46 PEAKS
INVESTMENT ADVISORY GROUP

Keep Calm and Carry On.

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As Europe teeters on what some are describing as the precipice of World War III and the stock market volatility that began last year continues unabated here in February, it may help calm some nerves to review the stock market reaction to other geopolitical "episodes" since 1990. The table below lists ten geopolitical crisis events in the last 32 years, how long the market reaction lasted, the gain/loss during the typically negative reaction, and the results of the stock market (as measured by the Dow Jones Industrial Average) 22, 63, 126, and 253 trading days later (roughly 1, 3, 6, and 12 months).

			DJIA % Gain/Loss Days after Reaction Dates			
Event	**Market Reaction Dates**	**Gain/Loss%**	**22**	**63**	**126**	**253**
Iraq Invades Kuwait	08/02/1990 - 08/23/1990	-13.3	0.1	2.3	16.3	22.4
Gulf War	01/16/1991 - 01/17/1991	4.6	11.8	14.3	15.0	24.5
WTC and Pentagon Terrorist Attacks	09/10/2001 - 09/21/2001	-14.3	13.4	21.2	24.8	-6.7
War in Afghanistan	10/05/2001 - 10/09/2001	-0.7	5.9	11.5	12.4	-16.8
Iraq War	03/19/2003 - 05/01/2003	2.3	5.5	9.2	15.6	22.0
India Israel and Lebanon Bombings	07/11/2006 - 07/18/2006	-3.0	5.0	10.9	16.4	28.3
Russia Invades Georgia	08/08/2008 - 08/16/2008	-2.2	-4.0	-26	-34.2	-19.2
Israel Invades Gaza	12/27/2008 - 01/21/2009	-3.0	-13.5	-4.2	7.9	23.6
Russia Invades Crimea	03/07/2014 - 03/14/2014	-2.4	1.2	4.4	5.7	11.1
U.K. Votes to Leave E.U.	06/23/2016 - 06/27/2016	-4.8	7.7	5.6	16.3	25.2
Mean		**-3.7**	**3.3**	**4.9**	**9.6**	**11.4**
# Negative		**8 of 10**	**2 of 10**	**2 of 10**	**1 of 10**	**3 of 10**

Source: Ned Davis Research

As the table shows, out of ten episodes:

- The average decline following the beginning of these episodes was only 3.7%.
- The two events that saw the largest declines (13.3% and 14.3%), both saw gains of over 22% in the 12 months following the decline.
- Only twice did the stock market produce negative returns 3 months after the initial reaction. Importantly, both of those episodes coincided with the Great Financial Crisis of 2008, a dynamic that doesn't exist today.
- Following the (usually small) decline, the market average return 12 months later was +11.4%

Please don't interpret this information as a signal to get more bullish. The situation in Ukraine could escalate significantly. Even if it doesn't…Stock market valuations are still very high. Inflation is problematic. The Fed is withdrawing support. And market "technicals" are weak. Rather, if your portfolio is properly aligned with your risk tolerance, follow the advice of our British Allies during WW II and simply "*keep calm and carry on*".

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