DJC
THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON

William Rutherford

OP-ED: Should investors care what the financial markets do each day?

Published March 6, 2020

This month I have received more than the usual amount of correspondence asking where my column is. It is flattering to know that people care, but pity the poor columnist in a market of volatility and government by tweet. Sometimes circumstances change so rapidly, I can't keep up with the changes. But should you care about the volatility anyway?

Investors are people, and people are often impatient. No one likes to wait in line or wait longer than necessary for something – especially today, when so much is just a click or two away.

This impatience also manifests itself in the financial markets. When stocks slip, for example, some investors grow uneasy. Their impulse is to sell, get out, and perhaps get back in later. If they give in to that impulse, they may pay a steep price.

Across 30 years through Dec. 31, 2018, the Standard & Poor's 500 posted an average annual return of 10 percent. During the same period, the average mutual fund stock investor realized a yearly return of just 4.1 percent. Why the difference? It could partly stem from impatience.

It's important to remember that past performance does not guarantee future results. The return and principal value of stocks will fluctuate over time, as market conditions change. And shares, when sold, may be worth more or less than their original cost.

Investors can worry too much. In the long run, an investor who glances at a portfolio once per quarter may end up making more progress toward his or her goals than one who anxiously pores over financial websites each day.

Too many investors make quick, emotional moves when the market dips. Logic may go out the window when this happens, in addition to perspective.

Some long-term investors keep focus. Warren Buffett does. He has famously said that an investor should, "buy into a company because you want to own it, not because you want the stock to go up."

Buffett often tries to invest in companies whose shares may perform well in both up and down markets. He also has stated, "If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes."

In contrast with Buffett's patient long-term approach, investors who care too much about day-to-day market behavior may practice market timing, which is as much hope as strategy.

To make market timing work, an investor has to be right twice. The goal is to sell high, take profits, and buy back in just as the market begins to rally off a bottom. But there is volatility in financial markets, and the sale at any point could result in a gain or loss.

Even Wall Street professionals have a hard time predicting market tops and bottoms. Retail investors are notorious for buying high and selling low.

Investors who alter their strategy in response to headlines may end up changing it again after additional headlines. While they may expect to be on top of things by doing this, their returns may suffer from their emotional and impatient responses.

Economist Gene Fama, a Nobel laureate, once commented: "Your money is like soap. The more you handle it, the less you'll have." This wisdom may benefit an investor's strategy, especially during periods of market volatility.

With cash yielding next to zero, and bond yields very slim, the market is telling people to be invested in equities.

In February, anxieties about the novel coronavirus (COVID-19) rippled through stock, bond and commodity markets. Stories about the disease dominated the news cycle, and concerns that a pandemic might occur hurt equities. The S&P 500 slipped 8.41 percent for the month, and foreign stock markets also retreated. Oil tumbled below $50. Away from the trading floors, the latest fundamental economic indicators showed manufacturing and job creation strengthening and consumer confidence at high levels. Data on home sales were mixed; home loans grew less expensive.

Past the coronavirus headlines, the latest round of U.S. economic indicators appeared largely encouraging. The Labor Department's jobs report released in February topped the expectations of economists surveyed: While they forecasted 165,000 net new hires, the gain was actually 225,000. The labor force participation rate (the percentage of people either working or looking for work) hit 63.4 percent – a level unseen since 2013. The main jobless rate rose 0.1 percent to 3.6 percent, and the rate of both the underemployed and the unemployed rose 0.2 percent to 6.9 percent. Hourly wages were up 3.1 percent year-over-year.

American manufacturing picked up its pace, according to the Institute for Supply Management (ISM). Its manufacturing Purchasing Managers' Index, or PMI, came in at 50.1 – a slight decline from January, but still in expansion territory. ISM data also showed weakening in new orders for manufactured goods and their prices. The institute's non-manufacturing PMI rose to 57.3 in February. A number above 50 denotes economic expansion. The annualized rise reported in February for the federal government's Consumer Price Index reached 2.5 percent. Yearly inflation previously ran at that pace in October 2018. Core inflation (minus food and energy prices) saw a 12-month advance of 2.3 percent.

I expect the market volatility to continue. The volatility is driven by news of a virus, which is a medical problem and not an economic problem. Time should be on our side, as it has been in other cases of epidemics.

The same is true for portfolios. Keep good holdings and trim problem securities.
William Rutherford is the founder and portfolio manager of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com. *Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.*

The opinions, beliefs and viewpoints expressed in the preceding commentary are those of the author and do not reflect the opinions, beliefs and viewpoints of the Daily Journal of Commerce or its editors. Neither the author nor the DJC guarantees the accuracy or completeness of any information published herein.