INVESTMENT REPORT

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BRENTHURST
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THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

Exiting and re-entering markets amidst volatility does little more than lock in losses, while those who hold steady reap the rewards.

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WHATEVER HAPPENS ON THE MARKETS, DO NOT PANIC

By Mags Heystek, CFP® and head of the Brenthurst Wealth Sandton office

We've all read the studies on the impact emotion has on investments – and the outcome is seldom, in fact, rarely, good. Since March 2020, stress levels have been at their highest in a generation. When coupled with market volatility, investors' nerves have frayed – especially when markets pull back. Emotion impacts rational thinking… and panic results in poor decision-making. It is an investor's own worst enemy.

If we have learnt anything in the last year relating to markets and corrections, it is that panic is the most dangerous reaction to any type of market correction. Consider the S&P 500. A year ago, we saw a drop of about 12% in one day in dollar terms, followed by a further correction that amounted to close to a 30% loss. The result was a wave of panic that rippled across the globe.

What has happened since then? The markets recovered, with the S&P hitting new highs over the past couple of months.

What we witnessed, as investors slowly came to terms with new issues in the market, was that those who panicked and sold out have been badly hurt by the decision.

Essentially, there are five critical focus areas for investors to come to terms with – most importantly when markets are volatile. They need to gain a deeper understanding of not only themselves, but best practices in the industry to ensure that when emotions are high, their strategy remains sound.

Brenthurst Wealth Management (PTY) LTD FSP No. 7833

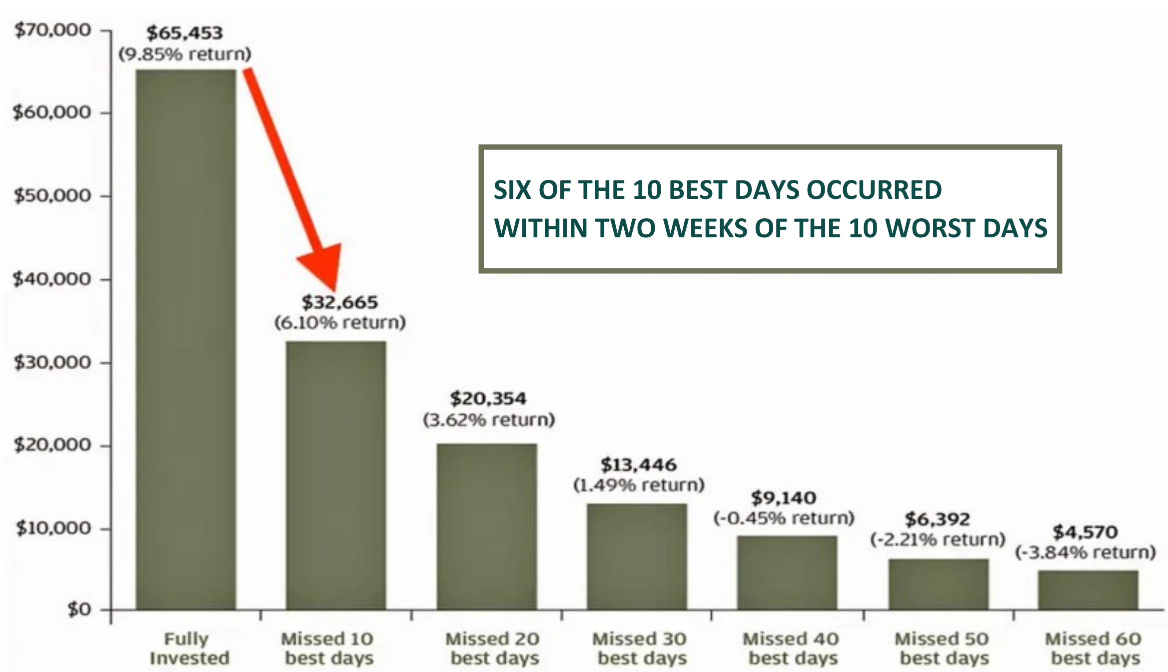
First, understand your risk profile, and marry it to your goals and investment strategy. Simply put, an investor needs to decide what an acceptable degree of risk means to them. Whether taking a conservative, moderate, or aggressive approach to investing will depend not only on an individual's personality but goals and timelines. For example, a lower risk profile would exclude an investor from both the best of market returns and worst of market losses but offers a degree of capital investment protection. Someone needing to park funds for a relatively short period of time, while benefiting from a nominal capital growth would likely take a conservative approach. Conversely, a 30-year-old could approach investment aggressively, having time on their side, which would allow their portfolio to recover from market volatility.

This clearly introduces the next aspect of investing when markets are volatile – time in the markets. When comparing the wisdom of 'timing the markets' with 'time in the markets', let us put the fallacy of timing the markets to bed sooner rather than later. Because it is just that, a fallacy – timing the markets is not a strategy and results in losses almost all of the time.

Exiting and re-entering markets amidst volatility does little more than lock in losses, while those who hold steady reap the rewards. It works like this: As emotion – typically panic or euphoria – governs investment decisions, investors pull their money when there is a market correction. As the markets gain and euphoria sets in, they attempt to re-enter, selling cheap, buying dear, and locking in huge losses. We simply do not know when the top-performing days will be. Statistically speaking, people who pull their investments during a dip (timing the markets) are financially far worse off than those who spend time in the markets.

RETURNS OF S&P 500

PERFORMANCE OF A $10,000 INVESTMENT BETWEEN JAN 3, 1995 AND DEC 31, 2014



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So, what is that time period, and how does one resolve it? This pulls together various elements of your strategy: your goals, the plan to get there, and your risk profile. By carefully analysing your needs, setting a goal to meet them, and establishing your timeline, market volatility will not be the trigger that forces a detrimental panic response. And that strategy should ALWAYS embrace diversification.

Many investors fret over diversifying platforms over portfolios. What we need to focus on is the portfolio. Investors, with the old trope of 'all their eggs in one basket' banging around in their heads, often try to spread the risk across various platforms, yet investing in similar portfolios time and again because these are more easily understood or in line with their preferred returns. However, a platform is little more than a reporting tool and the focus should be on introducing diversity to asset classes and funds, in other words, portfolios – which is critical in helping investors achieve their goals.

And finally the question of clarity – a quality clouded by emotion and sometimes lost completely when that emotion devolves into panic. Market corrections can be deeply unsettling. Therefore, open dialogue with a financial advisor is critical. When a market correction occurs – and it will, again, and again, and again – speak to a financial advisor.

News regarding markets is often hugely sensationalised. So, understand what is happening and get informed. Lean on the expertise of the advisor – they would have been through this before, and more importantly, will be the voice of reason if your panic is rising and threatening your strategy. Remain steady and do not let emotions govern your investment approach.

Read more about investment planning.

NEWS FLASH | BRENTHURST GLOBAL BALANCED FUND CELEBRATES 10 YEARS

Ten years ago, Brenthurst Wealth took the bold and brave step of setting up its own globally managed fund for exclusive use of its clients. Not only has the fund survived and grown the investments of its clients handsomely, it also beat the performance of some of the better known brand names on the investments landscape.

Magnus Heystek, co-founder, director, and investment strategist of Brenthurst Wealth says setting up this fund was an important component of the company's strategy to increasingly focus investments on offshore markets. "As global markets started to recover from the so-called 'great depression' of 2007/2008 the risks to the South African economy and the long term outlook of muted to poor returns became evident, it was the perfect time to launch our own global fund."
Watch YouTube video : **Brenthurst Global Balanced Fund celebrates its 10th Anniversary**

BRENTHURST OFFICES:

Johannesburg	+27 (0) 11 799 8100	**Claremont**	+27 (0) 21 418 1236
Sandton	+27 (0) 10 035 1391	**Bellville**	+27 (0) 21 914 9646
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