MCLEAN CAPITAL

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Must we be scared of the stock market right now?

Here are the returns of the stock market after many historical crises:

Year	Event	Annual return over following 5 years
1973	Oil Embargo	16%
1982	Inflation and rampant interest	28%
1987	“Black Monday”	15%
1990	Real Estate Crash	17%
2000	Tech Bubble	15%
2008	Financial Crisis	25%

After-crises returns, explained

Stock market returns in the years following a crisis can be very attractive. They can also be confusing for many. We must remember what influences long-term stock market valuations. The correct answer is not "economic cycles". The correct answer is: "profits".

What influences profits? Population growth, price increases (inflation) and innovation (productivity growth, or GDP per capita). Periods of crisis can be devastatingly dramatic on a human level, but they are also extremely conducive to innovation and increasing human efficiency. Obviously, we would still like to avoid them at all costs. But since we cannot control everything, once the crisis has started, we can try to find hope through these difficult times.

For example, the Second World War was a terrible drama for humanity, but it led to several innovations. I suggest the film "The Imitation Game" to better understand the computer breakthroughs of Alan Turing during this war. There were huge advancements in computers, aviation, medicine, nuclear power, communications systems, etc.

Popular Worries

There is a saying on Wall Street: "the stock market climbs a wall of worry."

This saying has become popular, as it is not the first time that the stock market has risen in times of crisis and uncertainty. But as history repeats itself again and again, people are filled with doubts about the stock market and do not understand why the markets are going up.

People forget that the stock market is only an intermediary. You don't buy the stock market, you buy shares in companies. We buy real tangible assets that increase in value as they increase their ability to generate profits in the future.

People think that if the economy is bad or is going to be bad, stocks will fall. This is not true. A company's stock should only go down if its intrinsic value goes down because of its long-term profit prospects.

The stock market post-COVID

The majority of people seem to agree that the economy will be difficult for a while (between a few months and a few years) and then everything will start again as before. If so, why don't people accept that the markets have the same opinion?

We cannot predict markets in the short term, but we need to have confidence in human resilience and innovation. We cannot predict the direction the stock market will take in the coming months, but we can have confidence in our stock portfolio over the long term; especially if we choose securities whose intrinsic value increases rapidly in these times of crisis.