

Have we been here before?

Morningstar Investment Management
South Africa

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Could our current status quo be déjà vu? Have we been here before? The answer is no. Since the formation of our democracy, we have not seen violence, looting and riots of this nature. While it's impossible to comprehend and rationalise what we are going through as families, communities and as a country, one thing that we know to be true, that we will survive this and we will rebuild this nation.

When the dust settles and we sit at home and reflect, we find ourselves wondering about the future and we worry. We worry about when/how life will ever return to 'normal'. We worry about the health of our family, friends, and colleagues. We worry about the economy and work. We worry about money and our savings. While we are not able to provide guidance on all these worries, we can provide more context around money, savings, and investments.

Markets keep moving up and down, and so too do investor's emotions. This is understandable – it is, after all, our hard-earned money we're talking about. It's only natural that many investors have now grown tired of stomaching this unpredictable rollercoaster ride and would much rather prefer to place their feet on solid ground. In the world of investments, the rollercoaster ride is equities and cash is often seen as the solid ground.

How will the latest unrest in the country affect my investments?

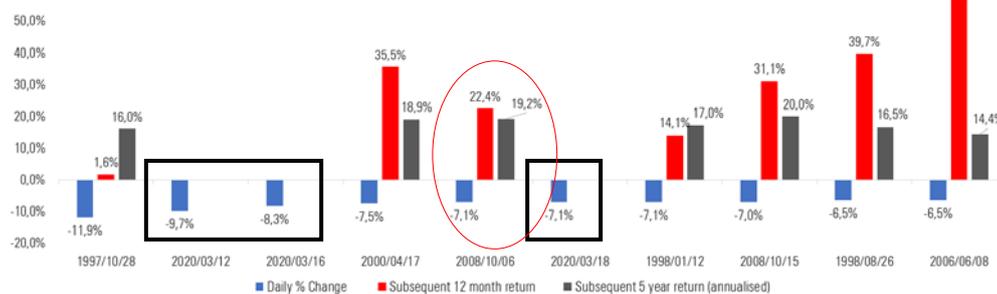
The big question across the country is around the issue of the medium-term economic impact and where to from here? We have seen the Rand weaken against major currencies as the market pulls away from South Africa in times like this. It is too early to assess if the current events will have a long-lasting negative impact on the South African economy, but we believe immediate evidence points to a short-term impact (assuming officials are successful at containing the situation).

The reality is that, in times of stress and uncertainty, markets and currencies can move sharply. Even so, these types of events create uncertainty and often leave investors with the urge to do something.

The below graph shows the 10 worst days on the JSE (the blue bars) since the end of June 1995 and how the local market reacted after the drawdown. The red bars show the 12-month returns investors experienced after the worst day and the grey bars show the five-year annualised returns after the drawdown.

As an example, during the 2008 global financial crisis on 06/10/2008, there was a loss of -7.12% for the day but the subsequent one-year return amounted to 22.41% and the annualised five-year return was 19.24%.

For Financial Advisors and their Clients



Source: Morningstar Direct, 2020. Past performance is not an indication of future performance.

Despite the current negativity and volatility, investors who are in Equities are advised to retain their exposure to this asset classes since this is likely an unplanned short-term phenomenon that should not detract from the long-term value of equities.

If the impact is short-term, price declines may produce buying opportunities. Warren Buffett, chairman and CEO of Berkshire Hathaway, said “you don’t buy or sell a business based on today’s headlines. If the market gives you a chance to buy something you like and you can buy it even cheaper, then it’s your good luck.”

Current portfolio positioning

Current events and the possible volatility that might be experienced in the coming weeks, once again highlights the importance of effective portfolio management, asset class diversification and pricing in risk to protect capital.

Client portfolios managed by Morningstar Investment Management are well diversified between strategies and asset classes and we are confident in our current positioning. Your portfolios are well diversified against SA specific risks.

Morningstar is keeping a close eye on all the above and actively managing your money. Our investment team has built portfolios that we believe are designed to not only protect investor capital in tough periods but more importantly to provide long term growth of investor capital.

This means that short-term market moves and doom and gloom media headlines, rarely (if ever) rattle our cages and we focus our energy on areas where we can add value.

What should investors do? Remain calm. Remember: time in the market is superior to timing the market.

At this stage, the best thing investors can do is to remain patient. Investing in the equity market is a long-term pursuit and is best used to reach long-term goals such as retirement. As the saying goes – a river cuts through a rock, not because of its power, but its persistence.

While noise and speculation can act as an emotional rollercoaster, your goals are unlikely to have materially changed and, therefore, your plan shouldn't either. This is where we need to be balanced. A big part of wealth creation is avoiding the biggest mistakes and disinvesting into cash now is one of the most well-known actions to avoid.

While the consideration to grab the closest cash lifejacket, jump ship and move all your assets to cash is an understandable response to recession fears, it is unlikely to be in investors best interests.

In closing

As investors, we too often redirect our attention away from the destination to the journey when faced with a lot of outside noise. Much like in other walks of life, we can lose focus, making us susceptible to capitulation or giving up at the moments when fortitude and resolve pay off most.

Patiently allocating to assets that will help you achieve your financial goals should remain key. So, if you catch yourself getting down about the state of our economy, lockdown or speculation around government policies or trying to predict what is next, always remember what is in your control and what is not.

The habit of investing is one of the best habits you have within your control. Doing nothing and staying the course is still a decision. It is often during these difficult times that we have the greatest opportunity to add value for our clients, acting rationally when others struggle to do so.

Morningstar would like to send thoughts of strength and support to those who need it now!!!

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