



Email Newsletter

Grow Your Wealth
Financial Services Townsville

COVID 19 – Grow Your Wealth Market Update

With the market recording some of the biggest drops in history what should you do as an investor. First, DO NOT PANIC, the time to panic has passed. What is the core reason for your investments?

1. Provide for living expenses. Make sure you have sufficient cash to cover a longer period. Downturns like this can take years to correct.
2. Long Term Growth – sell the companies who will underperform and look for opportunities through undervalued companies.

Should I exit the market and buy back in when it bottoms?

Trying to pick the highs and lows is a mugs game. If you happen to snag one or the other, it is most likely a fluke. What we do know is that if you miss either just by a couple of days, you will underperform the market.

I should have sold at the top!

Hind sight is 20/20, you do not know when the top was until after the market has topped. That said it is too late to sell now.

Will our market get back to it pervious highs?

It sure will, maybe not this year but in the next 5 years all will be forgotten.

Bear Market

We are now officially in a Bear market as the market has fallen over 20%. The speed of the decline coupled with a level of intraday volatility has never been seen before this is a clear indicator that the market does not know how to value the Corona Virus affect.

ON Friday the 13th we saw an intraday swing of 11%, two days prior we saw a 7% intraday swing.

We expect this level of volatility to continue as the Corona Virus Pandemic forces government to put in place restrictions on the movements of its population and closure of their borders. Each restriction has a far reaching effect on different companies and business all of which will affect the economy in their own way.

What to do now.

Different investors will need to take a different view on the situation.

Managed Fund investors

You pay fund managers to make these decisions for you. In fact, most of these big swings are due to the large fund managers doing what they promised you they would do. Maintain your portfolio as per their Prospectus.

SMA Clients

You have a basket of diversified index funds. This by itself will reduce the risk of loss to any one individual share. The SMA Managers are maintaining the portfolios and reviewing regularly.

Direct Shares

You need to consider a number of issues:

1. Cash holding – ensure you have sufficient cash to cover 1-2 years living expenses do not forget to factor in future dividends.
2. Dividends – A company paying a solid dividend is still a health business. The company will return to fair value once the threat (Corona Virus Pandemic) is under control.
3. Shares – you need to sell the stocks which are going to be affected, hold the companies which are not, and buy the ones which will benefit.

Corona Virus

To what extent will this affect the economy and the underlying companies, the easy picking is travel businesses such as Flight Centre and Qantas. Next are companies such as Airports, Tourist businesses, Casinos, Hotels, Resorts, Events and Theme Parks.

The next threat is isolation of the population and school closures. As more measures are put in place more companies will be affected. Keep in mind that the government is doing all of this to slow down the rate of infection to ensure that we have the facilities and equipment to treat those affected. Markets will improve after restrictions start to be lifted, how deep it will go in unknown.

Oil

Oil prices are also low due to demand dropping and not cutting production. This is a positive for many companies as costs will reduce, however, for energy companies it means lower profits. As some of the largest companies in the market are energy companies, the news of oil prices dropping compounded the market losses. This issue may be resolved quickly if oil production was to be reduced.

What now.

Look for opportunities in the stocks we know well and are not going to be affected by Covid 19, when they look cheap we would look to buy.

We are looking for “Fear Fatigue” this is when the market become desensitized to news flow. This will normally occur before the maximum effect on the economy is reached. At this point we would be more comfortable buying.

Monitor the rates of infections, as they raise so too does panic and hysteria, once over the hump we can be more comfortable buying. Note the bottom is usually in before this time as the market is forward looking.

We are reviewing client positions and will make recommendations if any action is required. Contact us if you have any queries.