momentum investments

in the moment

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COVID-19: Don't touch your face, or your investments

Addressing concerns

It is only natural to be worried when you see markets fall sharply and the value of your investments decreases.

Unfortunately, it is also human nature to make the wrong decisions when it comes to your investments during times of crisis, like now.

The key during uncertain and volatile times like these is to not touch your investments, but to keep it in a diversified basket of different asset classes and to look beyond short-term fears to your long-term goals. However, this is easier said than done.

The COVID-19 pandemic has once again shown how quickly things can change in financial markets.
The United States entered a bear market within weeks from its all-time high. South Africa followed suit and also fell sharply, although it recovered somewhat in April. The virus and lockdown measures left many of us feeling powerless in an extremely uncertain time.

The need to make changes to our investments may provide temporary emotional relief and a feeling that we are slightly more in control of the situation, but at what cost? In the longer term, the wrong decisions taken now can have a devastating effect on your investments and into retirement. The last time the markets experienced a similar shock was the global financial crisis of 2008/2009. Our research shows that, during that crisis, thousands of clients switched to safer investments, ignoring that their investment goals had not changed, but only the environment around these goals had changed.

Many chose to switch and some gave in and disinvested, thereby destroying value. How? Once in safer investments, these clients needed so much reassurance to enter equity markets once more that they missed out on one of South Africa's most sustained bull markets that followed.

During times of uncertainty, people are heavily subjected to certain behavioural biases. They act emotionally, rather than with a well-prepared plan based on facts. We take action because of our feelings, leaving thought by the wayside.

Our portfolio managers, however, are continually assessing how best to manage your well-diversified portfolio. This is a proven strategy to get investors to their respective goals. Based on 12 years of investment data on the Momentum Wealth platform, this approach has given, on average, a better investment outcome to all investors who chose the outcome-based investing route.

Your financial adviser can also be an essential partner during these uncertain times. An adviser can help you to not take on unnecessary risks and prevent costly mistakes, by avoiding emotional decisions. With your adviser, you can prepare a financial plan to address immediate challenges and get a strategy in place for you to achieve your long-term financial goals.

Now is not the time to make drastic or emotional investment decisions based on an event that affected all asset classes worldwide. To try and time the market as an investor is a guaranteed way to lock in any potential losses and, consequently, also to miss out on any recovery in markets.

Let us not fall into the market turbulence trap, where we pay in long-term returns for short-term emotional comfort. This trap is easy to fall into but equally as easy to avoid.

So what should investors do? Doing nothing is the best strategy. Remain invested, stick to your long-term investment strategy and ride out the volatility.

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