A Reminder on the Big Moves: It's the Percent (Not the Points) That Counts

February 2020

- The S&P/TSX Composite Index fell by 385 points on February 25, its largest daily point decline in almost five years.
- From a percentage perspective, that equates to about a 2.2% move—notable but not extraordinary.
- While large moves are often unsettling for investors, history shows us that such periods of uncertainty are not unusual.

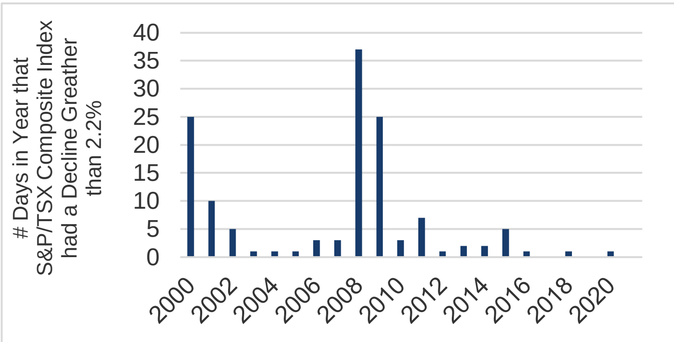
The S&P/TSX Composite Index dropped by 385 points on February 25, the largest daily point decline since 2015 for the equity benchmark. A 280-point fall the previous day was its tenth-largest move down over the same time.

In the U.S., the Dow Jones Industrial Average saw a 1000-point decline followed by an almost 900-point fall over the same period. Rising fears about the ultimate effects of the coronavirus and its impact on the global economy have investors worried.

But a 385-point move on the S&P/TSX Composite Index at today's values equates to a drop in value of about 2.2%. While nobody wants to lose 2.2% of their investments (especially in a single day), a headline that shows a 2.2% loss looks far less alarming than one that screams about the largest point drop in five years.

While the large move in the S&P/TSX Composite Index ranks with the top 2% in terms of percent declines over the last 20 years, such moves have occurred several times a year, on average, during that time. (Exhibit 1).

Exhibit 1: Big Drops are not Uncommon



Source: Bloomberg, SEI
Data as of 2/25/2020

It's also notable that the S&P/TSX Composite Index one-year gain through February 25, 2020 is 10.4%—even with the recent drops. For comparison, the index averaged a 7.1% annual gain over the past decade (through February 25, 2020).

The same goes for the Dow Jones Industrial Average, where 1000 points is about 3.5%, based on current values. For the same one-year period, the U.S. index gained 6.3% and has averaged 12.9% over the last 10 years.

Our View

We expect the steady flow of coronavirus-related uncertainty to cause volatility (and anxiety) to ratchet up in the near term. The angst is easy to understand. Nobody likes to see the value of their investments fall. Yet, episodes of stock-market volatility have always been part of the investment landscape.

In times like these, the value of long-term planning can show its merits. While it's human nature to want to avoid losses, the reality is that it's extremely difficult to time markets, both to avoid losses and then to re-enter so one can reap the long-term potential gains.

Now is not the time to panic. If you're thinking about selling equities to avoid losses, it's already too late. Further, if you do sell now, you'll eventually have to make a decision to buy back into the market. Our research shows the decision to get back in is just as difficult to make as the decision to get out, and investors are notoriously bad at both.

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