

---

## The Coronavirus and Market Declines

Feb 27, 2020

The world is watching with concern the spread of the new coronavirus. The uncertainty is being felt around the globe, and it is unsettling on a human level as well as from the perspective of how markets respond.

At Dimensional, it is a fundamental principle that markets are designed to handle uncertainty, processing information in real-time as it becomes available. We see this happening when markets decline sharply, as they have recently, as well as when they rise. Such declines can be distressing to any investor, but they are also a demonstration that the market is functioning as we would expect.

Market declines can occur when investors are forced to reassess expectations for the future. The expansion of the outbreak is causing worry among governments, companies, and individuals about the impact on the global economy. Apple announced earlier this month that it expected revenue to take a hit from problems making and selling products in China<sup>1</sup>. Australia's prime minister has said the virus will likely become a global pandemic<sup>2</sup>, and other officials there warned of a serious blow to the country's economy<sup>3</sup>. Airlines are preparing for the toll it will take on travel<sup>4</sup>. And these are just a few examples of how the impact of the coronavirus is being assessed.

The market is clearly responding to new information as it becomes known, but the market is pricing in unknowns, too. As risk increases during a time of heightened uncertainty, so do the returns investors demand for bearing that risk, which pushes prices lower. Our investing approach is based on the principle that prices are set to deliver positive future expected returns for holding risky assets.

We can't tell you when things will turn or by how much, but our expectation is that bearing today's risk will be compensated with positive expected returns. That's been a lesson of past health crises, such as the Ebola and swine-flu outbreaks earlier this century, and of market disruptions, such as the global financial crisis of 2008–2009. Additionally, history has shown no reliable way to identify a market peak or bottom. These beliefs argue against making market moves based on fear or speculation, even as difficult and traumatic events transpire.

Dimensional also stands behind the important role financial professionals play in helping investors develop a long-term plan they can stick with in a variety of conditions. Financial professionals are trained to consider a wide range of possible outcomes, both good and bad, when helping an investor establish an asset allocation and plan. Those preparations include the possibility, even the inevitability, of a downturn. Amid the anxiety that accompanies developments surrounding the coronavirus, decades of financial science

and long-term investing principles remain a strong guide.

---

1. Apple, February 17 press release. <https://www.apple.com/newsroom/2020/02/investor-update-on-quarterly-guidance/>
2. Ben Doherty and Katharine Murphy, "Australia Declares Coronavirus Will Become a Pandemic as It Extends China Travel Ban," The Guardian, February 27, 2020. <https://www.theguardian.com/world/2020/feb/27/australia-declares-coronavirus-will-become-a-pandemic-as-it-extends-china-travel-ban>
3. Ben Butler, "Coronavirus Threatens Australian Economy Reeling from Drought and Fires," The Guardian, February 5, 2020. <https://www.theguardian.com/business/2020/feb/05/coronavirus-threatens-australian-economy-reeling-from-drought-and-fires>; Ed Johnson, "Australia Says Economy to Take 'Significant' Hit from Virus," Bloomberg, February 5, 2020. <https://www.bloomberg.com/news/articles/2020-02-05/australia-says-economy-to-take-significant-hit-from-virus>
4. Alistair MacDonald and William Boston, "Global Airlines Brace for Coronavirus Impact," The Wall Street Journal, February 26, 2020. <https://www.wsj.com/articles/germany-s-lufthansa-makes-cuts-as-it-braces-for-coronavirus-impact-11582712819>

---

The information in this document is provided in good faith without any warranty and is intended for the recipient's background information only. It does not constitute investment advice, recommendation, or an offer of any services or products for sale and is not intended to provide a sufficient basis on which to make an investment decision. It is the responsibility of any persons wishing to make a purchase to inform themselves of and observe all applicable laws and regulations. Unauthorized copying, reproducing, duplicating, or transmitting of this document are strictly prohibited. Dimensional accepts no responsibility for loss arising from the use of the information contained herein.

"Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities are Dimensional Fund Advisors LP, Dimensional Fund Advisors Ltd., Dimensional Ireland Limited, DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd, Dimensional Ireland Limited, Dimensional Japan Ltd., and Dimensional Hong Kong Limited. Dimensional Hong Kong Limited is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

**UNITED STATES:** Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

**CANADA:** These materials have been prepared by Dimensional Fund Advisors Canada ULC. Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Unless otherwise noted, any indicated total rates of return reflect the historical annual compounded total returns, including changes in share or unit value and reinvestment of all dividends or other distributions, and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

**AUSTRALIA:** This material is issued by DFA Australia Limited (AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, to the extent this material constitutes general financial product advice, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

#### WHERE ISSUED BY DIMENSIONAL IRELAND LIMITED

Issued by Dimensional Ireland Limited (DIL), with registered office 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland. DIL is regulated by the Central Bank of Ireland (Registration No. C185067). Information and opinions presented in this material have been obtained or derived from sources believed by DIL to be reliable, and DIL has reasonable grounds to believe that all factual information herein is true as at the date of this document.

DIL issues information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from DIL will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

#### WHERE ISSUED BY DIMENSIONAL FUND ADVISORS LTD.

Issued by Dimensional Fund Advisors Ltd. (DFAL), 20 Triton Street, Regent's Place, London, NW1 3BF. DFAL is authorised and regulated by the Financial Conduct Authority (FCA). Information and opinions presented in this material have been obtained or derived from sources believed by DFAL to be reliable, and DFAL has reasonable grounds to believe that all factual information herein is true as at the date of this document.

DFAL issues information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from DFAL will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

**NOTICE TO INVESTORS IN SWITZERLAND:** This is an advertising document.

#### RISKS

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.

**JAPAN:** Provided for institutional investors only. This document is deemed to be issued by Dimensional Japan Ltd., which is regulated by the Financial Services Agency of Japan and is registered as a Financial Instruments Firm conducting Investment Management Business and Investment Advisory and Agency Business. This material is solely for informational purposes only and shall not constitute an offer to sell or the solicitation to buy securities or enter into investment advisory contracts. The material in this article and any content contained herein may not be reproduced, copied, modified, transferred, disclosed, or used in any way not expressly permitted by Dimensional Japan Ltd. in writing. All expressions of opinion are subject to change without notice.

Dimensional Japan Ltd.

Director of Kanto Local Financial Bureau (Financial Instruments firms) No. 2683

Membership: Japan Investment Advisers Association

#### FOR PROFESSIONAL INVESTORS IN HONG KONG.

This document is deemed to be issued by Dimensional Hong Kong Limited (CE No. BJE760) ("Dimensional Hong Kong"), which is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

This document should only be provided to "professional investors" (as defined in the Securities and Futures Ordinance [Chapter 571 of the Laws of Hong Kong] and its subsidiary legislation) and is not for use with the public. This document is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence, or otherwise) the publication or availability of this document are prohibited or which would subject Dimensional Hong Kong (including its affiliates) or any of Dimensional Hong Kong's products or services to any registration, licensing, or other such legal requirements within such jurisdiction or country. When provided to prospective investors, this document forms part of, and must be provided together with, applicable fund offering materials. This document must not be provided to prospective investors on a standalone basis. Before acting on any information in this document, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice.

Unauthorized copying, reproducing, duplicating, or transmitting of this material are prohibited. This document and the distribution of this

document are not intended to constitute and do not constitute an offer or an invitation to offer to the Hong Kong public to acquire, dispose of, subscribe for, or underwrite any securities, structured products, or related financial products or instruments nor investment advice thereto. Any opinions and views expressed herein are subject to change. Neither Dimensional Hong Kong nor its affiliates shall be responsible or held responsible for any content prepared by financial advisors. Financial advisors in Hong Kong shall not actively market the services of Dimensional Hong Kong or its affiliates to the Hong Kong public.

#### SINGAPORE

This document is deemed to be issued by Dimensional Fund Advisors Pte. Ltd., which is regulated by the Monetary Authority of Singapore and holds a capital markets services license for fund management.

This advertisement has not been reviewed by the Monetary Authority of Singapore. This information should not be considered investment advice or an offer of any security for sale. All information is given in good faith without any warranty and is not intended to provide professional, investment, or any other type of advice or recommendation and does not take into account the particular investment objectives, financial situation, or needs of individual recipients. Before acting on any information in this document, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice. Dimensional Fund Advisors Pte. Ltd. does not accept any responsibility and cannot be held liable for any person's use of or reliance on the information and opinions contained herein. Neither Dimensional Fund Advisors Pte. Ltd. nor its affiliates shall be responsible or held responsible for any content prepared by financial advisors.

[dimensional.com](http://dimensional.com)



03/04/2020

<https://www.mydimensional.com/the-coronavirus-and-market-declines?cldee=YW5uYWJlbGxLmRvQGNwYWwuY29tLmF1&recipientid=contact-0e8742bffebee911a978000d3a3780dd-cd76b5e0db8841f8adfd79f7ca64f0e0&esid=b2980f73-d65c-ea11-a811-000d3a36886f>