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Smart Money: What should you do with your investments in light of the Russian invasion of Ukraine?

Brad Brain
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Brad Brain: "I have an office full of charts and statistics on what has happened before. We can look at previous wars, the Cuban Missile Crisis, and 9/11. We can see if the investment markets declined and, if so, how long they took to recover." | Getty Images

Armed conflict is as serious as it gets. People are dying. I do not want people to get the impression that I am downplaying the horror.

But I am not a diplomat. I am not a soldier. So, when I talk about how these events can affect your personal finances, I am hoping this is not interpreted as tone-deaf or callous. I am simply staying in

my lane; a financial planner talking about financial planning.

Often good financial planners are students of history. The events in Ukraine are terrible, and we don't know exactly how they will play out. But the unfortunate reality is that we have considerable historical precedent that we can turn to for some measure of guidance.

I have an office full of charts and statistics on what has happened before. We can look at previous wars, the Cuban Missile Crisis, and 9/11. We can see if the investment markets declined and, if so, how long they took to recover.

But this time there is a bit of a twist. I think a natural expectation of a nuclear-armed G20 country starting a shooting war in Europe would be that investments markets would default to full-out panic mode. This may come as a surprise for some readers but, for the most part, the Russian invasion of the Ukraine has not caused catastrophic market declines.

Unless you are a Russian. The Russian stock market has been decimated. But Russia makes up a small part of the world economy, and unless you actively sought it out as an investment beforehand, chances are pretty good that you don't have any direct exposure to Russia.

While there are some high-flying tech stocks that have a few bruises right now, there are also some blue-chip companies that have been pretty resilient through this. And some businesses have even seen their share price go up.

The idea that stocks can go up in times of war is going to come as a surprise to some, so I will mention a couple of points; the attractiveness, but simplistic nature, of sound bite explanations, and what stocks actually are.

The first point is that simple, sound bite explanations are appealing, especially if these explanations are delivered through a mass medium like television. When somebody delivers a half-hour speech, the television news report doesn't usually show the entire 30 minutes in full. Typically, they will grab a catchy 15-second sound bite, and design the story around that.

But catchy sound bites can be an over-simplified explanation of complicated, multi-faceted issues. What is driving stock prices these days? The 15-second sound bite explanation would mention the war, but there are more forces at work than just that. There are also factors such as inflation and interest rates, corporate profitability, share buy backs, and expectations for the future. It's not any one variable that drives the markets, it is the net sum of all variables.

The second point to keep in mind is that stocks are not chits in a casino. Rather, they represent partial ownership of a business. The share price will usually follow the business results.

Here is what I mean. Let's say you need to feed your kids tonight, and you are in a rush. Are you any more or less likely to go through your favourite fast food restaurant drive through because of Ukraine? Are you any more or less likely to order your preferred beverage? Probably not. The businesses involved in this kind of commerce may not really see much change in their operations.

Some businesses will be impaired by the conflict. But some businesses will be neutral, and some businesses will actually be busier than ever.

So what should you do with your investments in light of the Russian invasion of Ukraine? Generally speaking, I would say that this is a scary time, but probably not a great time to make reckless decisions. Market timing is a strategy that historically has produced inconsistent results. As things stand now, anyone that was trying to time their investment activity based on their expectations of a market decline is probably not getting the results they predicted.

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