## INTRODUCTION

Members of retirement funds are understandably concerned about the impact the Covid-19 pandemic has had on their investments. This comes as financial media reports have been dominated by scary headlines relaying the extent and record-breaking nature of drops recorded on global financial markets. To mid-March, most global equity markets (including South Africa's) are down roughly 30% since the start of this year, reflecting widespread, and in most cases indiscriminate, panic selling.

At this stage markets are primarily reacting to the drastic (and necessary) measures taken to halt the rapid spread of the virus, rather than the mortality rate of the disease itself. With many countries on lockdown, businesses closed, travel restricted and consumers staying at home, the supply of and demand for most goods and services have unsurprisingly taken a severe hit. While this will no doubt affect the earnings of businesses over the short term (and some of the weaker ones could unfortunately go under), most investment managers are doubtful that the long term earnings potential of the majority of these businesses have been permanently impaired to the same extent. Investors need to remind themselves during times like these that their portfolios are invested in real businesses, not just numbers on a screen. Businesses that will (in most instances) still be around and making money when this crisis is over.

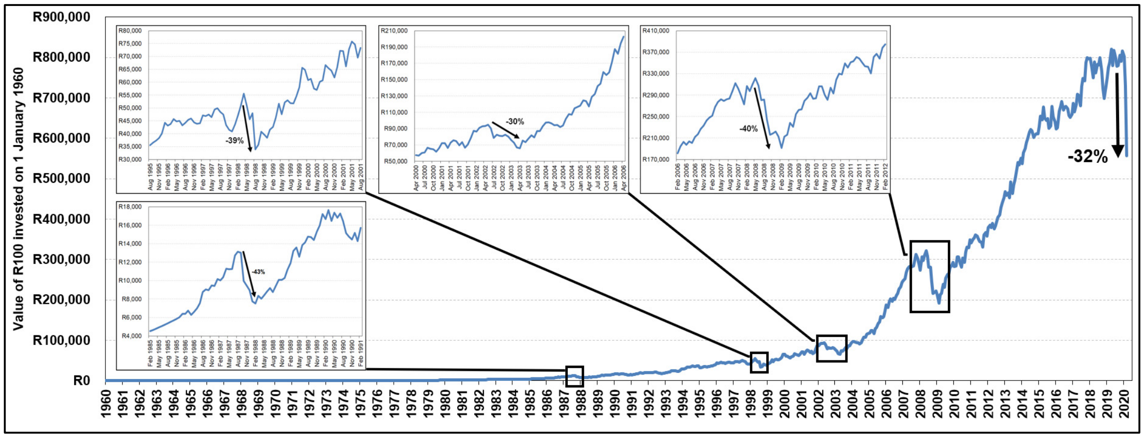
To use a simple analogy, a property investor wouldn't view his/her apartment as being worth 50% less (or even consider selling at such a price) if they were to sit without a tenant for a couple of months. But this is essentially what the market is doing right now. Markets hate uncertainty and tend to overreact in the short term, both to the downside (due to fear) and the upside (due to greed). Unfortunately, much of the day-to-day trading on global stock markets these days is done by short term traders, who tend to sell first and ask questions later.

> *"That's one of the crazy things: in the real world, things generally fluctuate between 'pretty good' and 'not so hot'. But in the world of investing, perception often swings from 'flawless' to 'hopeless'. The pendulum careens from one extreme to the other, spending almost no time at 'the happy medium' and rather little in the range of reasonableness."* - Howard Marks

## WHAT ABOUT MY RETIREMENT SAVINGS?

The portfolios retirement funds invest in are well-diversified and have therefore fared better than equity markets. They have however not been able to escape unharmed, with most high equity portfolios for example being down approximately 20% year to date.

We have previously communicated the importance of earning sufficiently high real returns (around 4 to 5% p.a. above inflation) over the long term (i.e. a full working career) to be in a position to retire comfortably. Unfortunately, returns like these are only achievable by taking some risk. At times this can be distressing, as shown by the magnitude of previous bear market losses on the local equity market below:




During each of these downturns it may have felt like the end of the world, but the recoveries that followed were strong, swift (albeit usually slower than the crash) and for many, quite unexpected. As the old Wall Street adage goes: "*The market takes the escalator up and the elevator down"*.

Looking back, some of the previous crashes are hardly even noticeable anymore. What is also clear from the graph above is that patient investors are usually well rewarded. While more conservative investments may provide some short-term comfort, we maintain that a bumpy road to financial independence is much better than a comfy road to poverty.

It's worth noting that the annualised return of the local equity market over the long term remains in excess of 15% (or roughly 7-8% p.a. ahead of inflation), even after the recent sell-off! This should still have proven to be enough ammunition for a diligent saver to provide for their golden years, even one retiring now.

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## WHAT DOES THIS MEAN FOR YOU?

We're undoubtedly in for a couple of challenging months, and it is at moments like these when damage of a much more permanent nature can be inflicted (by locking in losses when selling at lows, for example). Sadly, by the time many investors capitulate, the bottom has been reached already, and a big part of the recovery is missed. Investors need to think *very* carefully before making decisions that are driven by fear or panic, rather than a rational approach focused on their long-term objectives. Even the portfolios of members close to retirement (at least those who plan on buying living annuities) remain for the most part long term in nature, which should provide ample time to recover. Yes, it may require us to do a bit of belt-tightening over the short term, but we should not lose sight of the bigger picture.

Although they may appear faint, there are some silver linings:

- Times like these provide opportunities for investment managers to buy good quality assets at depressed prices. In fact, many of the managers we've been speaking to are doing just that. (And, as a side note for those investors ready to throw in the towel, investment managers are also not taking all risk off the table, believing that current prices are not a true reflection of the underlying fundamentals).
- New contributions are also buying at 'lows', analogous to stocking up on goods during a sale.

- With the oil price also taking a hammering our economy will benefit from lower input prices, which should help keep inflation at bay.
- Interest rates have been cut by 1%, which will provide some further relief to businesses and consumers.
- Some businesses will continue to do well in this environment, especially those involved in healthcare, hygiene and online services
- The world cannot stay on lockdown forever. In China we're already seeing signs of commerce picking up as the number of new infections has reduced drastically. The same should eventually happen in the rest of the world, even though none of us know for sure how long this might take.
- While some business losses may be permanent, the release of pent-up demand that follows should be strong.
- Lastly, and perhaps we're guilty of some wishful thinking here, but these developments might spur government into finally making the difficult and necessary decisions to get our economy back on track. Hopefully those in power heed the wise words of Winston Churchill: *"Never let a good crisis go to waste"*.

What this latest crisis should remind us of is to not follow government's example and rather live in a fiscally responsible manner. We should start saving as early as possible, preferably in a well-diversified mix of assets, live within our means and in so doing ensure that we have a bit of a buffer when the tough times inevitably come around.

We wish you and your families all the best during these trying times and encourage you to play your part in containing this outbreak. We remain fully operational, even though we have taken all necessary steps to keep our staff and clients safe by limiting travel and face-to-face interactions. So, if you have any questions or concerns, please feel free to contact us via phone or email.

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