

How to Handle the Market's Volatility

Written by Rob Copeland

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If it seems like the stock market has been more volatile than usual lately, it's not your imagination.

On September 9, the S&P 500 closed at 4,459, down 1.7% from the day before. Four days later it was down another .36%, before climbing by .86% the following day. Two days later, the index had dropped 1.1% from the previous level. In two weeks, the S&P fell a total of 2.25%.

It's not unusual for stocks to decline during the fall, but it's starting a little earlier this year. I expect the bumpy ride to continue, possibly for a few more quarters. There are always multiple factors in market disruptions; two of investors' current concerns are the financial troubles of the giant Chinese property company Evergrande and the fear that capital gains tax rates will rise next year.

But my longer-term concern is Covid-19 and its rampaging Delta variant. Supply chain disruptions due to Covid are making it difficult for companies to obtain components for their products. That in turn is making it harder to meet demand, which is threatening earnings. Ford Motors is a prime example of the problem: In August, sales of new Ford vehicles dropped 33% from a year earlier because of a persistent shortage of semiconductor chips. Ford isn't alone in having this issue: Chip shortages is expected to cost the global automotive industry \$110 billion in revenue in 2021.

I think there's a strong possibility that companies will be unable to meet projected earnings in the next few quarters, not due to a lack of consumer demand, but an inability to fulfill orders because of supply chain issues. As a result, volatility could be with us for a while. So what does that mean for you as an investor? There are a couple of things to bear in mind.

First, the negative headwinds could affect the value of your investment portfolio. But losses are only paper losses until you sell and make them permanent. It's important that you stay patient and focus on the long-term picture: Consumer demand remains strong, supply chains will eventually get repaired, and revenues and earnings will recover. In other words, avoid panic selling, which only serves to lock in losses.

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Second, be on the lookout for buying opportunities. Stocks tend to rise and fall as a whole, leaving strong businesses undervalued. The biggest gainers over the past many months could sell off hardest as investors take profits. Be on the lookout for bargains among companies that still have strong earnings prospects.

The market will likely get worse before it gets better. A 10% correction in stocks is possible. But it should be short lived: Americans are still flush with cash and eager to spend it. Supply chain snags will be cleared, revenue will be recognized in later quarters, and valuations will rebound.

The key for now is to keep a strong stomach and a cool head. Hang on to good investments unless there's a compelling reason to sell, and look for opportunities to buy future winners. Please give us a call if you'd like to discuss your investments.