



# War, Panic, and the Case for Doing Nothing

As military activities escalate in the Middle East, markets respond with volatility and investors are gripped with panic and anxiety. The obvious instinct is to take action, to sell the risk assets, chase the so-called safe haven assets or try to take advantage of the chaos. Two new analyses from *The Globe and Mail* and *The New York Times*, veer towards a different approach: not panicking and doing nothing.

# Why Your Brain Wants You to Panic (And Why You Should Not)



When news screams "war" your brain's fear center is stimulated. This response is evolutionary and has served our ancestors well when facing large predators but it is disastrous when applied for investor psychology during volatile markets.

The urge to "fix this" feels right, but financial history has a different story to tell. Our instincts, while valuable for survival, are often counterproductive in investing.

# What Historical Evidence on War and Stock Markets Teach Us

Observing war and stock market history acts as a soothing agent to panic. According to Mike Silverman, the CIO at Cresset Capital Management, analyzed the market reactions that stemmed after eight major conflicts over the last 36 years, from the 1990 Gulf War to today's U.S. – Israeli strike on Iran.

**-0.37%**

**One Week Drop**

S&P 500 decline within one week of conflict beginning

**+0.5%**

**One Month Rise**

Average S&P 500 increase within one month

**+0.6%**

**Post-9/11 Recovery**

One month after the 9/11 attacks

**+5.5%**

**Ukraine Invasion**

One month after Russia's 2022 Ukraine invasion

While past performance should not be seen as a guarantee, the historical data suggests that markets have a remarkable ability to bounce back after geopolitical shocks. Jeff Sommer notes in *The New York Times*: "History shows that doing nothing has generally been a fine strategy when the markets act up."



# The Lure (and Trap) of Opportunistic Moves

During conflicts, certain sectors inevitably experience significant changes. The recent US-Israeli and Iran conflict briefly created opportunities:

## **Oil Prices**

Pushed above \$77 a barrel on supply concerns

## **Defense Stocks**

Boosted companies such as Northrop Grumman and Elbit Systems

## **Gold**

Rose as investors resorted to safe haven assets

## **Crop Stocks**

Spiked due to supply fears, like Butrien

However, geopolitical risk investing via opportunistic sectors is laced with danger. Silverman points out the risk of "buying too late". If one buys defense stocks or gold today, what will happen to its position once the conflict de-escalates tomorrow? Successfully timing such short-term changes is very difficult for the average investor.

# Wisdom of the "Do Nothing" Investing Strategy



## The Grounded Approach

Both articles cover the same principle: for long-term investors, a do nothing investing strategy is optimal.

If the portfolio is well-diversified, employing low cost index funds and holding broad stock and bond markets in reasonable proportions presents no excuse to make abrupt changes.

This is a grounded approach, rooted in years of wisdom. It aims for the market's average long-term return, and has historically been robust despite wars, pandemics and other crises.



### Market Timing Failure

Dodging short-term losses or capturing fleeting gains leads to buying high and selling low



### Costs and Taxes

Unnecessary transactions incur needless costs and tax consequences



### Consistent Outperformance

The buy and hold strategy has consistently outperformed market-timing attempts for decades



# Recessions Are the Real Risk

Jeff Sommer provides an important caveat: inaction is not completely foolproof. The real danger is not the conflict but the potential for that conflict to kickstart a broader economic recession.

1

## Conflict Escalation

Prolonged war disrupts global energy supplies and trade

2

## Economic Impact

Hampered economic growth and potential recession

3

## Portfolio Resilience

Well-structured portfolio withstands volatile cycles via proper asset allocation

However, even during a recessionary scenario, hastily reacting to headlines is rarely a cure. A well-structured portfolio designed for long-term investing is key.

# What About Safe Haven Assets?



## The Uncomfortable Truth

Gold was the undisputed safe haven asset and the U.S. dollar strengthened as investors sought safety. Energy stocks experienced a spike due to supply concerns.

But here's the uncomfortable truth: by the time these trends become mainstream, the easy money would have already been made.

For most investors, trying to enter into safe haven assets during a crisis is speculation, not investing. Such shifts require both entry and exit timing which even professional fund managers struggle to consistently achieve.

# Discipline Over Headlines

The best strategy for investing during war is, counter-intuitively, putting the strategy away. Discipline is paramount.



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## Ignore the Headlines

Media amplifies fear to capture attention



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## Resist Speculation

No matter how strong the urge is



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## Focus on Long-Term Objectives

Retirement, child's education, financial independence



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## Trust Diversification

Let your portfolio sail through the storm

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"Decisions should be grounded in long-term objectives rather than short-term headlines." — **Mike Silverman, CIO at Cresset Capital Management**

In simpler words, just stay calm. The world has survived countless crises, from wars to pandemics, and markets have consistently bounced back and have rewarded those who remained invested through them all. **This too, shall pass.**