War Is No Time to Panic Sell Stocks

Description

Last week, Europe witnessed military action the likes of which it hadn't seen in decades. Following a weeks-long troop buildup, Russia invaded Ukraine, triggering sanctions from most European Nations, as well as Canada and the United States.

The attack sent economic shockwaves across the world. Russia's currency collapsed in value, its trade with the EU was cut off, and countries resolved to cut off the aggressor nation from the SWIFT banking system. As expected, stocks tanked on the news. Russia invaded on February 23 in North American time zones. On February 24, markets immediately opened to a steep sell-off, with the **S&P 500** falling 1.44% to the previous day's close. Russian markets got hit even harder, falling 40% in nominal terms and 70% when accounting for depreciation of the ruble. It was a scary time.

And yet, those who had the stomach to hold stocks through all of this saw gains in the days that followed. From the bottom on February 24 to the end of trading on Friday, stocks notched a 5.34% gain. Investors who held on through the volatility were rewarded. In this article I will explore why that happened, and make the case that panic selling stocks is never the right thing to do–not even in a war.

Stocks often sell off during wars but only briefly

Wars are scary events, so it should come as no surprise that people often sell stocks when they are declared. Fear leads to a "fight or flight response," and selling an asset could be considered a kind of "flight." Nevertheless, history shows that war is not devastating for financial assets. Historically speaking, when wars break out, stocks tend to fall very briefly and then rebound. Consider these examples:

- In World War II, the **Dow** fell 2.9% after the attack on Pearl Habour, then rose 50% over the course of the rest of the war.
- The Dow gained 10% after a brief dip on the day of the Cuban Missile Crisis.
- The S&P 500 fell 15% in the days immediately following 9/11, but later regained what it had lost. After bottoming in 2002, stocks went into a bull market that lasted until 2008.

As you can see, the markets sometimes have an immediate, negative reaction to war and related disasters. But it tends to be short lived. After dipping temporarily, stocks usually recover from war-related sell-offs. In many cases, they go on to set new highs.

Some stocks are doing quite well now

After a brief review of the history of war-related stocks market crashes, it's time to ask the question:

Is this time any different?

If the market action on Friday is any indication, no. Friday was one of the best days for the S&P 500 in many weeks.

There are some stocks that have been holding up pretty well through this entire thing. **Suncor Energy** (TSX:SU)(NYSE:SU), for example, delivered a 1.39% return last week. As oil prices rose, investors bid up the stock, which makes more money the higher oil prices go. The same is true for other energy stocks. And we can reasonably expect that, with all the cyber-attacks happening in the conflict between Russia and Ukraine, some tech companies will rise to the challenge, developing cyber security tools that will help the world make it through this crisis. The lesson? War is always a bad thing, but it isn't necessarily bad for the markets.

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Date
2025/08/27
Date Created
2022/02/28
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