

# Market Corrections, Panics, and COVID-19

by John E. Grable, PhD, CFP

## ABSTRACT

This column highlights the importance of helping clients maintain perspective as they try to make sense of ongoing market volatility associated with COVID-19. This column highlights 15 major stock market corrections and panics that have occurred over the past 200 years, showing that the initial market reaction to the COVID-19 pandemic was neither unique nor unexpected.

Right after the COVID-19 pandemic was declared in early 2020, I was asked by the publisher of one of my books to write a brief commentary for college students about the unfolding uncertainties in the job and securities markets. I thought it might be useful now to revisit some of the notes that I jotted down then to see if what I wrote turned out to be accurate. My hope in sharing these notes is that when the next stock market panic occurs (which is not a question of if but when), maybe these ideas will help you when a client is feeling intense fear and stress related to a stock market correction.

Although time has dampened the feelings of anxiety that were present in April 2020, it is important to remember that people were scared. The prospects for the future, particularly for young people, were forever altered when colleges and universities moved to online education and traditional pathways to employment disappeared. Not only were individuals and families dealing with loss of income and assets, the fear of illness permeated almost all aspects of daily life.

As financial service professionals know all too well, clients—regardless of age or socioeconomic status—always have questions and concerns about potential threats to the economy and their household financial situation. During the best of times, the day-to-day workings of the economy and financial markets can set off feelings of excitement, nervousness, and apprehension. In the world that has been shaped by COVID-19, these feelings have

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been escalated to ongoing sensations of dread, fear, and loathing among large portions of society. Nearly all of these emotional states are tied to feelings of uncertainty about the present and future. As the financial risk-tolerance literature suggests, when clients feel that a situation is out of their control, they tend to reconsider previous choices and to project current fears into decisions that impact their future behavior.

While financial service professionals cannot really alter a client's attitude about COVID-19 or other health concerns, an opportunity does exist to help clients deal with emotions related to the fear of losing money in the investment markets. My notes from early 2020 went something like this: clients tend to believe that market corrections, abrupt reversals from a bull market to a bear market, and other sudden depressions in equity prices, are unique to certain times and places or are unprecedented in history. In other words, clients tend to have short-term memories. I continue to believe, as I did at that time, that financial service professionals can play an important role in educating clients about the truth underlying market panics, corrections, and other scary events that occur on a regular basis.

Let's go back to January 2020. At that time, economic growth was robust, the stock market was in a general bullish cycle, real estate values were increasing, and most people were pleased with their household financial situation. The S&P 500 ran up to a then-record high in the middle of February. Within approximately a month, the S&P had fallen 34 percent, with predictions of an additional possible drop of as much as 50 percent.

This sudden drop in equity values came immediately in response to the realization that COVID-19 was not an isolated health event but instead a global pandemic. People were forced to reexamine not only their financial situation but also career choices, schooling options, and the likelihood of death. Millions of people were forced to isolate themselves, and as a result, many long-term spending and saving plans were abandoned. For many, the world seemed to be at a tipping point in which the value of publicly traded companies seemed grossly too high. However,

instead of dropping further, the S&P 500, and the other major equity indexes, rebounded. By the middle of August, the S&P was up 52 percent from its February low, reaching new highs by fall 2020.

If there is any good news to come from the COVID-19 pandemic, it is this: those who are able to maintain perspective can conquer financial chaos and fear. There is no doubt that the COVID-19 pandemic triggered, and will likely continue to cause, dramatic shifts in the way people interact and the way business is transacted. It is worth keeping in mind, however, that this transformational process, which seems unique to our times, is rather commonplace in the annals of economic history. In fact, history tells an important story. First, economic panics like the one Americans lived through (and in some respects continue to live through) are relatively common. Second, most panics are relatively short-lived. Keep in mind that it is always easier to come to this realization after the fact than during the moment of crisis. By maintaining perspective, you (as a financial service professional) will be in a much better position to help your clients deal with future panics and market selloffs. It may also be possible to help clients emerge from the ongoing COVID-19 crisis feeling less uncertain about their future.

As evidence to my suggestion that market panics and corrections are more common and less unique, than clients believe, let's take a brief walk through history to learn about other financial crises and see what happened. The following list shows 15 panics that have occurred over the past 200 years. (There were more but these are some of the big ones.) Including the COVID-19 panic, this equates to a major selloff every 13 years or so.

- **1819**—If you were alive 200 years ago, you would have lived through a devastating period when unemployment skyrocketed, the value of property plummeted, and investments tanked. Some religious leaders even declared the end of days. The panic was over by 1821.
- **1837**—Stocks lost 60 percent of their value in just a few months. The panic was short-lived

with the market making a full recovery in a short period of time.

- **1847**—Another wave of panic swept the country. By the end of the decade, stock prices had not only recovered, but prices were at record highs. Those who purchased stocks at the low prices available in 1847 accumulated significant wealth.
- **1857**—Stock prices fell 40 percent, but the losses were short-lived. A full recovery followed.
- **1873**—In one 10-day period, stock prices fell by 25 percent. Things were so bad that consumers started hoarding goods at home (very similar to what happened during the outbreak of the COVID-19 pandemic), but like all the other panics, people adjusted and moved forward relatively quickly.
- **1884**—The stock market fell 50 percent. It is rumored that President Ulysses S. Grant was so impoverished that he had to write his memoir to help pay bills and fund his retirement. Yet again, people adapted and the economy rebounded quickly.
- **1893**—This year saw another 50 percent decline in stock values followed by a quick recovery.
- **1901**—Similar to 1893, Americans lived through another panic that was quickly replaced with economic growth and rising stock prices.
- **1907**—This panic was so alarming and serious that J.P. Morgan (the person, not the company) had to lend money to the U.S. government to stave off a total collapse. Once people realized that the government was solvent, the economy shifted to full recovery.
- **1918**—This panic was ushered in by the Spanish flu pandemic. It has been estimated that between 17 and 50 million people died during this calamity. Hoarding was the norm. Social distancing was practiced. The economy suffered. Yet again, the economic recovery was relatively quick.
- **1929**—The Great Depression—probably the longest sustained period of economic despair—left millions unemployed and fearful about their economic future. Although it took some time, the economy did improve, as did stock prices.
- **1973**—This marked the beginning of a period of economic stagflation (the combination of high unemployment and high inflation) that caused investors to flee the stock market. Those who continued to invest with an eye on long-term wealth accumulation reaped significant rewards.
- **1987**—Up until that time, the October stock market crash was the worst since the Great Depression, but even this event was soon forgotten. This crisis was over so quickly most people today cannot remember the despair felt by investors.
- **2000-2002**—Now known as the Dotcom Bubble, the National Association of Securities Dealers Automated Quotations (NASDAQ) plummeted by nearly 77 percent during this period. It did take time to recover, but patient investors reaped huge gains, especially those who bought shares at market lows.
- **2008**—This year brought a panic of worldwide proportion (now known as the Global Financial Crisis). Those who continued to save and invest during what has been called the great recession reaped large gains as the economy improved.

A common theme that runs throughout history is that those who are living during a moment of economic panic and chaos often become so fearful, thinking that what they face is unique and singularly dangerous, that they lose perspective. Fears turn to rash thoughts and actions. People stop saving and investing. In fact, they often sell their investments. This sometimes is the logical thing to do, especially if a client is faced with ongoing expenses and no employment prospects. However, for clients who stick to their long-term saving and spending plan, times of panic often provide the foundation for long-term wealth accumulation. There is nothing nefarious, illegal, or random involved with making money in the markets. Accumulating wealth over one's life involves staying calm when others panic and sticking to one's financial plan even when every emotion says to sell and join others in proclaiming the end of times. It is worth noting that when I look at my notes from early 2020, I wrote in my commentary that the mar-

kets would recover from the COVID-19 panic. The fact that the markets rebounded so quickly caught me and others off guard. Even so, I am confident that the recovery would have occurred even had it taken longer to make the turn from a bear to bull market.

When working with clients who are scared and uncertain about the wisdom of maintaining their saving and investment plans, it can be useful to affirm that the stock market may look unsafe and rigged against the average investor. Remind clients that this is an illusion. The market is rigged against those who panic. Those who maintain a long-term diversified perspective almost always emerge from a market correction

with greater wealth and more confidence. When clients are feeling particularly worried, feel free to share with them the history of panics that have occurred over the past 200 years. Over time, clients will be very happy that you helped them maintain perspective. ■

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