## Who's Afraid of the Sequester?

Written by Rob Copeland Wednesday, 13 March 2013 12:45 - Last Updated Friday, 12 April 2013 11:33

The stock market's response to the "sequester"—the \$85 billion reduction in annual spending by Washington that took effect March 1—wasn't quite what many expected.

After the nation's leaders failed to reach a budget deal that would have averted the painful budget cuts, the market might have fallen like a rock. Instead, it didn't do much of anything—investors basically shrugged. Then a few days later, with signs that the economy was strengthening, investors pushed the Dow Jones Industrial Average to an all-time high.

This unexpected headed reaction to Washington's latest budget drama is pretty darn noteworthy. If history were any guide, investors should have reacted with breathless buying and selling, acting alternately on their fear and on their greed.

Remember the debt-ceiling fight in the summer of 2011? Panicky investors sold in droves, sending stocks down nearly 20%. Then at the end of 2012, in the midst of the fiscal cliff showdown, they panicked again, pulling the S&P 500 index down 7%.

This time around, the outcome of the political battle was much worse--draconian budget cuts went into effect. Yet investors didn't panic as they had in previous episodes. Why? My hope is that they've learned a lesson over the past couple of years: Panicking simply doesn't pay.

After both the debt-ceiling and fiscal-cliff showdowns ended in agreements, the stock market leaped forward. Those who had jumped to the sidelines found themselves playing catch-up. This was unfortunate, but not surprising. History has shown again and again that there's no better way to lose money than to jump in and out of the market based on fleeting headlines.

Yet the past couple of weeks have shown that maybe, just maybe, investors are tuning out the hype coming out of Washington. It's too early to be sure, of course. Investors' nerves are sure to be tested again as our divided leaders fight more budget battles and deploy more doomsday hype.

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My hope is that they will continue to look beyond the news of the moment and remember the larger picture. I'll be reminding my clients that successful investing is about thoughtful diversification, rebalancing and patience. It's about remaining disciplined and rational.

In the end, successful investing isn't about emotional reactions to changing conditions in the economy and markets. The best investors have always trusted that over time, the engine of free-market capitalism will pull the economy forward. As it does, companies will grow in value, and those who own a stake in them will reap the rewards.