November 30, 2020

FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

The global COVID-19 pandemic has created dramatic and unprecedented challenges for individuals, economies, financial markets, companies, and governments. The human cost in deaths and illness caused by the virus is absolutely heartbreaking and tragic. The virus has also given rise to huge economic disruption across the world partly by its own effects and partly by the necessary actions of governments in an attempt to control its spread. We have seen sudden and massive spikes in unemployment, reductions in economic activity and violent price movements in financial markets comparable to any previous financial crisis. The S&P 500 index dropped 33.9% to 2,237.40 on March 23rd from its February high of 3,386.15. It then soared 60% to an all-time closing high of 3,580.84 on September 2nd—but the painful memory of the coronavirus crash is still fresh in our minds.

We place a lot of importance and time studying how human psychological influences can affect investor behavior and investment outcomes, commonly referred to as behavioral finance. It is natural for humans to allow our emotions to take over whenever we're scared or excited, and we become vulnerable to making knee-jerk decisions rather than rational ones. This is highly prevalent in finance, time and time again investors allow emotions take the wheel and, inevitably, they will sell after the market has dropped and buy after prices have already shot up.

When it comes to making investment decisions during times of volatility and increased uncertainty, we must remember that we are only human. As humans, we all have biases that can lead us astray when making investment decisions. Recency bias, for example, is the tendency to place too much emphasis on experiences that are freshest in your memory. Remember how long it took you to get back into the ocean after watching the movie *Jaws*? Recency bias causes people to make decisions based on recent events, with the expectation that those events will continue into the future. In the investing world, recency bias can lead to irrational decisions and costly mistakes, such as following a hot investment trend or selling securities during a market downturn. In short, near-term investment decisions based on emotion and recency bias can lead to failure in reaching long term goals—consider the equity market selloff in March and subsequent ferocious rally higher.

As with addressing any behavioral bias, the first step is awareness. From there, it's important to maintain a long-term investment perspective, with your long-term goals in mind. Deepening the investment decision-making process can put some time and space between impulse and action when it comes to your investment portfolio.

"What we learn from history is that people don't learn from history. When investors get either too fearful or too greedy, they sometimes hide behind the notion that, 'This time it's different.' Usually, they regret it." – Warren Buffet

We thank you for your continued trust and confidence in us as we wish you a healthy and prosperous holiday season.

Sincerely,

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