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OFFSHORE INVESTORS SHOULD BE IN IT FOR THE LONG HAUL

By Danine van Zyl, Financial Advisor Brenthurst Wealth Fourways

The first few months of 2022 have been a very difficult period for most offshore investors – especially those invested predominantly in equities for long-term growth. January 2022 started with a “correction” in the US markets, followed by the invasion of Ukraine a month later.

Soaring inflation levels in the US (and globally), as well as the uncertainty surrounding the level of interest rate hikes expected by the Fed to curb rising inflation levels, have all added to the uncertainty and volatility experienced in global markets over the last couple of months. In March 2022, the annual inflation rate in the US accelerated to 8.54%, the highest since December 1981.

Since early March, China’s cases of Covid-19 have been increasing. By the end of March, the virus had spread to 29 of China’s 31 provinces and they were placed under varying levels of lockdown. This has caused further tension in global markets after positive signs had been observed from mid-March to mid-April across major market indexes such as the S&P 500 and Nasdaq. The loss of subscribers in tech giant Netflix’s quarterly earnings report during April, as well as the uncertainties surrounding interest rate hikes in the US, also contributed to a substantial slump in the technology sector – April 2022 delivered the worst monthly performance for the Nasdaq 100 since 2008.

IN THIS ISSUE

Since the start of 2022, global markets have experienced numerous shocks and investors are understandably nervous. Danine van Zyl, advisor at Brenthurst Fourways, cautions against any drastic changes to investment strategies, and stresses the importance of a long-term view during the current volatile times.

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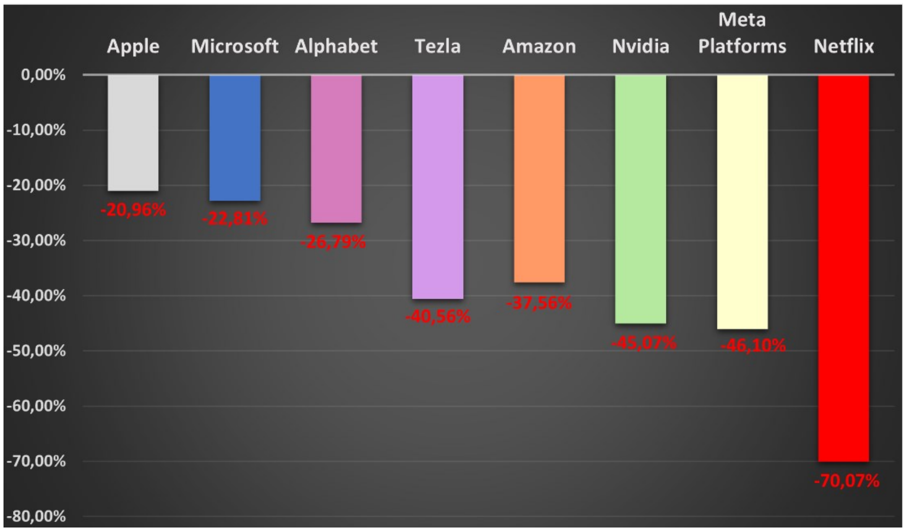
DRAWDOWNS FROM 52-WEEK HIGHS



Source: Investing.com Data as of close on 25 May 2022

What makes current market conditions quite unique is the number of factors simultaneously affecting investor, market and economic sentiment.

Our portfolios are well diversified from an asset class, sector, style, geographical and risk perspective, with a strong focus on delivering optimal long-term returns. It should not be a time to worry and focus too much on the short-term conditions affecting markets at this stage. Be assured that when markets turn/normalise portfolios will benefit from the growth to follow.

STOCKS TEND TO DO WELL AFTER CORRECTION

S&P 500 Index Corrections and Bear Markets (1980—Current)

					S&P 500 Index Returns	
High Date	S&P 500 High Price	Low Date	S&P 500 Low Price	Correction Return	1-Year Return After Lows	2-Year Return After Lows
2/13/1980	118.44	3/27/1980	98.22	-17.1%	33.0%	10.6%
11/28/1980	140.52	9/25/1981	112.77	-19.8%	9.4%	50.5%
11/30/1981	126.35	3/8/1982	107.34	-15.1%	43.2%	48.4%
5/7/1982	119.47	8/12/1982	102.42	-14.3%	57.7%	57.9%
10/10/1983	172.65	7/24/1984	147.82	-14.4%	30.3%	61.5%
8/25/1987	336.77	10/19/1987	224.84	-33.2%	22.9%	52.5%
10/21/1987	258.38	10/26/1987	227.67	-11.9%	24.0%	51.5%
11/2/1987	255.75	12/4/1987	223.92	-12.5%	21.4%	56.6%
10/9/1989	359.80	1/30/1990	322.98	-10.2%	3.7%	28.5%
7/16/1990	368.95	10/11/1990	295.46	-19.9%	28.8%	38.2%
10/7/1997	983.12	10/27/1997	876.99	-10.8%	21.5%	47.9%
7/17/1998	1186.75	8/31/1998	957.28	-19.3%	37.9%	57.7%
9/23/1998	1066.09	10/8/1998	959.44	-10.0%	39.2%	46.9%
7/16/1999	1418.78	10/15/1999	1247.41	-12.1%	10.2%	-13.9%
3/24/2000	1527.46	4/14/2000	1356.56	-11.2%	-12.1%	-18.8%
9/1/2000	1520.77	4/4/2001	1103.25	-27.5%	0.0%	-21.0%
5/21/2001	1312.83	9/21/2001	965.8	-26.4%	-13.7%	6.5%
1/4/2002	1172.51	7/23/2002	797.7	-32.0%	23.9%	36.2%
8/22/2002	962.70	10/9/2002	776.76	-19.3%	33.7%	44.8%
11/27/2002	938.87	3/11/2003	800.73	-14.7%	40.4%	51.0%
10/9/2007	1565.15	3/10/2008	1273.37	-18.6%	-43.5%	-10.0%
5/19/2008	1426.63	10/10/2008	899.22	-37.0%	19.7%	30.1%
10/13/2008	1003.35	10/27/2008	848.92	-15.4%	25.3%	39.3%
11/4/2008	1005.75	11/20/2008	752.44	-25.2%	45.0%	59.2%
1/6/2009	934.70	3/9/2009	676.53	-27.6%	68.6%	95.4%
4/23/2010	1217.28	7/2/2010	1022.58	-16.0%	31.0%	33.5%
4/29/2011	1363.61	10/3/2011	1099.23	-19.4%	31.5%	53.8%
5/21/2015	2130.82	8/25/2015	1867.61	-12.4%	16.5%	30.6%
11/3/2015	2109.79	2/11/2016	1829.08	-13.3%	26.6%	45.2%
1/26/2018	2872.87	2/8/2018	2581	-10.2%	5.0%	30.1%
9/20/2018	2930.75	12/24/2018	2351.1	-19.8%	37.1%	57.8%
2/19/2020	3386.15	3/23/2020	2237.4	-33.9%	74.8%	?
1/3/2022	4796.56	2/22/2022*	4304.76	-10.3%	?	?
		Average		-18.8%	24.8%	37.4%
		Median		-16.5%	25.9%	45.2%
		% Higher			90.3%	86.7%

Source: LPL Research, Ned Davis Research, FactSet 02/22/2022 * The current correction might not be over yet.
All indexes are unmanaged and cannot be invested into directly.
Past performance is no guarantee of future results.

The table illustrates how the S&P 500, as an example, has performed over a one- and two-year period after a substantial market correction.

After Russia invaded Crimea in 2014, Warren Buffett said, "The one thing you can be quite sure of is, if we went into some very major war, the value of money would go down — that's happened in virtually every war that I'm aware of. The last thing you'd want to do is hold money (cash) during a war". Buffett started his career in 1942 (WW2) and has managed money through the Korean War, Vietnam and more recently 9/11, followed by the wars in Iraq and Afghanistan.

When we experience these corrections and bear markets it can be very emotional, but it does offer an investor the opportunity to purchase more shares in good quality companies at a much lower/more reasonable price.

With the S&P 500's worst quarter in two years, Warren Buffet made $41 billion in net stock purchases in the first quarter of the year, the most since 2008. "As long as Buffett and his team are paying reasonable prices for quality companies, these investments should do well in any environment — inflationary or otherwise," said Darren Pollock, a Berkshire investor and a principal at Cheviot Value Management LLC.

MARKETS SHOULD START TO TURN/NORMALISE WHEN WE SEE SOME OF THE FOLLOWING EVENTS:

- **China winning the current battle against Covid-19.**
- **China providing much firmer policy support to its underlying economy.**
- **Europe introducing aggressive fiscal policy support to protect the underlying economy from second-order effects of the war.**
- **Oil supply increase – Iran, Saudi Arabia as well as the US coordinate to increase global oil supply.**
- **Russia-Ukraine peace agreement.**
- **US Fed eases off reduced demand pressure/falling inflation by increasing interest rates more effectively**.

If you were already invested in the market, there is no doubt that you would have experienced losses in your portfolio over the last few months, but it must be seen as paper losses and only through switching out of or withdrawing from these funds will you be realising these losses.

Conservative investments, such as cash, are typically seen as safe havens during times like these, but the safer the investment the lower returns you can expect. Market timing seldom works - trying to time the market by selling your equity funds before they depreciate to buy conservative funds, and then doing the reverse to capture the profits when markets start to recover again, can be riskier. The odds of making the right decision at the correct time are stacked against you, especially when there are so many variables affecting the market simultaneously.

It is now more important than ever to have a long-term investment outlook, unless there are personal circumstances that your financial planner needs to be aware of that might influence the long-term objective of your investment.

ADVISOR PROFILE

DANINE VAN ZYL | FINANCIAL PLANNER AT BRENTHURST FOURWAYS

DANINE joined Brenthurst Wealth in 2015 and currently holds the position as a Financial Advisor at the Fourways Office.

She completed her Post-graduate Diploma in Financial Planning from the University of the Free State and also obtained a B.A. degree in Industrial Psychology, a Certificate in Labour Relations Management and Income Tax.

Danine has also successfully completed the First Level Regulatory Examination for Representatives. She is a member of the Financial Planning Institute of SA and is fully qualified to advise on all investment matters.

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