

## Market Volatility

There's no news like bad news, and with the rise of the COVID-19 Coronavirus journalists have had no shortage of headlines for the last month. Investors are not immune to these headlines as we have witnessed steep declines in the value of most sharemarkets around the world.

Factory closures, travel bans and cancellation of events are causing fear of the Coronavirus to spread faster than the virus itself.

Whilst corrections are painful and it can be a depressing sight watching portfolios fall in value, we must remember that this is not the first major event to startle investors. The following chart illustrates this point with many of the 'reasons to sell' over the last decade.

### Reasons to Sell



Source: <https://thereformedbroker.com/2020/02/28/reasons-to-sell-updated/>

### Planning for the unpredictable

No one can predict the timing, magnitude or cause of these events but this doesn't stop unprepared investors from hitting the sell button when faced with the unknown.

Panicking during a sharemarket correction is the greatest way to erode wealth. **All investors should expect major sharemarket corrections to occur periodically** and position their portfolios to allow for these periods of uncertainty.

We position most portfolios according to an individual investor's cash requirements over short and long periods of time and their tolerance of short term market corrections.

More conservative investors will have a larger weighting of their portfolio to *Defensive* investments like cash, term deposits and bonds which are not typically affected during sharemarket corrections. This helps to reduce the urge to try and 'time the market' by selling down investments to shelter in cash during market turmoil.

Likewise investors that require access to their money for pensions and other withdrawals will have money quarantined in *Defensive* investments to ensure they are not forced to sell *Growth* investments during a correction to fund these withdrawals.

Investors seeking long term growth will have a larger weighting to *Growth* investments like Australian Shares, International Shares, Property and Infrastructure which will suffer larger falls in the short term, but increase in value at a faster rate over longer periods of time.

These accumulator investors can actually benefit from this correction by heeding the words of the World's greatest investor Warren Buffett; *"be fearful when others are greedy and greedy when others are fearful"*.

### ***The benefits of diversification***

Just as the cause of a correction cannot be predicted in advance, the magnitude of the impact on different investments (and the speed of recovery after the correction) is notoriously difficult to predict.

A well-diversified portfolio reduces the impact that any one investment (or type of investment) will have on a portfolio during a correction.

Ray Dalio captured this best when he commented on the current threat from the Coronavirus;

*"What we don't know is much greater than what we do know. When you don't know, the best investment strategy is to be smartly diversified across geographic locations, across asset classes, and across currencies."*

The benefits of diversification during a market downturn cannot be overstated. As Nobel Prize laureate Harry Markowitz said in 1952 "diversification is the only free lunch in investing".

For this reason all investors should maintain an appropriate spread of investments across different asset classes, industries, geographic regions and fund managers.

The fallout from the COVID-19 Coronavirus outbreak will not be known for quite some time. However, we take comfort in knowing that the impact from the Coronavirus appears to be no different from any other crisis in the past. The challenge for investors is to avoid making any unnecessary changes to their portfolios and remember that No News is Good News.

If you would like to discuss your personal circumstances please phone John, Peter, Sherell or Mary.

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