

IN THE **moment**

Just three things you need to know about COVID-19 and your wealth

"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497." Warren Buffett

The essence of being human is to act in the face of uncertainty. What more could be added to the definition of 'uncertainty' than the global pandemic, COVID-19, which has put a handbrake on global growth, flooded cyberspace with information and disinformation as well as restricted our movement, gathering and interaction with fellow citizens and, in some cases, even loved ones?

COVID-19 has left many of us feeling disempowered from a perceived lack of control in a particularly uncertain time. The perception of control over our environment is not only desirable, but likely a psychological and biological necessity. This need to take action with our investments, however, may give us temporary emotional respite and the feeling of being slightly more in control of the situation, but at what cost? The long-term effects of our actions may ripple down towards and into our retirement.

Here are three things you need to know about COVID-19 and your wealth in general:

- The last time markets experienced a similar shockwave was the global financial crisis of 2008. Based on our actual client research, thousands of clients switched to safer investments, ignoring that their investment goals had not changed, only the environment around these goals. Half of the clients who invested during this

time, chose to switch, destroying value, and some gave in and totally disinvested, thereby destroying 50% of their asset base. 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 to follow.

- The biggest threat to your wealth is not COVID-19, but inflation. The market will recover. This is financial physics. Whether you're invested to create wealth, to build up to a retirement goal or even in retirement, longevity of your wealth will depend on generating inflation-outperforming returns. This means that sustained exposure to more risky investments is vital. Bad returns are invariably followed by better returns and the same media exposure that fuels the flames will also assist in generating hype when the cycle turns. The more time you have, the greater your ability to recover from market shocks and participate in the longer-term available growth.
- For those of us approaching retirement, your fund has likely already been de-risked, assuming a life-stage approach where equity market exposure would have been minimised. Retired investors can minimise these effects by drawing from investments like cash that are far more resilient in such times, leaving time for long-term investments to recover.

In times of uncertainty, we are heavily subjected to the 'affect heuristic'. This is a flawed belief system, where we take action because of our feelings, leaving thought by the wayside. Your 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.

Our longer-term perspective and lens will make sure any systematic threat to investment goals is summarily addressed but, as things stand, we believe, from an asset allocation viewpoint, we are well placed looking towards a brighter future.

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. Why not do things differently and focus on your investment goals and desired outcome this time around? Get the outcome you deserve for staying invested.

Jeanette Marais

CEO: Momentum Investments

