Investing During Geopolitical Crises

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Looking back to WWII at the impact of invasions and wars on US equity returns (as measured by the Dow Jones Industrial Average, DJIA), it's clear that investors' initial reaction has been to sell into the fear. Investors typically dislike uncertainty, and the potential for large-scale war certainly creates uncertainty. However, many factors drive equity returns and once investors move beyond their initial fear and focus on longer-term fundamentals, equities have generally moved higher. According to Ned Davis Research, 22 market days after the initial reaction to a war or invasion, investors generally shrugged off their concerns and equities bounced higher more than 60% of the time. While, one year later (256 market days), the DJIA increased, on average, by double-digits, and generated a positive return well over half the time. **During difficult and volatile periods, it is important to keep in mind the old adage:** ***It's time in the market, not timing the market, that builds long-term wealth.***

With regard to investing during wartime, Nathan Rothschild is said to have coined the phrase, "Buy when the cannons are firing, and sell when the trumpets are blowing." The data shown below certainly supports this idea.

Geopolitical Event	Reaction Date(s)	Reaction Date(s) Gain / Loss (%)	DJIA Gain / Loss – Market Days After Reaction (%)			
			22	63	126	256
Germany invades France (WWII)	5/9/1940–6/22/1940	-17.1%	-0.5%	8.4%	7.0%	-5.2%
Korean War	6/23/1950–7/13/1950	-12.0	9.1	15.3	19.2	26.3
USSR Invades Afghanistan	12/24/1979–1/03/1980	-2.2	6.7	-4.0	6.8	21.0
Falkland Islands War	4/1/1982–5/7/1982	4.3	-8.5	-9.8	20.8	41.8
US Invades Grenada	10/24/1983–11/7/1983	-2.7	3.9	-2.8	-3.2	2.4
Invasion of Panama	12/15/1989 –12/20/1989	-1.9	-2.7	0.3	8.0	-2.2
Iraq Invades Kuwait	8/2/1990–8/23/1990	-13.3	0.1	2.3	16.3	22.4
Gulf War	1/16/1991–1/17/1991	4.6	11.8	14.3	15.0	24.5
War in Afghanistan	10/5/2001–10/9/2001	-0.7	5.9	11.5	12.4	-16.8
Iraq War	3/19/2003–5/1/2003	2.3	5.5	9.2	15.6	22.0
Russia Invades Georgia	8/8/2008–8/16/2008	-2.2	-4.0	-26.0	-34.2	-19.2
Israel Invades Gaza	12/27/2008–1/21/2009	-3.0	-13.5	-4.2	7.9	23.6
Russia Invades Crimea	3/7/2014–3/14/2014	-2.4	1.2	4.4	5.7	11.1
Russia Invades Ukraine	2/9/2022–3/8/2022	-8.8	6.0	1.7	-3.2	-2.2
	Average Gain/Loss	**-3.9%**	**1.5%**	**1.5%**	**6.7%**	**10.7%**
	Percent Positive	**21%**	**64%**	**64%**	**79%**	**64%**

Source: Ned Davis Research, Inc. The 22, 63, 126 and 256 day rate-of-change is calculated from the last day in the reaction dates column. The first date in the reaction dates column indicates the start of the market reaction or the trading day prior to the event. Returns are cumulative for all periods shown. **Past performance does not guarantee future results.**

Key Takeaway: When fear and uncertainty drive sentiment, whether due to rising geopolitical concerns or another reason, we believe investors ought to step back, refocus and regain perspective. Short-term volatility often creates opportunity and we want to reiterate a key tenet of investing that is always worth remembering: It's time in the market, not timing the market, that builds long-term wealth.

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18925 Base Camp Road • Monument, CO 80132 • www.aamlive.com

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