

Opinion

The anatomy of crises

Thomas Hauser

Every crisis is different because they are all triggered by different fears. Nevertheless, long-term equity investors do not have to adopt a different response to each one – there are proven strategies.

The history of the stock market is a long chain with phases of crisis and recovery. Some are brief and turbulent, others last a long time. If we take as a basis the Swiss Performance Index with daily data since 1988, the coronavirus crisis was the “speedy variant”: The index dropped over 26% in 23 trading days, and took another 211 trading days to return to its pre-crisis level.

The “agony variant” was the financial crisis: It lasted 1497 trading days until full recovery and the market was more than 53% “under water” at its nadir:

be learned about what investors should and should not do. Two points are essential:

- You should only invest money in equities that you can leave invested for a sufficiently long time – around 8 to 10 years. The longest crisis until full recovery was the financial crisis, which lasted 1497 days in total. With around 250 trading days per year, the crisis phase continued for 6 years. A certain amount of time is then needed as a reserve to ensure that there is a very high probability of never having to sell a diversified equity portfolio at an inopportune time, i.e., at a loss.*
- The funds allocated to long-term investment in equities must also remain invested in equities. This is the only way to achieve the expected long-term return on equities: Historically speaking, the real return in Switzerland has*

Development of the Swiss Performance Index during crises

	Second Gulf War (1990–1992)	Bond market crisis (1994–1995)	Russian financial crisis (1998–2000)	Dot com crisis (2000–2006)	Financial crisis (2007–2013)	COVID-19 crisis (2020–2021)	Inflation shock (2021–2025)	Current crisis (2025–?)
Maximum drawdown	-31,8%	-19,6%	-36,8%	-54,9%	-53,2%	-26,3%	-21,8%	-15,8%
Trading days to price minimum	127	281	55	642	443	23	188	27
Trading days from the start of the crisis to equalisation	616	432	458	1353	1497	234	775	–
Proportion of recovery phase to total time	79%	35%	88%	53%	70%	90%	76%	–

Table: themarket.ch – Source: Dr. Pirmin Hotz Vermögensverwaltungen

In the vast majority of crises – with the exception of the bond crisis in the mid-1990s – the recovery phase lasted longer than the crash. The recovery phase relative to the total duration accounts for 70% on average. One reason for this may be that fear, and in particular fear of losses, is a more potent force than confidence. Secondly, it is due to the asymmetry of the yield calculation: If you have lost 50 percent, you have to make up 100% to reach the initial value again.

Proven strategies

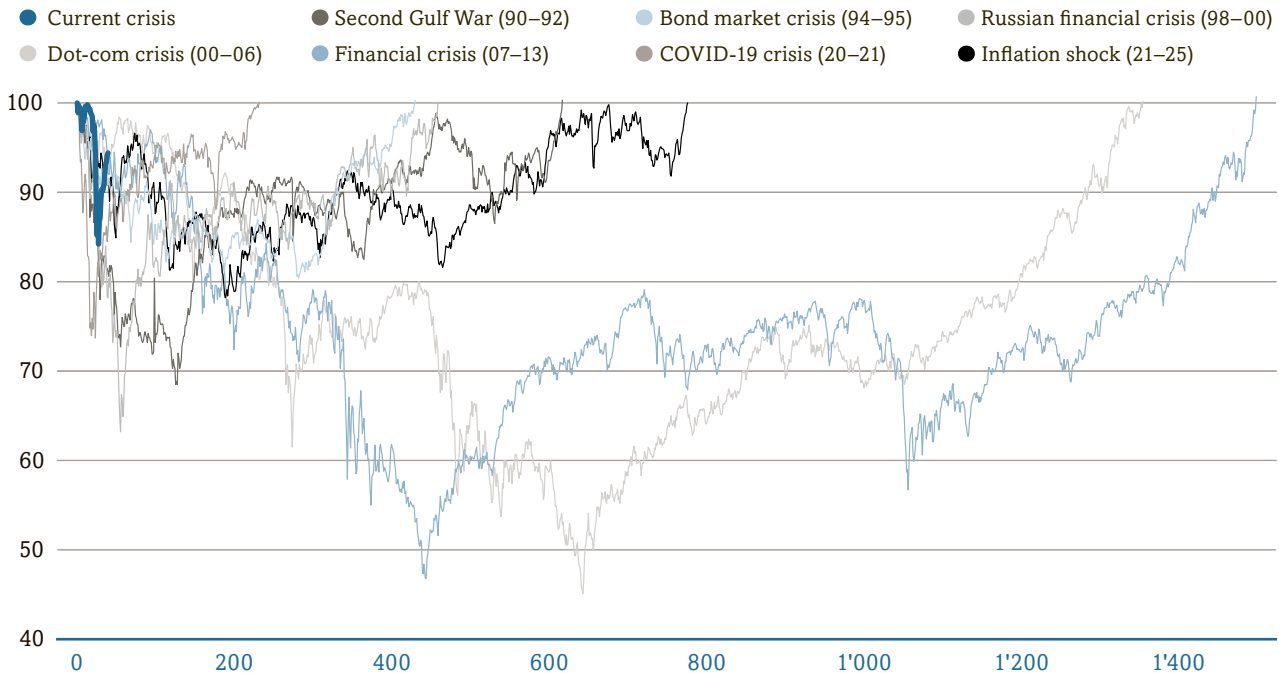
The diversity of the crises means that it is difficult to draw conclusions from history as to how the current dip will continue. However, there are certainly lessons to

been 5.6% per year since 1925; since 1900, the real return of a global equity portfolio has been in the same order of magnitude at 5.2% per year. A few days can be decisive; for example, if you missed the first ten days of the recovery after the reversal in the financial crisis in March 2009, you lost out on a return of over 14%.

The argument repeatedly put forward against remaining invested is that losses can be limited by selling shares – for example by means of a «stop loss» at –20% in order to buy them back later at a more favourable price. This sounds good, but hardly works in practice.

Why? You can be wrong with your exit decision if the market starts to recover immediately afterwards.

The most severe setbacks of the Swiss Performance Index since 1988



Each value indexed

Chart: themarket.ch – Source: Dr. Pirmin Hotz Vermögensverwaltungen

But let's assume that the seller feels vindicated because the market loses another 20% after the sale. Now psychology comes into play: Someone who was already so frightened at –20% that they sold their shares will be even more unsettled at –40%.

Experience has shown that such people wait for the first signs of a bottom and recovery. Once they appear, some may be plagued by the fact that it is just an interim high before the final, much deeper crash. In short: These investors generally buy back shares far too late or never again.

Strategy and discipline are crucial for implementation

The legendary investor André Kostolany rightly said that the very attractive long-term return on equities is money for pain and suffering – first comes the pain and suffering, then the money. Since 1988, there have been 21 trading days on the Swiss stock market with losses of between 5% and 10%, with 16 October 1989 being the worst at –9.4%. In addition, over 45% of trading days

closed in the red! Despite all these negative trading days and crisis phases, the annual real return since 1988 has been an attractive 7.4%.

The risk of crises cannot be systematically avoided through timing, but can only be countered through appropriate asset allocation – by clearly defining the portion of assets to be invested for the long term – and strict discipline in implementation. This was the case in past crises, is true today and will remain so going forward.

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