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# WAR IN EUROPE - HOW SHOULD INVESTORS REACT

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**Whilst market shocks are not something new, the latest headlines of Russia invading Ukraine is surely something to take note of.**

## WHY WOULD RUSSIA INVADE UKRAINE?

There are many reasons, but in short, Putin wants to have access to Ukraine's resources. Ukraine is a big exporter of wheat and other produce, and has harbours that can be used during cold winters (unlike most in Russia) and the pipeline that supplies natural gas to Europe runs through Ukraine. This is to name a few, but there is also the ideological element that Putin views Ukraine as an offspring of Russia. **In short, Putin wants to prevent Ukraine from joining NATO and aligning closer with the West. He would like to replace the existing president with one whom would better serve Russian interests, similar to Belarus.**

## HOW HAS THE WORLD REACTED?

The whole situation has the potential to turn into a world war, with China being friendly towards Russia (in terms of normal trade, not weapons, at this stage) and the US and Europe imposing sanctions on Russia. If one takes a closer look, the sanctions are rather limited in the sense that Russia can still trade with oil and other important minerals. This sends a message that the US and Europe want to hit Russia with economic sanctions, but in such a way that will not negatively impact themselves and will limit the effect on the global economy. Russia is the 3rd largest exporter of oil, and to cut them off immediately would be detrimental for most. The point is that the response has been swift, but measured. **In short: Russia has the ability to unseat the Ukrainian president. The West will hit them with various economic sanctions, but unless they invade a NATO member the current situation won't turn into a third world war.**

## IN THIS ISSUE

*"Now is the time to stay calm and invest according to your long-term objectives.*

*History has shown that geopolitical shocks such as these provide buying opportunities to investors.*

*Brenthurst assists clients on their investment journey, and it is our privilege to guide you when the going (or news) gets tough."*



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## HOW SHOULD YOU REACT?

Now is the time to stay calm and invest according to your long-term objectives. History has shown that geo-political shocks such as these provide buying opportunities to investors. See the graph below which shows how the American stock market performed 12 and 24 months after a correction – which is a positive sign.

**"Buckle up" and brace for a volatile ride, because if you see it through, chances are good that you will reap the rewards over the long term.**

# STOCKS TEND TO DO WELL AFTER CORRECTIONS

## S&P 500 INDEX CORRECTIONS AND BEAR MARKETS (1980— PRESENT)

| High Date | S&P 500 High Price | Low Date | S&P 500 Low Price | Correction Return | 1-Year Return After Lows | 2-Year Return After Lows |
|---|---|---|---|---|---|---|
| 2/13/1980 | 118.44 | 3/27/1980 | 98.22 | -17.1% | 33.0% | 10.6% |
| 11/28/1980 | 140.52 | 9/25/1981 | 112.77 | -19.8% | 9.4% | 50.5% |
| 11/30/1981 | 126.35 | 3/8/1982 | 107.34 | -15.1% | 43.2% | 48.4% |
| 5/7/1982 | 119.47 | 8/12/1982 | 102.42 | -14.3% | 57.7% | 57.9% |
| 10/10/1983 | 172.65 | 7/24/1984 | 147.82 | -14.4% | 30.3% | 61.5% |
| 8/25/1987 | 336.77 | 10/19/1987 | 224.84 | -33.2% | 22.9% | 52.5% |
| 10/21/1987 | 258.38 | 10/26/1987 | 227.67 | -11.9% | 24.0% | 51.5% |
| 11/2/1987 | 255.75 | 12/4/1987 | 223.92 | -12.5% | 21.4% | 56.6% |
| 10/9/1989 | 359.80 | 1/30/1990 | 322.98 | -10.2% | 3.7% | 28.5% |
| 7/16/1990 | 368.95 | 10/11/1990 | 295.46 | -19.9% | 28.8% | 38.2% |
| 10/7/1997 | 983.12 | 10/27/1997 | 876.99 | -10.8% | 21.5% | 47.9% |
| 7/17/1998 | 1186.75 | 8/31/1998 | 957.28 | -19.3% | 37.9% | 57.7% |
| 9/23/1998 | 1066.09 | 10/8/1998 | 959.44 | -10.0% | 39.2% | 46.9% |
| 7/16/1999 | 1418.78 | 10/15/1999 | 1247.41 | -12.1% | 10.2% | -13.9% |
| 3/24/2000 | 1527.46 | 4/14/2000 | 1356.56 | -11.2% | -12.1% | -18.8% |
| 9/1/2000 | 1520.77 | 4/4/2001 | 1103.25 | -27.5% | 0.0% | -21.0% |
| 5/21/2001 | 1312.83 | 9/21/2001 | 965.8 | -26.4% | -13.7% | 6.5% |
| 1/4/2002 | 1172.51 | 7/23/2002 | 797.7 | -32.0% | 23.9% | 36.2% |
| 8/22/2002 | 962.70 | 10/9/2002 | 776.76 | -19.3% | 33.7% | 44.8% |
| 11/27/2002 | 938.87 | 3/11/2003 | 800.73 | -14.7% | 40.4% | 51.0% |
| 10/9/2007 | 1565.15 | 3/10/2008 | 1273.37 | -18.6% | -43.5% | -10.0% |
| 5/19/2008 | 1426.63 | 10/10/2008 | 899.22 | -37.0% | 19.7% | 30.1% |
| 10/13/2008 | 1003.35 | 10/27/2008 | 848.92 | -15.4% | 25.3% | 39.3% |
| 11/4/2008 | 1005.75 | 11/20/2008 | 752.44 | -25.2% | 45.0% | 59.2% |
| 1/6/2009 | 934.70 | 3/9/2009 | 676.53 | -27.6% | 68.6% | 95.4% |
| 4/23/2010 | 1217.28 | 7/2/2010 | 1022.58 | -16.0% | 31.0% | 33.5% |
| 4/29/2011 | 1363.61 | 10/3/2011 | 1099.23 | -19.4% | 31.5% | 53.8% |
| 5/21/2015 | 2130.82 | 8/25/2015 | 1867.61 | -12.4% | 16.5% | 30.6% |
| 11/3/2015 | 2109.79 | 2/11/2016 | 1829.08 | -13.3% | 26.6% | 45.2% |
| 1/26/2018 | 2872.87 | 2/8/2018 | 2581 | -10.2% | 5.0% | 30.1% |
| 9/20/2018 | 2930.75 | 12/24/2018 | 2351.1 | -19.8% | 37.1% | 57.8% |
| 2/19/2020 | 3386.15 | 3/23/2020 | 2237.4 | -33.9% | 74.8% | ? |
| 1/3/2021 | 4796.56 | 2/22/2022* | 4304.76 | -10.3% | ? | ? |
| | | Average | | -18.8% | 24.8% | 37.4% |
| | | Median | | -16.5% | 25.9% | 45.2% |
| | | % Higher | | | 90.3% | 86.7% |

*SOURCE: LPL Research, NED Davis Research, Fact Set 02/22/2022.*

- *The current weakness is not the correction as yet, however we decided to include it.*
- *All indexes are unmanaged and cannot be invested into directly.*
- *Past performance is no guarantee of future growth.*

## WHAT WOULD THE EXPERIENCED DO?

This is surely the greatest challenge Europe has had to face since World War 2. However, the majority of us were not around or old enough to invest during World War 2, so a good response would be to heed advice from our old friend, Warren Buffet, who has had that experience.

**BUFFET BASICALLY STATES THAT THE BEST WAY TO PRESERVE CAPITAL IN REAL TERMS, OVER TIME, IS TO INVEST IN PRODUCTIVE BUSINESSES, NOT TO HIDE IN CASH OR GOLD. From 1939 to 1945 (World War 2), the Dow (US stocks) rose by 7% per annum, on average. It is advisable to invest according to your personal risk profile, which might include conservative funds, but equities remains the asset class which provides long-term capital gain. People still need products and services which are provided by companies. This eventually leads to profits which will drive stock markets higher.**

## OUR RESPONSE

**DURING A TIME OF CRISIS IT IS IMPORTANT TO STAY CONNECTED AND INFORMED, BUT NOT TO PANIC. Contact me or any of the Brenthurst advisors should you require any additional information. We are currently in conversation with selected fund managers whom we prefer to use in the current environment, and will, in coming days, send more detailed information to clients regarding their views and positioning.**


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**CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR 8 OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY**

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