**CLIENT QUESTION OF THE MONTH:** Should I be worried by the recent banking turmoil's impact on the stock market?

March 2023 was a significant month for banks in the US and globally. On March 10th, Silicon Valley Bank (SIVB) succumbed to a phenomenon called a "bank run" resulting in the largest failure of a US bank since the 2008 global financial crisis. Two days later, a second regional US bank, Signature Bank, was shut down. The developments don't stop just in the US. Switzerland's largest bank, UBS, agreed to buy its rival, Credit Suisse, in a rescue deal to help ease concerns in the global financial markets stemming from the turmoil facing some American banks.

All this to say: investors might be worried and eyeing their exposure to these regional and global banks. While it is natural to worry about the sensational news headlines being published these days, it is important to also step back and look at the bigger picture. Regardless of if a bank, or any other company for that matter, falters or not, your investment plan shouldn't.

An easy but often underestimated tool to help avoid concerns about individual companies is to diversify globally and across sectors. Thanks to financial innovations in the form of mutual funds and ETFs, investors can now access thousands of securities diversified across countries and sectors at low costs. While not all risks can be diversified away, such as the risk of an economic recession, diversification is still a powerful tool to reduce the risk that any one company, industry, or country might face[1]. For instance, as of February 28, SIVB was just one of more than 9,000 companies in the MSCI All Country World IMI Index (MSCI ACWI IMI) and represented a mere 0.03% of the index[2]. As of the same date, regional banks in total represented only 1.15% of the index, with the largest at 0.10%[3]. Incorporating diversification in your investment plan might help you avoid some of the pitfalls that concentrated portfolios face.

It is also important to remember that uncertainty is nothing new and that investing inherently comes with risks. When we consider what events have taken place in the last three years alone – a global pandemic, the Russian invasion of Ukraine, spiking inflation, and the fear of a recession – there's been plenty of causes for concern regarding the state of the world and the markets. Despite these events, for the three-year period ending on February 28, 2023, the Russell 3000 Index (a broad market-cap weighted index of public US companies) returned 11.79% annualized, outperforming its average annualized return of 11.65% since inception in January 1979.

Having a sound financial plan can help investors weather through periods of uncertainty. Also important to the experience is having the discipline to stick with that plan through uncertain periods, rather than trying to predict or make sudden movements as a reaction to them. Investors that do are generally able to reap long-term benefits while also maintaining their peace of mine through the inevitable ups and downs that come with investing in the markets.

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Diversification neither assures a profit nor guarantees against loss in a declining market.

1. Consider that a study of single stock performance in the US from 1927 to 2020 illustrated that the survival of any given stock is far from guaranteed. The study found that on average for 20-year rolling periods, about 18% of US stocks went through a “bad” delisting. The authors note that delisting events can be “good” or “bad” depending on the experience for investors. For example, a stock delisting due to a merger would be a good delist, as the shareholders of that stock would be compensated during the acquisition. On the other hand, a firm that delists due to its deteriorating financial condition would be a bad delist since it is an adverse outcome for investors. Given these results, there is a good case to avoid concentrated exposure to a single company. Source: “Singled Out: Historical Performance of Individual Stocks” (Dimensional Fund Advisors, 2022).
2. The MSCI All Country World IMI Index is a broad market-capitalization-weighted index of public companies across developed and emerging markets globally. As of February 28, 2023, the MSCI All Country World IMI Index included 9,010 companies. MSCI data © 2023, all rights reserved. Silicon Valley Bank weight represented by its parent company SVB Financial Group.
3. Regional banks weight reflects the weight of the “Regional Banks” GICS Sub-Industry as of February 28, 2023, as defined prior to March 17, 2023. GICS was developed by and is the exclusive property of MSCI and S&P Dow Jones Indices LLC, a division of S&P Global.