Like the markets, advisers largely shrug off Iran threat

Financial markets appear to be separating geopolitics from economics for the time being

Jan 7, 2020 @ 6:46 pm

By **Jeff Benjamin**

Despite the escalating tensions between the United States and Iran following the assassination Friday of a top Iranian military leader, financial advisers are mostly shrugging off the international incident, as are the financial markets.

"I think it's a nonevent that caused a knee-jerk reaction similar to what happened in the fourth quarter of 2018 with China tariffs," said Allan Katz, founder of Comprehensive Wealth Management Group.

"Iran and Iraq need us more than we need them and they don't have the military ability to hurt us in any meaningful way," Mr. Katz said. "I believe this will subside and the region and the world will be safer."

After a weekend that saw political pundits warning of various worst-case scenarios, which were widely expected to spread across the financial markets, the S&P 500 Index is down just 0.004% from the peak it reached last Thursday, the day before Qassem Soleimani died as the result of a drone strike at an Iraqi airport.

What is perhaps most remarkable about the market's reaction is that after the longest economic expansion in U.S. history, with the stock market teetering at record levels, most analysts agree the **markets are looking for an excuse to correct.**

“I have received no queries from my clients, but I’m not surprised because they have learned that such events often cause a short-term bump but seldom have long-lasting implications,” said John Power, owner of financial planning firm Power Plans.

Mr. Power said his clients were more concerned about the market’s reaction to the election of Donald J. Trump in 2016 than they are about fallout from Iran.

“The market is close to an all-time high and it is looking for a reason to pull back, but if you look historically at what events like this have done to the economy and the stock market in the longer term, the implications have been minimal,” he added. “I think investors are getting smarter.”

Whether investors are getting smarter or have just gotten used to markets shrugging off almost every challenge over the past decade is not completely clear.

“My take is, there’s always risk in the markets, and the mistake is thinking 124 months of expansion means it will always be like this,” said Dennis Nolte, vice president at Seacoast Investment Services.

“Right now, I’m more concerned with the economics and growth slowing than with geopolitical issues,” Mr. Nolte said.

Salim Boutagy, financial adviser at Congress Wealth Management, said his clients have been calling and are nervous about a market reaction.

Even though he is relying on the same historical data to try and calm clients, Mr. Boutagy admits that he also expected a more negative reaction than the market’s minor drop of less than 1% in the immediate aftermath of the assassination.

“I was expecting to see more volatility because I thought this was all going to get bundled together with the impeachment and the election year,” he said.

To help provide some context to his clients, Mr. Boutagy has been sharing a chart showing stock market reactions to major economic and political events since World War II.

For example, the S&P lost 4.4% the day after the Japanese attack on Pearl Harbor in December 1941, and the market reached a bottom 18 days later. From there it took 257 days to retrace the total decline of 10.8%.

Meanwhile, the market lost just 2.8% following the November 1963 assassination of President John F. Kennedy, and it recovered its losses two days later.

More recently, the market dropped 4.9% immediately following the September 2001 terrorist attacks, reaching a bottom in five days, but recovered fully in 19 days.

The slowest market recovery came after the **Lehman Brothers bankruptcy** filing in September 2008.

The market fell 4.7% the day after the filing, then took 121 days to decline a total of 46%; it then took the market 285 days to fully recover.

While the markets appear to be separating geopolitics from economics for now, the connections can never be completely ignored, said Kashif Ahmed, president of American Private Wealth.

"My clients haven't reached out to me yet, perhaps because they know geopolitics is a very passionate interest of mine and if I were concerned, I would send out a message giving the bigger picture perspective," Mr. Ahmed said. "More importantly, I would adjust their portfolios as necessary, which I did the last couple days of 2019 knowing that this was headed toward miscalculated steps without thinking through the broader implications, post action. And here we are."

Recommended next

Most popular

1

What’s new for Social Security in 2020?

2

The stretch IRA is dead

3

How long can the good times last?

Upcoming event

Mar
12

Award

Women to Watch Award

InvestmentNews is recognizing female financial advisers and industry leaders who are advancing the advice business through their passion, creativity, intellect and willingness to help other women along the way. **Learn more**

InvestmentNews
WOMEN
to WATCH
THINK TANK AND AWARDS

Latest news & opinion

Update on IN site issues

Like the markets, advisers largely shrug off Iran threat

Edward Wedbush, founder of Wedbush Securities, dies at 87

A resolution for a new decade of growth

Most watched

Ed Slott: Make sure your small business clients consider this before they convert IRAs to Roths

Why advisers are slow to recognize the world moving towards ESG

6 reasons advisers should learn about ESG and impact investing