

CIO Vantage Point

HENRY MERCER | Chief Investment Officer

“ **Buy when the cannons are firing, and sell when the trumpets are blowing.**

- Nathan Mayer Rothschild

The U.S.'s military excursion into Iran has jolted the globe's markets and the bottleneck in the Strait of Hormuz choking off crucial oil supplies has increased the general sense of unease. It may seem callous to consider investment risk and opportunity amid such human tragedy, but this is Withum Wealth Management's important responsibility as caretaker of our client's financial assets.

Investors have for centuries sought to profit during times of conflict. Sad to say, one could even make the case that war is bullish. Nathan Mayer Rothschild was the founder of the British branch of the legendary Rothschild merchant banking dynasty and London's preeminent financier in the early 19th century. He built up a private network of carrier pigeons and couriers during the Napoleonic Wars, which allowed him to capitalize handsomely. Times have certainly changed as today's news travels instantly. It is also possible for investors to assess the impact of an event the moment it happens. Just observe the recent trading action in crude oil where algorithms perform all the guess work in milliseconds. Regrettably, there also seems to be lots of insider profiteering going on in advance of market moving news. Some things never change.

Middle Eastern Military & Terrorist Shocks

	Event Date	% Decline	Calendar Days to:	
			Bottom	Recovery
Suez Crisis	10/29/1956	1.50%	3	2
Six-Day War	6/5/1967	1.50%	1	2
Yom Kippur War	10/6/1973	0.50%	5	2
Iraq's Invasion of Kuwait	8/2/1990	16.90%	71	119
Terrorist Attacks vs. U.S.	9/11/2001	11.50%	11	21
Bombing of Syria	4/7/2017	1.20%	7	12
Saudi Aramco Drone Strike	9/14/2019	4.00%	19	23
Gen. Soleimani Killing	1/3/2020	0.70%	1	7
Israel - Hamas Conflict	10/7/2023	4.40%	20	7
Average		4.75%	15	22

Since the founding of Israel after World War II, military engagements and acts of terrorism in the Middle East have caused limited damage to the U.S. stock market. As displayed in the table above, selloffs, on balance, have been small in scale and short-term in duration. Investors adopting Rothschild's "sound of the cannons" strategy were the winners. The S&P 500's biggest decline occurred following Kuwait's invasion of Iraq in the summer of 1990, yet it took only 71 days to bottom and then just 119 days to erase the loss. Yes, oil shocks can have painful consequences when the source of geopolitical stress is the Middle East. Nevertheless, at this stage of the game the Iran crisis itself is not a valid reason to dump equities.

Like tides in the ocean, stock market selloffs appear with a rhythmic regularity – even during bull cycles. History shows that pullbacks of 5% plus occur three times per year on average and corrections of 10% plus, once per year. It is the probability of an irregular 20% plus bear market that should be monitored.

The biggest economic hurdle posed by the Iran War is the spike in energy costs along with other vital raw materials such as fertilizer. A recession is becoming a genuine possibility. During challenging periods such as today, the trend of the S&P 500 index can be a superior forecasting tool than the complex databanks utilized by economists. Please examine the table below.

Stock Market Performance In Anticipation of and During U.S. Economic Recessions

Recession Dates	GDP		S&P 500 Declines			
	# Months	% Decline	Start	Finish	# Months	% Decline
2/1945 - 10/1945	8	12.7	7/12/1944	9/14/1944	2	7
11/1948 - 10/1949	11	1.7	6/15/1948	6/13/1949	12	21
7/1953 - 5/1954	10	2.6	1/5/1953	9/14/1953	8	15
8/1957 - 4/1958	8	3.4	8/2/1956	10/22/1957	15	22
4/1960 - 2/1961	10	1.6	8/3/1959	10/25/1960	15	14
12/1969 - 11/1970	11	0.6	11/29/1968	5/26/1970	18	36
11/1973 - 3/1975	16	3.2	1/11/1973	10/3/1974	21	48
1/1980 - 7/1980	6	2.2	2/13/1980	3/27/1980	1	17
7/1981 - 11/1982	16	2.7	11/28/1980	8/12/1982	20	27
7/1990 - 3/1991	8	1.4	7/16/1990	10/11/1990	3	20
3/2001 - 11/2001	8	0.3	3/24/2000	10/9/2002	31	49
12/2007 - 6/2009	18	5.1	10/9/2007	3/9/2009	17	57
Averages	11	3.1			14	28

Source: CFRA Research

History illustrates that the stock market possesses a remarkable capacity to discount the future. The S&P 500 index often declines prior to the officially recognized start dates of recessions and rallies before the end. If the current selloff slides into a correction of greater than 10%, it could signal the onset of an economic contraction. Oil shocks in 1980 and 1990 ignited the spontaneous start of recessions and were exceptions to the discounting mechanism. In 1980's case, Fed Chair Paul Volcker was already choking the economy with an ultra-tight monetary policy, attempting to kill the 1970's runaway inflation. Iraq's invasion of Kuwait during the summer of 1990 threw a comparable gut punch to the economy. The good news in both cases – stock market declines lasted a mere one month and three months, respectively. In short, watch the proverbial “Mr. Market,” and do not trust economists.

Apologies for the mumbo jumbo. Just trying to describe the backdrop. Honestly, the investment future is always uncertain. This constant reality provides the basis for Withum Wealth's investment policy. The firm's disciplined asset allocation strategy is engineered to maintain a margin of safety at all times. Our key challenge is to manage the balance between portfolio

growth and the preservation of wealth. Equities are the locomotive that powers growth, while the broader diversification into other asset classes establishes a guard rail. Withum Wealth's investment philosophy incorporates the rewarding principles advocated by history's greatest investors like Ben Graham, Warren Buffett, John Bogle, and David Swensen. Bottom line – the power of compounding wins.

Market volatility should be welcomed, not scorned. If managed rationally, volatility can enhance investment returns. There is no better way to invest than purchasing shares in dominant businesses during turbulent periods. WWM's core equity portfolios are designed with this in mind. Markets are moody and unpredictable, and securities pricing can be inefficient – creating opportunities to both buy and take profits. The situation in Iran has investors on edge. Here at WWM, we are hoping to capitalize upon the market's moodiness. Let the trading algorithms whirl and remember the comment by investing legend, Warren Buffett, who once said: “I'd be a bum in the street with a tin cup, if markets were always efficient.”

Thanks, as always, for your confidence and encouragement. We wish you all the best. ■



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presented by **HENRY MERCER**

Chief Investment Officer

hmercerc@withumwealth.com

Withum Wealth Management

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