

Why we Freeze: How to Profit in Times of Fear

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Markets are in turmoil. Again.

In the first week of April, over \$200 billion was wiped off the ASX 200. The index has now fallen more than 10% from its February high, officially in correction territory. On Wall Street, nearly \$US5 trillion vanished from the S&P 500 following the announcement of sweeping U.S. tariffs.

Fear, once more, has gripped investors.

And as history often demonstrates, this fear will cause many to freeze.

Why Don't We learn?

Despite lessons through history, investors time and time again attempt to "time the market". They wait for a pullback, better prices, or for the "bottom". But when corrections inevitably come, fear takes over and they fail to act. Instead of leaning into the market with conviction, they step back and hesitate amidst uncertainty.

The very drawdown they were anticipating, if not hoping for, becomes the moment of retreat.

Yet market corrections, while uncomfortable, are far from extraordinary. Since 1928, the S&P500 has experienced 55 drawdowns of more than 10%, and 22 bear markets (declines of 20% or more). Here in Australia, the ASX 200 has endured 17 corrections and 12 bear markets since 1980.

These episodes are rarely triggered by valuations alone. They typically result from genuine dislocations: financial system stress, geopolitical tensions, policy shocks, war, or as we're experiencing now, major disruptions to global trade.

Such events undermine confidence. They breed doubt. They strike fear.

Why Do We Hesitate? The Behavioural Biases That Hold Us Back

Human psychology is powerful. The discipline to step into the void and invest when others are selling, requires uncommon mental fortitude. To profit during these periods, investors must overcome deeply human instincts. Several behavioural biases are at play:

- **Loss Aversion** - Research shows that the pain of losing money outweighs the joy of making it. When an investment falls in value, even if we were "waiting for better prices", the fear of further loss paralyzes.
- **Herd Mentality** - It's counterintuitive to buy when all others are selling. Humans seek safety in numbers, and in markets that translates to moving with the crowd, even if the crowd is running in the wrong direction.
- **Recency Bias** - It is human nature to extrapolate the events of today into the future. If markets are falling, we assume they'll keep falling. Until, of course, they don't and opportunity has passed by.
- **Fear of Regret** - Nobody wants to buy and then watch prices fall further. Psychologically, it's far easier to do nothing rather than "catch a falling knife".

True Opportunity Is Rarely Comfortable

As B. Rothschild famously said, "Buy when there's blood in the streets". The best times to buy rarely come wrapped in a bow. Opportunities often appear in times of genuine market stress.

Times when headlines are dire, emotions are high, and consensus is fearful.

During the Global Financial Crisis, the ASX 200 fell more than 50%. It was terrifying for many, but those who acted, that remained disciplined and bought quality assets were handsomely rewarded. The COVID crash was faster still, with global markets falling over 30% in just over a month. Again, the rebound was swift, and investors who stepped in benefited immensely.

Today's backdrop of heightened trade tensions and collapsing sentiment, may well represent a similar period of human history.

Pause, Take a Moment

This pullback is another test, another chance. Pause, and ask yourself:

“Is the world on the brink of permanent economic collapse?”

If your answer is “no”, then you may be looking at an emerging once-in-a-decade opportunity. An opportunity to buy assets you liked days or even months ago, but at far cheaper prices.

Remember there is never a “perfect time” to invest. But luckily you don’t need perfection. Rather, what’s required is a well thought out strategy coupled with mental fortitude and most critically, action.

The Case for Action

Fear is natural. But in markets, times of fear can present the opportunity to buy quality assets trading at potentially fantastic prices.

The coming weeks and months will likely see unfolding global uncertainty, sensational headlines and heightened fear. Negativity may well become the common sentiment.

This will present opportunity to invest while others hesitate, freeze, and capitulate.

It never feels good to buy amidst volatility, in fact it feels outright uncomfortable. But markets don’t reward those watching from the sidelines. So, define your strategy, stay disciplined, manage your own behavioural biases, and stick to your plan.

History rewards those who act.

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