



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

“Buying into a diversified low-cost portfolio with exposure to several asset classes, and rebalancing occasionally, is one of the simplest and most effective long-term strategies for the majority of investors.”

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4 WAYS TO SURVIVE A STOCK MARKET CRASH

By Arin Ruttenberg, financial advisor at Brenthurst Wealth Sandton

Are you living in anticipation of the next big market crash? If so, you are probably wondering how to protect against another disastrous market event like 2008.

It is a foregone conclusion that we will experience another market correction. History tells us that. But because history is looking backward, it cannot tell us when exactly we will suffer another crash. ***So, what can you do?***

If you are a long-term investor, then the one thing you certainly should not do is panic and sell your investments during the dip. You are doing untold harm to your portfolio, with much lower chances of recovering your losses.

However, at a broader level, you can limit your losses in a crash by sufficiently diversifying your portfolio, while limiting your leverage.

HERE ARE FOUR RELATED PRINCIPLES YOU CAN USE TO GUIDE YOUR THINKING AND PLANNING FOR A MARKET CRISIS:

1. SPREAD YOUR RISK ACROSS ASSET CLASSES



One of the secrets to successful investing is appreciating that [not all investment assets](#) react the same at the same time. This basic principle of spreading your risk is best illustrated in the graph below, which shows the **10-YEAR RECOVERY CHART FOR U.S. STOCKS FROM THE 2008 GLOBAL FINANCIAL CRISIS**.

PORTFOLIO RETURNS: EQUITIES VS EQUITY AND FIXED INCOME BLEND



If you were looking for a rapid recovery, then a mix of 40% stocks and 60% bonds (**the dark blue line**) would have returned to pre-crisis levels within around two years. A mix of 60% stocks and 40% bonds (**the light blue line**) took another 12 months to recover, while the S&P 500 (**the green line**) took about 4,5 years to recover from its previous peak in 2007.

However, 10 years after the crisis, 100% investment in equities would have given you the highest returns, albeit with some volatility along the way.

2. SPREAD YOUR RISK OFFSHORE

South African investors are often encouraged to build offshore portfolios to counter the low growth domestically. However, diversifying your portfolio by holding stocks abroad is a principle applied by investors globally.

The benefits of doing so was illustrated in the research by legendary investor [David F Swensen](#), who died in 2021, showing that hypothetical investors who had invested equally in the United States, Europe and Asia Pacific from 1970 to 2014, and rebalanced occasionally, had better risk-adjusted returns (10.6% annualised in USD) and thus lower volatility than any of the three markets independently.

The big attraction for South African investors is that investment choices are broadened exponentially once you consider the investment opportunities offered by larger, deeper and broader markets.

3. IMPORTANCE OF REBALANCING

After a stock market crash, many investors damage their portfolio by selling their holdings after the market has declined deep into bear territory. This effectively means they do not get the full benefit from an eventual recovery in prices.

Rather than selling stocks after they fall, you should be buying. You can ignore fears about market timing if you apply the principle of occasionally rebalancing your portfolio – a strategy I am most fond of.

How this works is that shares become a greater proportion of your portfolio as they rise in value. If this then means that you're overweight in stocks, you can sell some to buy bonds or other asset classes to return to your target allocation, or you can direct new income to your underweight asset classes.

Conversely, when stocks fall, they will become a smaller portion of your portfolio, especially if bonds and certain other asset classes have retained their value.

BUYING INTO A DIVERSIFIED LOW-COST PORTFOLIO WITH EXPOSURE TO SEVERAL ASSET CLASSES, AND REBALANCING OCCASIONALLY, IS ONE OF THE SIMPLEST AND MOST EFFECTIVE LONG-TERM STRATEGIES FOR THE MAJORITY OF INVESTORS.

4. DO NOT BE GREEDY

One of the biggest challenges you face as an investor is to fight human nature. When things go badly, the natural instinct for many is to flee before undergoing further damages, despite locking in losses by selling when the market is at a low.

Similarly, it is easy to get greedy when a bull market has been running for several years. **WHAT SEPARATES SMART INVESTORS FROM AVERAGE ONES IS THAT THEY ARE CAUTIOUS WHEN OTHERS ARE GREEDY, AND OPPORTUNISTIC WHEN OTHERS ARE FEARFUL.**

So, when the economy is strong it is better to focus on building your wealth, paying debt and making sure you have an emergency fund to solidify your financial position. If a downturn comes, then you are prepared and should be able to ride out the worst of it.

Your primary focus should be to keep your necessary expenses (housing, transportation, food, healthcare) well below your income.

It is the households that do not do this that suffer the most when the economy turns sour because they are over-leveraged and have low levels of savings. Or they might have sold their stocks at the market low and have not recovered in tandem with rising stock prices, post the crisis.

These are all mistakes that can easily be avoided when you have the right perspective. And calling on expert advice from a certified advisor is a great way to make sure you make the best decisions when times are good, and bad.



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