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Sent: Thursday, February 24, 2022 4:34 PM
To: Elizabeth Kelly
Subject: Thoughts on The Russia-Ukraine Conflict

CAPITAL INVESTMENT

Thoughts on The Russia-Ukraine Conflict

Over the past 24 hours, the Russia-Ukraine conflict has moved into a new phase. This is terrible news for the Ukrainian people and disconcerting for us all. War incites great emotion and fear. We want to do our best to provide our thoughts on the situation through an investment lens. So, we apologize in advance if we seem impersonal to those impacted. We're not, but we find we need to objectively look at the markets in times like these.

It's no surprise that military conflict leads to market uncertainty and volatility, which is exactly what we are seeing. This week the major US averages entered correction territory by falling over -10% from recent highs. And while many expected 2022 to be volatile due to more traditional events such as the mid-term elections and the Federal Reserve raising interest rates, few called for war as the exogenous event. This creates new challenges, as there's no timeline telling us how long the military conflict will last or how grave the consequences will be. That is the phase we are in right now.

Instead of providing predictions on potential outcomes and Russia's true motive, we find it best to look back through history to provide us some context. It is always helpful to explore market history to understand how markets and investor psychology reacted during similar times of conflict. When we look back through history, we can see that markets typically normalize through most geopolitical events, even the most extreme ones.

Geopolitical Events and US Market Reactions

Dow Jones Industrial Average Returns Around Majo

Conflict	Date	3M After	6M After	1Y Aft
Russia-Japan War	2/8/1904	1.3%	9.6%	51.0
WWI Begins	7/28/1914	(25.6%)	(23.6%)	(1.0
WWI Escalation	7/1/1918	3.5%	(1.3%)	32.2
Italy-Ethiopia War	10/3/1935	11.7%	24.3%	32.3
Germany Invades Czechia	9/30/1938	9.1%	(6.8%)	6.2
WWII Begins	9/1/1939	8.3%	8.1%	(4.7
Pearl Harbor	12/7/1941	(9.3%)	(6.2%)	2.2
D-Day	6/6/1944	3.1%	4.5%	17.6
Korean War	6/25/1950	5.7%	7.3%	14.7
Suez Crisis	10/29/1956	(2.5%)	1.4%	(10.5
Berlin Problem	8/15/1961	2.3%	(0.3%)	(15.3
Cuban Crisis	10/16/1962	14.6%	21.5%	29.9
Six Day War	6/5/1967	7.6%	5.9%	11.8
Yom Kippur War	10/6/1973	(8.2%)	(10.7%)	(36.8

Source: Bloomberg

As you can see from the table above, there have been many conflicts over the past 100 plus years. Some much larger than others, but all serious in their own right. We've found that despite some severe pullbacks – World War II the most severe at -40.4% not including dividends – on average the *fear* in the markets is nearly always overstated relative to *actual* market performance. When we collectively look at all the events, the average peak to trough drawdown is -13%, the level at which major averages currently sit. That said, if we look at average three, six, and twelve-month returns following the start of each conflict, all three time periods are positive. That’s right, positive. Taking it a step further, three years down the road markets are higher more than 80% of the time with an average return of nearly 30%. Again, while we can’t predict the future, we can use history as a useful and instructive guide. Putting today’s events into historical context should remind us that geopolitical events impacting markets create *temporary* pullbacks.

Here at CIA, we remind our families that market corrections happen every 1.6 years, more often than anyone would care to see. And just as we seem to be turning the corner from a global pandemic which shut down the global economy, we are now dealing with fears of a major world conflict. While we have no control over the next geopolitical twist and turn, we do have control over where we invest our families' portfolios, which include income-producing assets and adequate levels of dry powder. Dry powder refers to safety assets within your portfolio (cash, US treasuries, and investment-grade bonds).

This is a formula that has proven to work over the course of history despite wars, recessions, and global pandemics. It is our belief consistent income coupled with dry powder should allow portfolios to weather periods of extreme stress and volatility.

As always, we’re here to help and will continue to monitor the situation.

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