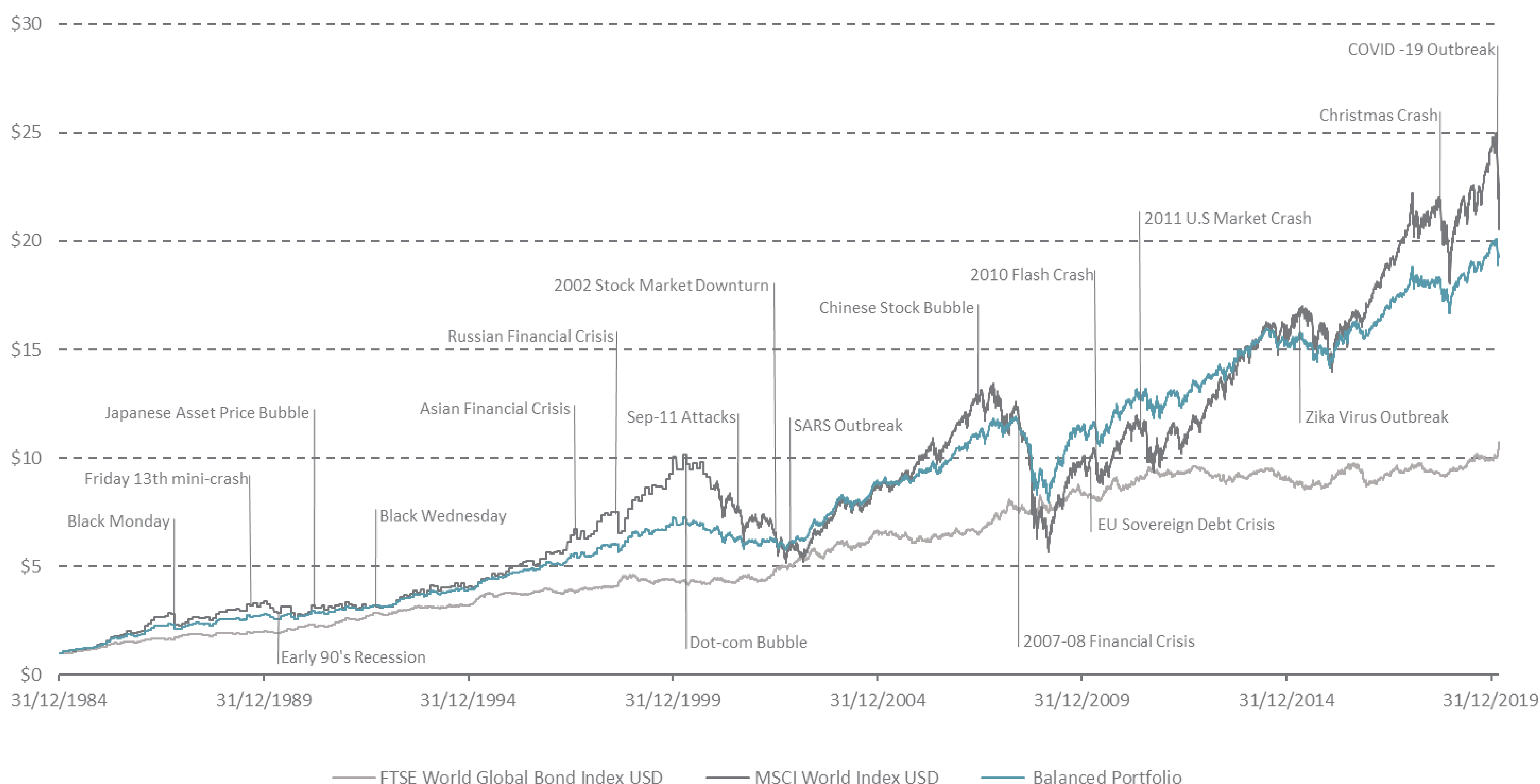
DEALING WITH A DIP

REFOCUSING PERSPECTIVE IN VOLATILE MARKETS

Seeing the value of a portfolio drop significantly over a short period of time, like a month or even a week, can unnerve even the most experienced investors. We often lose sight of longer-term performance, recent gains, or overestimate the likelihood and severity of further losses. Moreover, its easy to forget that, for the average investor, a portfolio is made up of more than just stocks and other assets like bonds help to limit losses and smooth out volatility in the long-run.

Maintaining a long-term perspective and remaining committed to a financial plan is vital in avoiding some of the mistakes investors make when faced with periods of increased volatility. Although the temptation is often to make adjustments to a portfolio, doing nothing can often yield the best result. Trying to time the market is a difficult task at the best of times and attempting to time it while many participants are acting in fear only makes the task more difficult.

A LONG-TERM LOOK AT INVESTMENT RETURNS



Performance calculations based on initial 1USD investment on 31/03/1984. The Balanced Portfolio is 50% equities index and 50% fixed interest indices.

MORE COMMON THAN YOU THINK

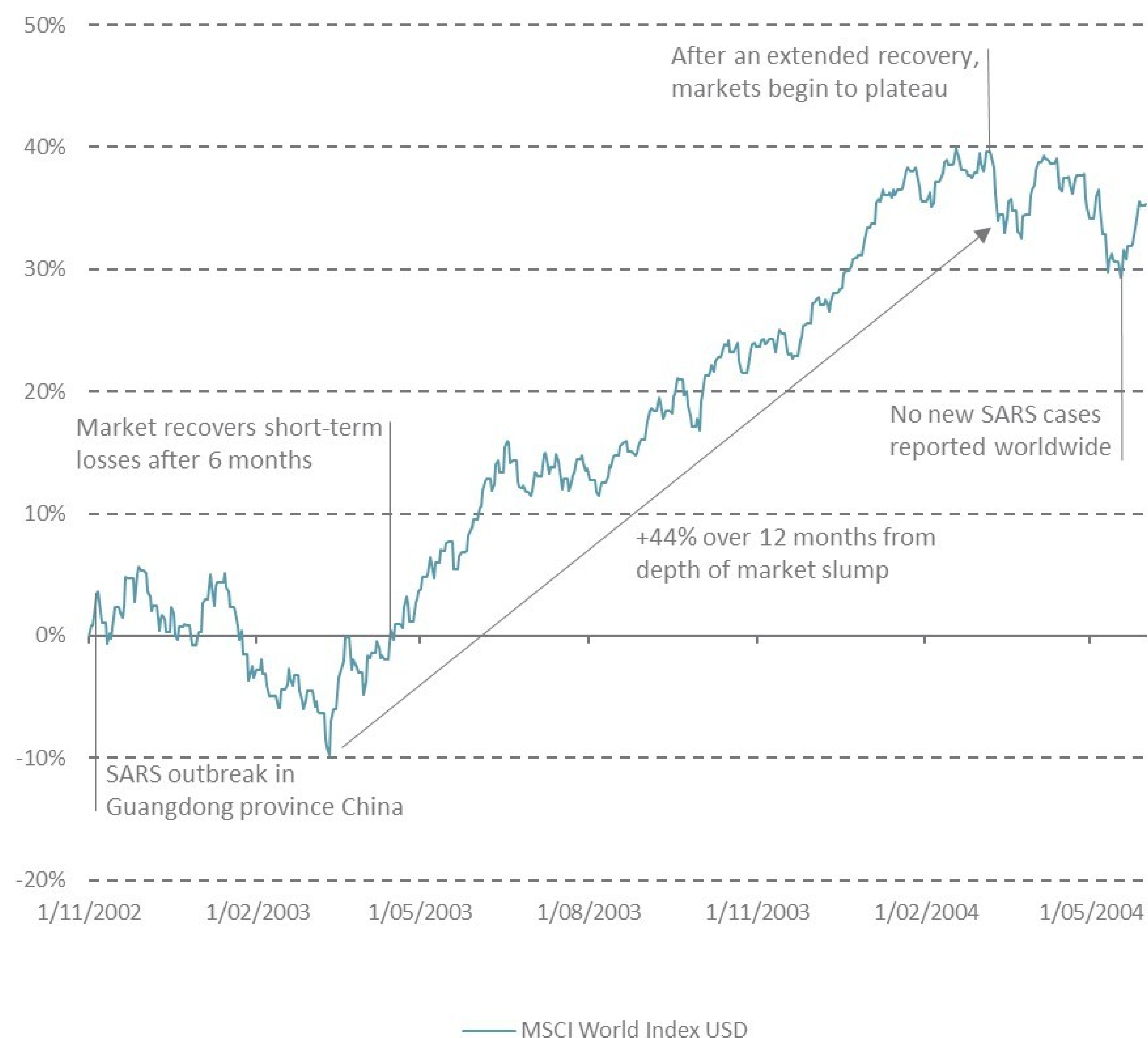
Although it can feel like market volatility comes out of the blue, such events are far more common than we realise.

In fact, we see a correction (a 10% decline over a short time-frame) occur approximately once a year. What often sets individual corrections apart is the degree of media attention and how well the reason for the tumble captures the public's imagination. Similarly, we expect to see a bear market (an extended 20% decline) at least once every 7 years on average.

a decline of	5% or more	10% or more	15% or more	20% or more
occurs on average	3 times a year	once a year	once every 4 years	once every 7 years
and lasts on average	44 days	114 days	270 days	431 days

Source: Standard & Poors

THE IMPACT OF SARS



HISTORY DOESN'T REPEAT, BUT IT OFTEN RHYMES

It is impossible to say whether the current COVID-19 situation will resolve like other market events, or even like other viral outbreaks such as SARS, Zika Virus, Avian Flu, and Swine Flu. However, it can still be useful to look back at such events to get a steer on the current situation.

Within the first few months, the performance of markets and portfolios can be mixed. During SARS in particular, which was the first global pandemic to emerge in quite some time, the early reaction of equity markets was quite negative. During the Avian Flu outbreak a few years later, it was relatively flat. But what's even more striking is that within 6 and 12 months from the start of each of these outbreaks – regardless of their perceived severity – the performance of markets and the returns of model portfolios had generally all rebounded strongly.

WHAT YOU CAN DO

Remember that your financial and life goals are most important, so sticking to your financial plan is key.

Staying committed to a financial plan can be difficult when the markets are experiencing a higher degree of volatility. However, every portfolio offered by FANZ has been designed with such periods of volatility factored in.

The average portfolio has a mixture of well diversified investments across multiple asset classes that are tailored to investors' degree of comfort with volatility and also their investment time horizon.

Different asset classes respond differently to market events. For instance, in February 2020 global equities fell by 5.3% whilst global bonds rose by 1.2% (both results in NZD terms). Similar stories can be found all throughout the chart on page one. Asset classes work together to smooth over the peaks and troughs in investment returns, mitigating losses and making for a more consistent return profile. Again this is demonstrated on the chart on page one, where a balanced portfolio of equities and bonds (blue line) has a smoother path through volatility.

This is also why talking to an adviser is important as it ensures they are aware of any recent changes in your situation that might alter your ideal risk profile or asset allocation.

WHO TO TALK TO

Your financial adviser should be your first point of contact for any questions regarding your investments.

Or, you can get in touch with us at the following:

Phone: 0800 727 2265

Email: contact@lifestages.co.nz

Mail: PO Box 10-445, Wellington 6143

FANZ
Funds Administration New Zealand Limited
Market Volatility Flyer
Version 1.1
Created March 2020