INVESTMENT REPORT
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INVESTMENT LESSONS FROM THE PANDEMIC

By Charize Beukes, Financial Advisor at Brenthurst Wealth Pretoria

The past two-and-a-half years have seen South African households suffer financial pain and economic upheaval that will be remembered for decades to come. It isn't easy to forget the strict COVID lockdowns that prevented us from buying anything from alcohol and cigarettes to flip-flops.

The net result was a sharp decline in economic output in 2020 of -5%, as well as a dramatic fall in markets followed by an unusually swift recovery. And since last year, we have had to deal with rising inflation that has been made worse by Russia's invasion of Ukraine.

To say that we are living in unprecedented times would be a major understatement – a period that we would all rather have avoided. Unfortunately, that's not possible, but there are some key lessons we can learn from these events. Especially in view of new headwinds which hit global markets since the start of 2022 – war in Europe, higher inflation in several countries and rising interest rates.

HERE ARE 5 CRUCIAL MEASURES TO TAKE, IN AN ATTEMPT TO PROTECT YOUR FINANCES AGAINST FUTURE SHOCKS:

1. AN EMERGENCY FUND IS CRUCIAL

The importance of having savings in an emergency fund was brought home with dramatic effect by the lockdowns that robbed many households of their regular income. Suddenly, the wisdom in the age-old advice to build up reserves in case of an emergency became all too clear.

While we are often told to build up savings that will cover household expenses for three to six months, the extended duration of the pandemic might cause us to rethink that framework. Whether that is possible will depend on your personal circumstances.

I suggest thinking of your emergency fund as a form of insurance for your long-term investments, so that you will not have to sell investments to cover the monthly bills.

2. SET ASIDE SAVINGS TO COUNTER MARKET UPHEAVAL, IF YOU ARE RETIRED

Historical data shows that it can take up to 10 years for markets to recover to previous bull market levels after a bear market. That timeframe is less of a concern for young investors who have time to recoup any losses, but retirees simply do not have that luxury.

The danger for retired investors is that drawing from your investment funds during a market downturn could result in significant, and permanent, value destruction.

That fate can be avoided by having sufficient savings put aside to tide you over and lower the amount you draw from your retirement investments. If you do not have this buffer, then an appropriately diversified portfolio can help to reduce your risk.

A balanced portfolio that is less exposed to risky, volatile assets is one way to achieve this. Unfortunately, many retirees are too heavily invested in growth assets as they try to extend the longevity of their savings. Market dips, such as those experienced in March 2020 and the first half of 2022, would have seriously tested equity-heavy retirement portfolios.

Rather than focusing on performance, I suggest you look at rebalancing your risk to align with your life stage and financial goals.

3. DO NOT LET DEBT DRAG YOU DOWN

Many South Africans who live payday-to-payday were hardest hit during the pandemic. Those who lost their jobs faced the prospect of not being able to pay their monthly bills, causing many to use high-interest loans and credit card debt just to survive.

With interest rates having risen to pre-pandemic levels as the Reserve Bank fights rising inflation, indebted families are now being crushed under crippling interest rates and mountains of debt.

Their first priority, then, is to reduce debt whilst scaling back on household expenses so that they can dig themselves out of that debt hole.

Making a commitment to your future today is the best investment you can make.

Always consult with an accredited, experienced advisor for guidance.

4. TIME IN THE MARKET BEATS TIMING THE MARKET

This is another age-old saying that has been proven true time and again. Research shows that investors who remain invested in a well-diversified portfolio for the long term will generally do better than those who try to profit from turning points in the market.

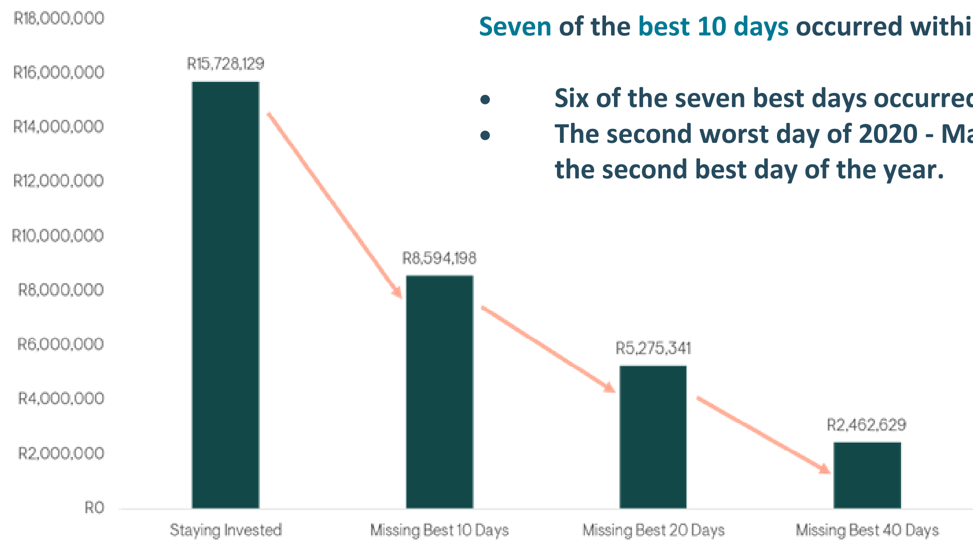
It is almost impossible to predict when markets will turn and, if you sell assets in an attempt to avoid losses, you could just as easily miss out when markets rebound. For example, J.P. Morgan Asset Management analysis notes that the second-worst day of 2020 was followed by the second-best day of the same year.

If you had panicked and sold when markets dropped, there is every chance you would have missed recovering some of your losses the following day.

PERFORMANCE OF 1 MILL ZAR INVESTED FROM 01 MARCH 2001 - 30 JUNE 2022

Seven of the best 10 days occurred within two weeks of the 10 worst days.

- **Six of the seven best days occurred after the worst days.**
- **The second worst day of 2020 - March 12 - was immediately followed by the second best day of the year.**



Past performance should not be taken as a guide to the future, losses may be made. Longer term performance may vary. For illustrative purposes only.

Source: Morningstar. R 1,000,000 invested 20 years ago, daily data of the ALSI to 30 June 2022, performance figures above are based on lump sum investment, Index value based. Start date 01.03.2001. No fees applicable.

REMEMBER, TIME IN THE MARKET IS MORE IMPORTANT THAN TRYING TO TIME THE MARKET

5. DO NOT WAIT FOR A CRISIS BEFORE PLANNING YOUR FINANCES

The blowout from the Covid 19 pandemic caught many investors off guard. Our advisers at Brenthurst Wealth experienced an influx of clients wanting to implement a financial strategy based on fear.

What this confirmed was that many investors had not given enough attention and thought to their investments until the crisis hit. Suddenly there was a flurry of activity as investors realised that they needed to review their financial plans, which included analysing their portfolios, the performance and associated costs.

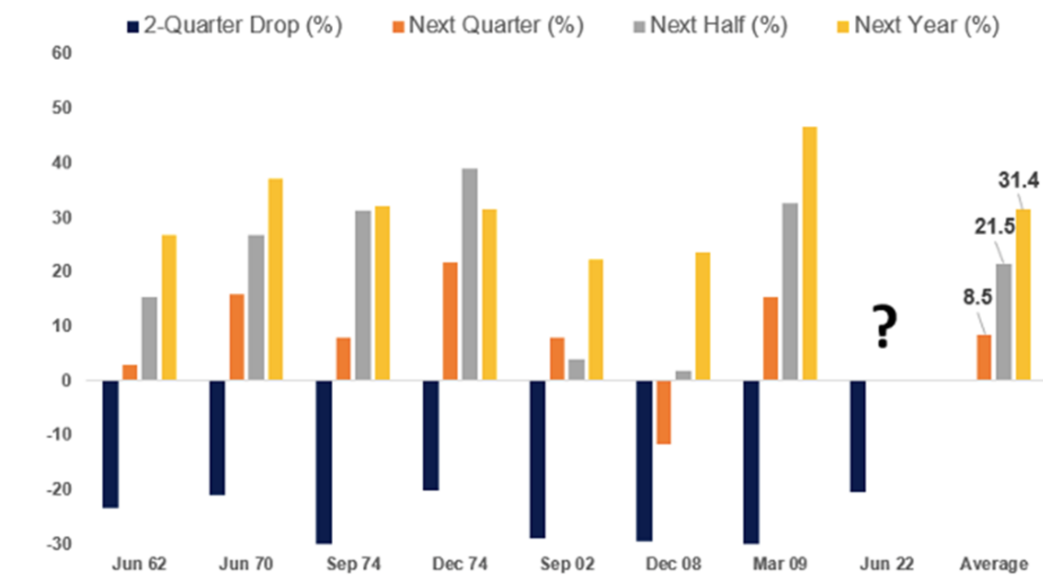
By contrast, investors who had a pre-Covid financial plan were more confident in their strategy and had faith in the financial decisions they had made.

ALL IS WELL THAT ENDS WELL

Despite the turmoil that we have seen since the beginning of 2020, all indications are that South Africans overall are showing remarkable financial resilience. Even with the financial knocks that many investors experienced, there is light at the end of the tunnel – and no, it is not a train!

THE GRAPH BELOW ILLUSTRATES HOW STOCKS HAVE REBOUNDED AFTER LARGE TWO-QUARTER DECLINES, OF WHICH THE FIRST BIG 2-QUARTER DROP HAPPENED IN JUNE 1962. (Period: June 1962 – June 2022).

STOCKS HAVE HISTORICALLY BOUNCED BACK STRONGLY AFTER BIG 2-QUARTER DROPS



Source: LPL Research, Bespoke Investment Group 07/01/22 (1946 - current)
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

> *While past performance is no indication of future results, we may be seeing better days for the second half of 2022.*

ADVISOR PROFILE | CHARIZE BEUKES, FINANCIAL PLANNER®

CHARIZE is based in Brenthurst Wealth's Pretoria Office. She obtained her B.Com (Hons) in Management Accounting from the University of South Africa (UNISA) and has been working in the finance industry for over 9 years. She is registered with SAIPA as a Professional Accountant and Tax Practitioner.

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