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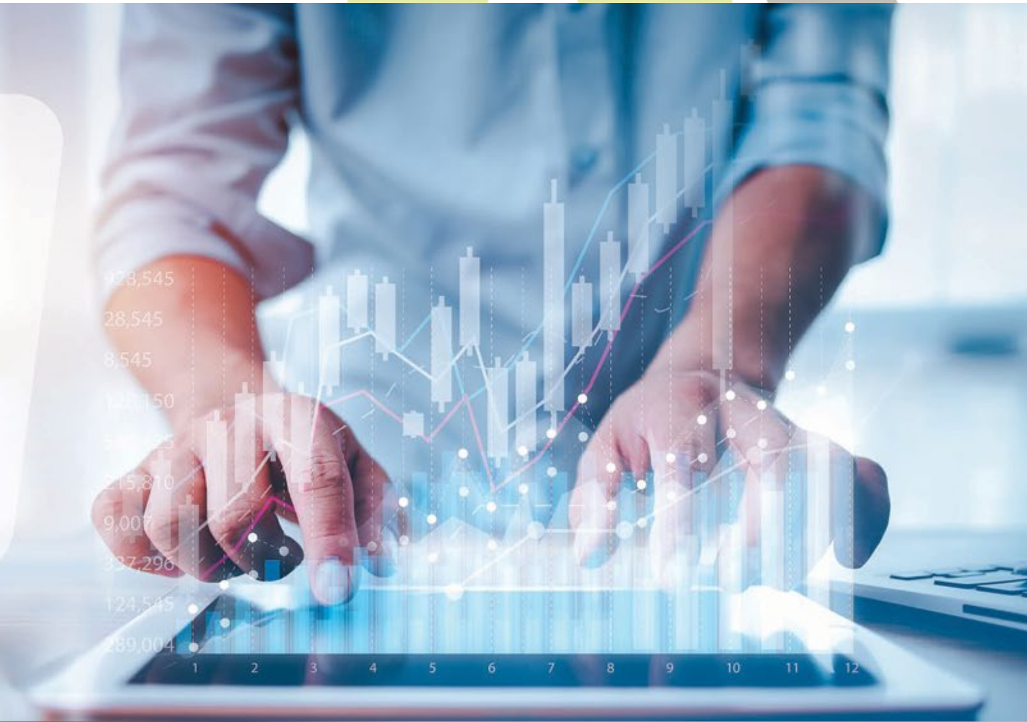
by akambo

Investing lessons FROM THE pandemic



When the coronavirus pandemic hit financial markets in March 2020, almost 40 per cent was wiped off the value of shares in less than a month.[i] Understandably, many investors hit the panic button and switched to cash or withdrew savings from superannuation.

With the benefit of hindsight, some people may be regretting acting in haste. Although for others, accessing their super under the early release due to COVID measures was a difficult but necessary decision at the time.

As it happened, shares rebounded faster than anyone dared predict. Australian shares rose 28 per cent in the year to June 2021 while global shares rose 37 per cent. Balanced growth super funds returned 18 per cent for the year, their best performance in 24 years.[ii]

While every financial crisis is different, some investment rules are timeless. So, what are the lessons of the last 18 months?

Lesson #1 Ignore the noise

When markets suffer a major fall as they did last year, the sound can be deafening. From headlines screaming bloodbath, to friends comparing the fall in their super account balance and their dashed retirement hopes.

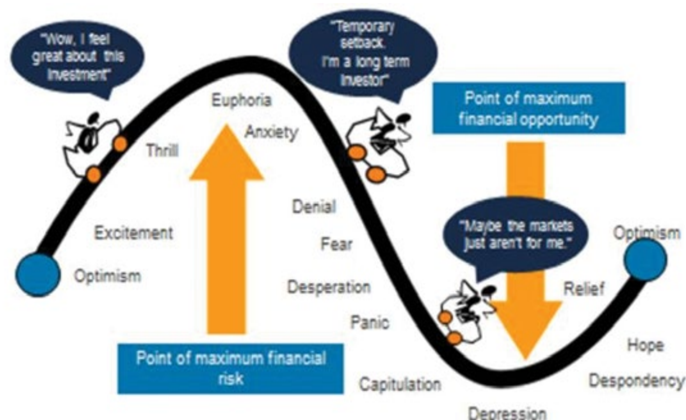
Yet as we have seen, markets and market sentiment can swing quickly. That's because on any given day markets don't just reflect economic fundamentals but the collective mood swings of all the buyers and sellers. In the long run though, the underlying value of investments generally outweighs short-term price fluctuations.

One of the key lessons of the past 18 months is that ignoring the noisy doomsayers and focussing on long-term investing is better for your wealth.

Lesson #2 Stay diversified

Another lesson is the importance of diversification. By spreading your money across and within asset classes you can minimise the risk of one bad investment or short-term fall in one asset class wiping out your savings.

Diversification also helps smooth out your returns in the long run.



For example, in the year to June 2020, Australian shares and listed property fell sharply, but positive returns from bonds and cash acted as a buffer reducing the overall loss of balanced growth super funds to 0.5%.

The following 12 months to June 2021 shares and property bounced back strongly, taking returns of balanced growth super funds to 18 per cent. But investors who switched to cash at the depths of the market despair in March last year would have gone backwards after fees and tax.

More importantly, over the past 10 years balanced growth funds have returned 8.6 per cent per year on average after tax and investment fees. High growth funds returned 10.3 per cent per year and the most conservative funds returned 5.5 per cent per year.[ii]

The mix of investments you choose will depend on your age and tolerance for risk. The younger you are, the more you can afford to have in more aggressive assets that carry a higher level of risk, such as shares and property to grow your wealth over the long term. But even retirees can benefit from having some of their savings in growth assets to help replenish their nest egg even as they withdraw income.

Lesson #3 Stay the course

The Holy Grail of investing is to buy at the bottom of the market and sell when it peaks. If only it were that easy. Even the most experienced fund managers acknowledge that investors with a balanced portfolio should expect a negative return one year in every five or so.

Unfortunately, we can only ever be sure when a market has peaked or troughed after the event, by which time it's usually too late. By switching out of shares and into cash after the market crashed in March last year, investors would have turned short-term paper losses into a real loss with the potential to put a big dent in their long-term savings.

Even if you had seen the writing on the wall in February 2020 and switched to cash, it's unlikely you would have switched back into shares in time to catch the full benefit of the upswing that followed.

Timing the market on the way in and the way out is extremely difficult, if not impossible.

Looking ahead

Every new generation of investors has a pivotal experience where lessons are learned. For older investors, it may have been the crash of '87, the tech wreck of the early 2000s or the global financial crisis. For younger investors and many older ones too, the coronavirus pandemic will be a defining moment in their investing journey.

Now that shares and residential property prices have rebounded strongly, investors face new challenges. That is, how to make the most of the prevailing market conditions while ignoring the FOMO (fear of missing out) crowd.

By choosing an asset allocation that aligns with your age and risk tolerance then staying the course, you can sail through the market highs and lows with your sights firmly set on your investment horizon. Of course, that doesn't mean you shouldn't make adjustments or take advantage of opportunities along the way.

We're here to guide you through the highs and lows of investing, so give us a call if you would like to discuss your investment strategy.

i https://www.forbes.com/sites/lizfrazierpeck/2021/02/11/the-coronavirus-crash-of-2020-and-the-investing-lesson-it-taught-us/?sh=241a03a46cfc

ii https://www.chantwest.com.au/resources/super-funds-post-a-stunning-gain

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