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LONG-TERM INVESTORS NEED PATIENCE AND COURAGE

South African investors have endured a few years of weak returns from their investments. Portfolios with higher allocations to South African growth assets, namely shares and property, have fared particularly badly. These low returns are mostly the result of a weak South African economy struggling with weak GDP growth, troubled SOEs with Eskom being the chief concern, load shedding, corruption and state capture, unsustainable Government debt with an associated risk of downgrade to sub-investment grade, and stubbornly high unemployment. Although there have been some global economic risks, in recent years the global environment has generally been quite supportive of growth so offshore assets have performed better than local assets.

Then, in late December 2019, doctors in China noticed an odd cluster of pneumonia cases in a hospital in Wuhan. This turned out to be a new coronavirus, dubbed COVID-19, which has since grown into a global pandemic with almost 200 000 cases across more than 150 countries. In an effort to contain the spread of the virus, many countries have introduced drastic measures. On 15 March 2020, President Ramaphosa announced a state of disaster in South Africa with a raft of measures including travel restrictions, school closures, bans on large gatherings and mandatory testing and self-isolation for suspected cases.

The reality is that it is not business as usual. All of us will need to adapt to an environment of limited social contact, restricted travel, closed schools and working from home (where possible) with all of the associated implications for our lifestyles.

WHAT DOES THIS MEAN FOR INVESTMENTS?

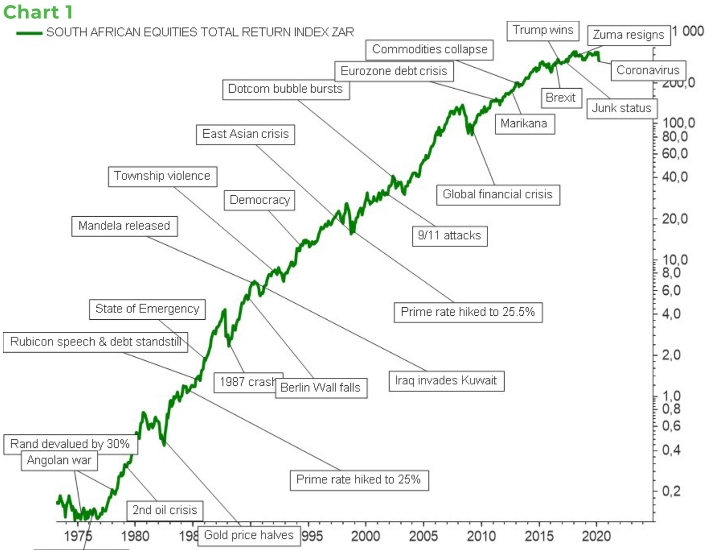
Unfortunately, COVID-19 and the measures taken by governments, companies and individuals to curb the spread will have a very real impact on economies. Company profits will be impacted. Note that not all companies are affected in the same way – there will be some winners and some losers. The initial losers have been the travel companies as travellers cancel their bookings. However, other companies, for example food delivery firms and owners of hospitals, might benefit.

Stock markets around the world have experienced big falls. Conditions like these can be very unsettling for investors but it's essential that investors resist the urge to panic, which might cause them to do something rash to try to ease the pain. ***For a long term investor who is invested in a growth-orientated, well-diversified balanced portfolio managed by a reputable, high-quality asset manager, the best course of action continues to be to sit tight and ride out the volatility.***

Staying the course, especially in the face of heightened risk, certainly isn't easy. We've compiled a list of **10 tips to help you be patient, courageous and ultimately successful long-term investors.**

TIP 1: FOCUS ON THE LONG TERM

Chart 1

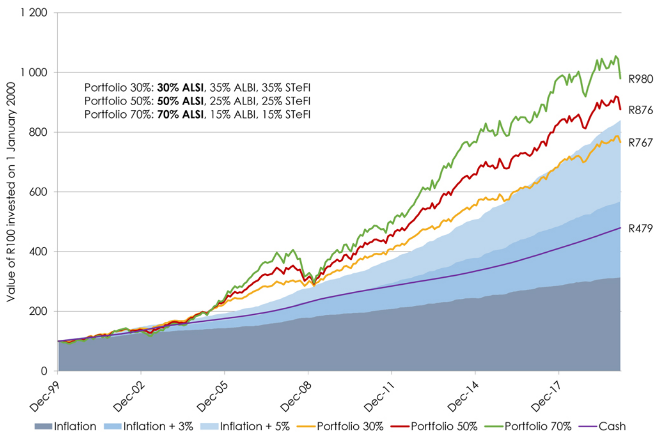


Source: Refinitiv Datastream/ Old Mutual Multi-Manangers

Shares go up and down in the short term but in the long term they do gradually climb upwards, despite the risks and unforeseen events that crop up on a regular basis. Chart 1 shows how the stock market has climbed the "wall of worry" over the past few decades. It also highlights just some of the crises that have threatened to derail this upward journey, without success.

TIP 2: IF YOU WANT REAL GROWTH THEN YOU NEED ‘GROWTH ASSETS’ IN YOUR PORTFOLIO

Chart 2



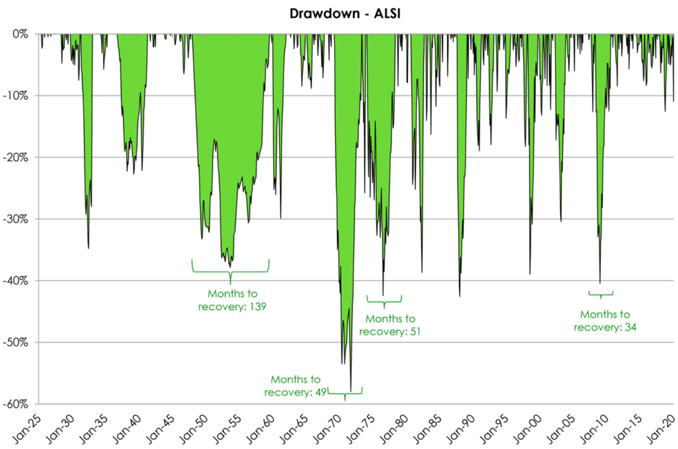
Growth assets, so called because they have the potential to deliver superior growth in the long term, are an essential part of any well-diversified, long-term portfolio. Unfortunately, these growth assets don’t deliver this growth in a neat monthly series of positive returns. There are periods of positive returns and periods of negative returns with very little ability to predict when these returns might occur. This is normal, and “keeping your hands in the rollercoaster and sitting tight” is crucial to reap the rewards at retirement. Chart 2 shows the impact of having more growth assets in your portfolio over the longer term. Portfolio 70% (green line) has more growth assets than Portfolio 50% (red line) which has more than Portfolio 30% (orange line). Cash is the purple line (which is not a growth asset). Once again the recent downturn is visible.

TIP 3: NO MATTER HOW TEMPTING IT IS, YOU CAN’T TIME THE MARKETS

You’ve heard it before and it’s true. It really is very difficult to predict what will happen to investments and prices in the near future. Trying to time the market is therefore not a good idea. Bear in mind that not only do you need to predict when to switch out of the stock market, for example, but also when to switch back in as you cannot remain on the side lines forever or you will miss out on share market growth. There are lots of ways to try to time the market and some of them might even be successful once or twice, but getting it right consistently is extremely hard to do and requires a lot of good luck.

TIP 4: NEGATIVE RETURNS ARE A NORMAL, EVEN AN EXPECTED, PART OF LONG-TERM INVESTING

Chart 3



Although it can be uncomfortable, negative returns represent perfectly normal behaviour for a long-term investment strategy. There’s no reason to panic when a long-term growth strategy experiences some negative returns in the short term. Learning to ignore this is what makes a good long-term investor. If it helps, don’t look at your statements or values too regularly as it may make you more worried. Chart 3 shows that drawdowns are a normal, fairly frequent, and even very significant, feature of the stock market – in this case the All Share Index (ALSI).

TIP 5: KNOW YOUR TIME HORIZON

Even if you’re approaching retirement, your time horizon is generally not until retirement age but rather until your death. This means it is a much longer, but also an unknown, time horizon. This is especially true if you plan to transfer your retirement savings into to a living annuity when you retire (which many South Africans do) because you will remain invested while you use your assets to draw an income each month. So your time horizon is actually much longer than you may think. This in turn means you can afford to remain a "long-term" investor for much longer, certainly all of your working lifetime, and even into retirement.

TIP 6: CASH MIGHT SEEM SAFE, BUT IT'S THE RISKIEST INVESTMENT FOR RETIREMENT

Chart 4

One of the sayings in business, especially during times of turmoil, is "cash is king", suggesting that cash trumps other investments. Although there are times when cash rules in terms of returns but such times are few and far between, when compared to shares. Put differently: this saying isn't appropriate for long-term investors. Chart 4 shows rolling five-year returns of the All Share index less the five-year returns on cash (STeFI). The orange shaded areas indicate times when cash has Chart 4 outperformed shares over five years – we are currently in such a period as can be seen on the far right of the chart. This does happen from time to time but it is usually short-lived and insubstantial. By remaining in the safety of cash an investor misses out on the blue areas. The green dotted line is the long term average, showing that shares have outperformed cash by about 6% per year, on average.

TIP 7: THE STOCK MARKET IS CURRENTLY OFFERING BLACK FRIDAY SPECIALS!

Just like Black Friday when retailers offer shoppers crazy bargains, the stock market (which is a market after all) is offering some serious bargains at the moment. True, the bargains are mostly available on all the stuff that no-one seems to want. However, these are the same companies that investors were prepared to pay much higher prices for a short while ago. Importantly for long term investors, these are also the same companies that are likely to fetch higher prices in the future when sentiment improves and people feel more confident about prospects for the future. If you have capacity to invest by making additional contributions at this stage, you may wish to take advantage of the sale prices – they won't last forever.

TIP 8: SAVING FOR RETIREMENT MEANS AUTOMATICALLY PHASING IN YOUR INVESTMENT

Members of a retirement fund save a regular monthly amount from their salaries towards retirement. At any point in time they thus have the accumulated savings that are exposed to the markets, but they also have their current and future contributions that still need to be invested. This is very beneficial as the new contributions are being invested at the lower share prices (after any decline in markets). When the recovery happens, the new accumulated savings value will benefit from the recovery in returns. In any event, the fact that we continue contributing means that there is an averaging effect which serves to dampen the losses we experience, and this helps our investments to bounce back when markets recover.

TIP 9: SOUTH AFRICA NEEDS SAVERS TO CREATE RESILIENCE

South Africa is susceptible to global threats that might arise on the far side of the earth. As a small country with a small economy at the southern tip of Africa, we will be tossed about by powerful global storms. We need to focus on making sure we're able to withstand these conditions by building a strong, resilient, growing economy. Savings, of all individuals but also of companies and of the government, are extremely valuable as they enable us to invest in growing our economy and our infrastructure, instead of relying on foreign investment. This is yet another reason, albeit a less self-centred one, to save diligently and stay invested for the long term.

TIP 10: MAKE SURE YOU UNDERSTAND THE IMPLICATIONS BEFORE SWITCHING BETWEEN MARKET-LINKED AND SMOOTHED BONUS INVESTMENT PORTFOLIOS.

During times of significant market falls, smoothed bonus investment portfolios work differently to market-linked investment portfolios. This is because a smoothed bonus investment portfolio utilises a bonus smoothing reserve, which can be either positive or negative. This means that switches to or from a smoothed bonus investment portfolio (even into a different smoothed bonus investment portfolio) during volatile market conditions can have unforeseen impacts on your savings. Before undertaking any switch, make sure you fully understand the potential impacts by reading more about how smoothed bonus portfolios work.

CONCLUSION

The current market conditions certainly aren't for the faint-hearted. Yet successful investors are those who are able to remain calm during times of stress such as we are experiencing at the moment. By remaining focused on your long term strategy, while ensuring you have a well-diversified spread of assets, you give yourself the best possible chance to earn the inflation-beating returns over time that ultimately convert regular monthly contributions into a sound retirement outcome.

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