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Voices: Kevin Clewley, on Ignoring the Headlines

‘Stocks actually rose during Vietnam and the Korean War, as well as during both of the conflicts in Iraq’

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0 COMMENTS

Kevin Clewley

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Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Kevin Clewley is president of KD Clewley Capital Management in San Diego.

I think that the market impact of geopolitical events is widely misunderstood, which leads to a good deal of unwarranted angst among advisers and their clients.

The media and advisers often view regional wars and natural disasters as a major risk for the stock market as a whole and a reason to sell positions. But having looked at the history of these events and the corresponding market trends in detail, I would encourage advisers to resist that impulse.

That's because these headline events actually have very limited or fleeting impact on stock prices. For example, stocks actually rose during Vietnam and the Korean War, as well as during both of the conflicts in Iraq.

The notable exception to the rule was World War II. The onset of that conflict ended a bull market that had begun in 1938 and caused stocks to tumble by around 25% for a number of years. Even in that instance, prices bottomed out in 1942, and a new bull market began. That bull market continued to run through the remainder of the war, which lasted for another two years.

The unfortunate truth is that at any given time there will be a regional conflict or a natural disaster occurring somewhere in the world. Despite that fact, stock prices continue to rise over time.

Why is this the case? Regional conflicts simply aren't widespread enough to materially impact revenues and earnings of most companies. Unrest in Ukraine and the campaign being waged by ISIS in the Middle East are disastrous for those directly involved. While it would be unwise, of course, to be invested directly in any of those regions, there's very little chance that corporations like Apple, Kraft, or Johnson & Johnson will feel the impact of those catastrophes on their balance sheets. Some energy and defense companies may actually see an increase in earnings during these times.

These headline events do sometimes inspire a change in investor sentiment, which creates a short-term pullback in prices. However, I would suggest that those reactions typically represent a good time to invest more rather than pull money out of the market. That’s especially true if the overall economic outlook is favorable.

Given leading indicators like the spread between long and short-term interest rates and falling unemployment claims, the outlook for the U.S. is still very strong. While we’re seeing less growth globally than we see domestically, it is still growth. The message to advisers and investors is that despite intimidating headlines, what seems likely to cause a panic might in fact be an opportunity.