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Is it Time to Hit the Panic Button?

By Dani Schijveschuurder 29 March 2023

There are many famous lines in the book of Kohelet (Ecclesiastes), one of the writings of the Bible, thought to be written by King Shlomo, the wisest of all men, but in the aftermath of the SVB (Silicon Valley Bank) debacle, one in particular that stands out to me is that there is nothing new under the Sun. Although I do not believe that King Shlomo was inherently predicting a banking crises, yet in the short few weeks since the collapse of the bank transpired we have seemingly all become some expert analysts on the banking sector! Quite amazingly, despite hundreds of years of banking experience, with all the improvements in technology and the enhancements in security, the entire banking sector which is central to a functioning Global ecosystem, is ultimately held together by basic human trust.

Although some excellent content and analysis has been written already, I firmly believe that although they always appear under different guises, periods of systemic market drawdowns and volatility, always portray themselves via human emotions of **fear** and **panic**. Being fearful, in moderation, is a very helpful emotion when it comes to investing, as one is able to manage a portfolio whilst adhering to risk management principles, that should allow one's portfolio to weather any storm appropriately. You will still get wet, but should avoid drowning. Panic on the other hand, will almost never result in a positive outcome when it comes to investing. (Panic is an appropriate response when the fight or flight response is triggered in a one on one meeting with a saber-toothed tiger for example. But not in the world of investing).

I fully understand how difficult it is NOT to panic. The ability to keep ones own emotion under check, ones own reactions under control amidst an event that engulfs your own personal life and shrouds just you and those immediately around you in uncertainty is hard enough. Ones ability in controlling your own reactions to other peoples behavior is way harder. When everyone around you is panicking and losing their heads, it becomes consummately harder not to join the fray.

It might be for this very reason that the SVB episode was so particularly rapid and extreme. As King Shlomo points out, we are no stranger to Bank runs, and they have been happening for hundreds of years. But SVB had positioned itself at the center of a massive Global Social ecosystem, and when one depositor began to panic, it wasn't long before panic was spreading like wildfire across multiple social platforms, which culminated in largescale withdrawals with the swipe of a finger on one's phone.

One shouldn't under-estimate one's own propensity to panic. Particularly if all those around you are panicking. I came across a fascinating article a number of years ago by PNAS (The *Proceedings of the National Academy of Sciences*) in which they conducted an experiment on Facebook that highlighted that emotional states were not only transferred to others via emotional contagion, but they actually lead people to experience the same emotions without their awareness; and were even likely to affect the type of articles that they subsequently posted. Ie people are likely to act upon emotions that are displayed by others. Or in other words, one person's panic leads to other people panicking and acting accordingly. The full article can be accessed here: (https://www.pnas.org/doi/10.1073/pnas.1320040111)

As mentioned, the emotion of "Panic" is there for good reason. So although panic cannot and should not be eliminated, what steps can be taken by a thoughtful investor to ensure that the likelihood of panicking within the investor arena is minimized?

The following is a list of common sense general ideas and guidelines. I know Mireet would want me to re-iterate that does not constitute investment advise, and of course should be discussed with investment professionals that are knowledgeable about your own specific circumstances.

- Utilize the opportunity to comb through your existing portfolio. Make sure you have a thorough understanding of the particular role and purpose that each investment is playing in the portfolio
- Have at least a basic understanding of the likely range of outcomes for a particular investment over a specific time period. Think about possible maximum and minimums, as well as an average/likely performance.

- The range of outcomes should be thought of in terms of both absolute levels, as well as relative to other asset classes.
- Have a think about the type of environment that the investment is likely to do well in, and the type of environment that the investment is likely to struggle in.
- Play devils advocate with yourself. Question the validity of each investment. Particularly if an investment is not performing in line with expectations. Or if the underlying economic conditions have changed. If an investment made sense when rates were at zero, does that still make sense now if rates are at 5%? Playing devils advocate will allow you to think of not only the rewards, but the risks too. It allows you to look at both sides of the equation and make an informed decision, rather than investing based upon hype and social influences.
- Diversify. Do not be overly exposed/concentrated. To anything. I cannot stress this strongly enough. Whether that is to a particular bank, asset, fund, geographic region, asset class, sector. Whatever. Life happens. Stuff happens. Stuff that is beyond one's control. Putting too many eggs in one basket can often work. Until it doesn't. And the price to pay can be devastating. Further reading here: https://www.linkedin.com/pulse/timely-reminder-put-all-your-eggs-one-basket-schijveschuurder-cfa/?trackingId=KnKkeCpH5Au8y0x5D%2FfMMQ%3D%3D
- Ensure that ones portfolio as a whole continues to function in line with ones time horizon, liquidity needs, risk tolerance.

These are just a few steps that can be taken that ensures that when the "proverbial manure" hits the fan, one can hopefully be comforted that ones exposure should hopefully be minimized, and that any ensuing panic can be viewed upon as an opportunity rather than a calamity. We cannot eliminate risks, but we can mitigate the damage caused by them.

One should also gain comfort that if one has a reasonable long term investment plan, and sticks to it, then short term losses are part and parcel of the game, and sometimes one just has to eat those losses and move on. Long term returns are the only ones that matter, but in order to receive those long term returns, you need to make sure that the short term losses does not lead you to make decisions that affects your ability to achieve those long term returns.

Dani Schijveschuurder is an investment advisor that provides advice regarding the financial vehicles mentioned in the article. The views and opinions of the writer are his own and do not represent the views or opinions of the Goldrock Partners or its affiliates.