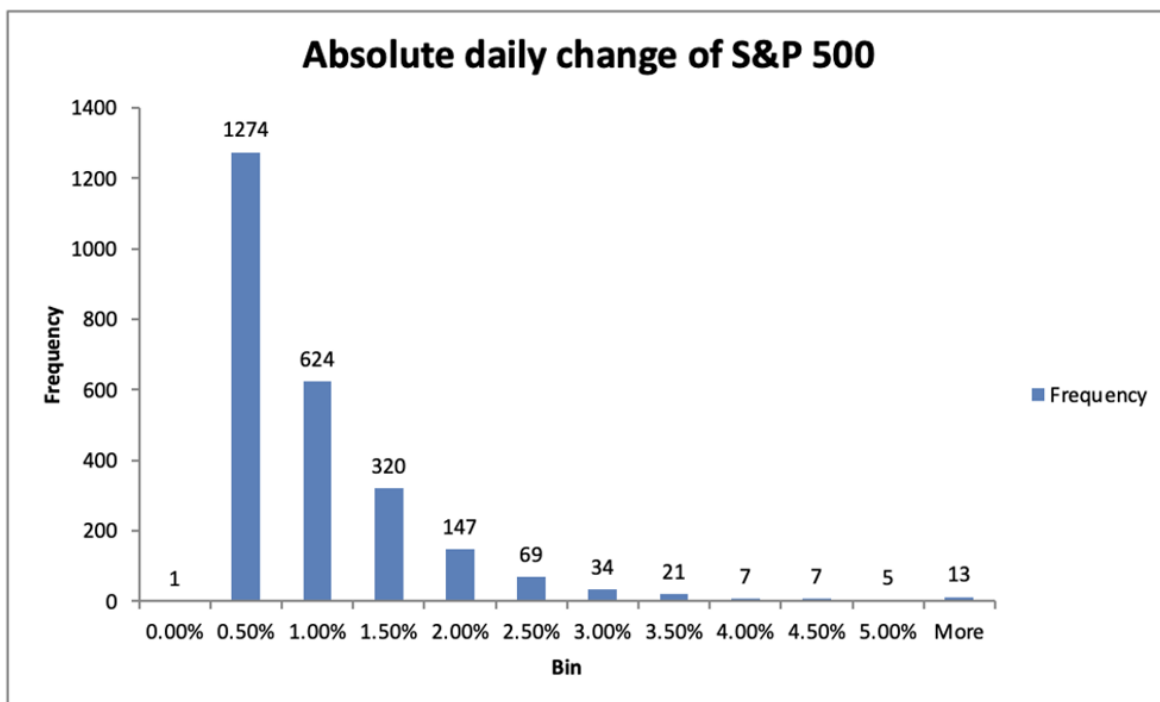
In fact, COVID was arguably more volatile than the GFC. In fact, there were at least 13 trading days where the American stock market either rose or fell by more than 5% in a single day, which included a day in March where the index fell by almost 12% in a single day.

Now that definitely is volatility.

What do the numbers say?

Granted, large movements are not very common.

Over the last ten years, over a total of 2,522 days, there have only been 156 days where the market has increased or decreased by 2.5% or more.



The absolute daily change in the S&P 500 (Source: S&P Global)

During this period, the average daily move of the American stock market was only 0.1%.

So, it isn't a surprise that when we do experience such a day, especially when the market falls, that we forget history and some people start to panic.

Numerous studies of loss-aversion have frequently shown that people typically feel the pain of loss more than they do the joy from an equivalent day, and many argue that it is as much as double the magnitude.

Expand your mind, or time

But what about the long-term?

Have you heard of the term "invest for the long-term" – it's a great cliché but it's a good one because it works.

The last ten years have hardly been a "calm" period.

On top of the COVID pandemic, which plunged global economies to a halt, we've also had extreme inflation, geopolitical instability and war, amongst other "crises".



The performance of the S&P 500 over the last ten years (Source: S&P Global)

Yet, despite all of this, if you invested in the American stock market ten years ago and proceeded to spend the following period meditating in a cave, you'd re-enter the real world today with a compounded annual return of 12.5% before dividends, or 14.9% including dividends.

Keep calm and stay invested

As scary as the daily headlines might be, history clearly shows that over time, such headlines tend not to matter.

In fact, just this morning, we are already seeing some of the fear subside as Trump, again, starts walking back from his tariff threat. Imagine you were someone who sold in panic, crystallising a loss, only to potentially see the market rise again.

We don't live in a news cycle anymore but rather a news washing machine.

Strong returns will go to those who are able to stay calm.

I'd argue the better question to ask, when the markets are in a hurricane of uncertainty, is not whether you should get out, but whether, in the panic, one might find some great long-term investment opportunities.



P (08) 9207 3844
W www.fwplanners.com.au
E clientservices@fwplanners.com.au
 Level 1, 176 Main Street,
 Osborne Park WA 6017

As shown in the numbers above, that is how the story typically ends – a recovery in asset prices followed by a march ever higher.

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P (08) 9207 3844
W www.fwplanners.com.au
E clientservices@fwplanners.com.au
Level 1, 176 Main Street,
Osborne Park WA 6017