Nervous Energy is a Great Destroyer of Wealth
-Fayez Sarofim

The financial markets don't like uncertainty. The current Coronavirus outbreak is no exception, and many investors are tempted by an impulsive desire to "do something." In our view, this urge is part of the instinctual "fight or flight" in our DNA.

But in times of volatile markets, the best move for long-term investors is often no move at all. While they're not exact parallels, the stock market responses to the SARS Coronavirus in 2003 and the Zika virus in 2016 offer useful lessons. In both cases, investors who sold on bad news and falling prices missed significant rebounds that very shortly had stock markets back to prior levels. In fact, we believe that adding to portfolios on significant drawdowns or rebalancing portfolios to intended targets can lead to enhanced returns if markets ultimately rebound and achieve new heights.

Source: Vanguard calculations, bsed on data from FactSet. US Stocks are represented by the S&P500 Index. US bonds by the Bloomberg Barclays US Aggregate Bond Index through December 31, 2009; Bloomberg Barclays US Aggregate Float Adjusted Index thereafter. The performance of an index is not an exact representation of any particular investment, as you cannot invest direcctly in an index.

There's no guarantee that today's market will play out the same way; stocks have sometimes taken days, months or longer to regain losses. But remember that knowing when to get back in is just as hard as knowing when to get out.

The investment strategy your financial advisor has mapped out for you is a long-term plan based on your personal goals and circumstances. Only when those change, should you be talking about whether an adjustment to your strategy is warranted.

Herb W. Morgan
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