

BLACK SWAN

Black Swans: Short-term Crisis, Long-term Opportunity

Considering the high levels of uncertainty, what should investors do?

Buy on Fear, Sell on Greed?

Legendary investor Warren Buffet is a big proponent of this strategy. When others are greedy—typically when prices are boiling over—assets may be overpriced. On the flipside, there may be good buying opportunities when others are fearful.



Most importantly, investors need to remain disciplined with their investment process throughout the volatility. History has shown that markets will eventually recover and may reward patient investors.

Few investors could have predicted that a viral outbreak would end the longest-running bull market in U.S. history. Now, the COVID-19 pandemic had pushed stocks far into bear market territory. From its peak on February 19th, the S&P 500 fell almost **30%**.

While volatility can cause investors to panic, it's helpful to keep a long-term perspective. Black swan events, which are defined as rare and unexpected events with severe consequences, have come and gone throughout history. We explore the sell-off size and recovery length for some of these events.

With selloffs ranging from -5% to -50%, black swan events have all impacted the S&P 500 differently. Here's a look at select events over the last half-century:

Wars, Viruses, and Excessive Valuations

Event	Start of Sell Off /Previous Peak	Size of Sell Off	Duration of Sell Off (Trading Days)	Duration of Recovery (Trading Days)
Israel Arab War/Oil Embargo	Oct 29, 1973	-17.1%	27	1475
Iranian Hostage Crisis	Oct 5, 1979	-10.2%	24	51
Black Monday	Oct 13, 1987	-28.5%	5	398
First Gulf War	Jan 1, 1991	-5.7%	6	8
9/11 Attacks	Sept 10, 2001	-11.6%	6	15
SARS	Jan 14, 2003	-14.1%	39	40
Global Financial Crisis	Oct 9, 2007	-56.8%	356	1022
Intervention in Libya	Feb 18, 2011	-6.4%	18	29
Brexit Vote	June 8, 2016	-5.6%	14	9
COVID-19*	Feb19, 2020	-29.5%	19	(ongoing)

*The sell-off measures from the market high to the market low.

While the declines can be severe, most have been short-lived. Markets typically returned to previous peak levels in no more than a couple of months. The Oil Embargo, Black Monday, and the Global Financial Crisis are notable outliers, with the recovery spanning a year or more.