

FINANCIAL FRIDAYS

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POLITICS AND THE MARKETS- WHICH WAY IS UP?

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This week has been filled with plenty of political drama, with the Democrats starting a “formal impeachment inquiry” against President Trump. All of the news surrounding the President’s phone call with the President of the Ukraine has been dribbling out for days, and each new revelation or rumor is met with a severe reaction in the financial markets. The first question that everyone is asking is: what is this going to do to my investments?

There is one general rule that applies every time there is news or political drama, and it never fails.

“THE MARKET HATES UNCERTAINTY”

Stocks are basically “bets” on the future of a company. The entire market is essentially a bet on the overall health and success of the American economy over the next year or two. The value of a stock, and in turn the overall market, is based on assumptions of what is happening- and what is going to happen- in the near term.

Whenever things happen in the world to upset that assumption, stock prices will inevitably suffer. Investors will liquidate (another word for “sell”) their holdings until they can get a grasp of what the new information will be, based on the event occurring. We saw this happen back after September 11th, when stocks crashed in the aftermath of the attacks and the uncertainty of our economy and our military response. The first trading day after the attacks was the following Monday (9/17/01), which saw a 7% (684 Dow Jones points) decline, at the time the single largest drop in history. By the end of the week, the loss was more than 14%.

As things became clearer, stocks rebounded. It took less than one month for the market to recover all of its losses and return to the levels prior to September 11th.

The same thing is happening today, but at a faster pace. With most trading being done electronically and with the rise of social media, information flies around at lightning speed, and therefore the reactions to that info happens quickly. Many days, the Dow Jones average will drop hundreds of points in a few minutes, only to recover over the next hour once the facts of any rumor are discovered.

The moral of the story is this: ignore the rumors, avoid the mess that they create, and stick to a long-term approach to your investing. Don’t ever watch the news with your brokerage account open!