

THE BEHAVIOR WE ARE SEEING TODAY: PANIC BUYING & MARKET VOLATILITY



Walking through the supermarket yesterday, I noticed a familiar sight - empty shelves. As Floridians we accept that every fall our lives will be disrupted by a hurricane or two. Sometimes we get lucky and the hurricane doesn't make landfall, but other times we spend a week buying water, filling sandbags and pulling in the patio furniture. While we never know until the end whether we will get hit, one thing is for certain: there will be a shortage of water.

Today we are seeing similar examples of "panic buying" but this time it is not water, for some reason it is toilet paper. We have all heard about the shortages on the news and many of us have experienced it in person. What is specifically interesting about this shortage is that COVID-19 has no gastrointestinal characteristics. It's respiratory. Why not a run on Kleenex?

Regardless of the reason, it's a fair question to ask - what causes this level of mass hysteria? Psychologists¹ state that it is a mix of fear, herd instinct and a desire for control in an otherwise uncontrollable situation. Although not entirely synonymous, we are seeing some of these characteristics play out in markets today.

Let us first state, there are real and significant economic implications to what is occurring right now with COVID-19. People are sick, businesses are distressed, and economies are struggling. With that said, the current market selloff will go down in history because of the extent and speed as to which it declined. Why? It is a mix of fear, herd instinct and a desire for control in an otherwise uncontrollable situation. Exhibit A on the right shows the S&P 500 coupled with a Google Trend for the phrase "Toilet Paper."



Source: Morningstar

As you can see, the two are almost perfectly aligned in opposite directions (negatively correlated). What we are seeing is a real reaction to a negative shock, but one that is being amplified by fear and a herd mentality.

There will be broad economic implications to this virus and the market has reacted to that. However, individuals who have a long-time horizon or who do not need access to their portfolio in the near term will be able to weather this storm.

The situation we are experiencing now is drawing upon plenty of emotions. We expect to be driven by our instincts when dealing with relationships, politics and other subjects that produce strong feelings. Personal finances might seem like an odd fit with this group, but it turns out that we are all heavily susceptible to behavioral biases that can produce strong personal emotions. The main goal is to be aware of these biases in order to avoid them when making financial decisions.

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