THE GENERATOR

An investment in knowledge pays the best interest—Benjamin Franklin

Covid-19 Update II

Resilient Markets

Since our last newsletter, sent out just over a week ago, financial markets have remained extremely volatile. To recap, from share markets sitting around all-time highs mid-February, we saw the quickest decline ever into a bear-market (defined as s drawdown of over 20% from the most recent peak) as the Covid-19 virus spread out of China, with markets initially falling by over 30%. In the last week, we have seen markets react positively to the "Bazookas" unveiled by Central Banks, supplying liquidity, market support and restarting Quantitative Easing policies, and from Governments providing safety nets and economic supports. ***During the last week, many share markets posted double digit gains, with the Dow Jones average posting it's biggest weekly gain since the 1930's,*** although they are still well down from recent highs.

In the short term it is now clear that all economies will, to use a flying analogy, hit a significant air pocket and will experience severe turbulence as they grapple with managing the spread of COVID-19.

Western democracies have been very slow to react, border control has typically been poor and there has been a general reluctance amongst politicians to adopt the more draconian, but successful containment measures of Asian nations.

While there is no doubt that the shorter-term impact will be more severe than anyone anticipated, what is also clear is that people's confidence in the medium-term outlook for markets and growth should have lifted. This could seem an optimistic view but looking at history and having operated in this industry for over 20-years now, I can confidently say that I have never seen such a level of economic co-ordination by major governments and central banks in respect to a challenge.

The firepower is massive. Over the past week we have seen the US Federal Reserve slash their cash rate to 0% and announce a restart to their quantitative easing

Feel free to give us a call or email if you have any questions around what is happening to your investment

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Don't change long term plans due to short term "noise"

In recent times, I've noticed that the news media seem to delight in highlighting bad days in the markets, and yet never seem to mention when the markets rise – creating negative impressions.

Negative markets are a fact of life for investors, as are boom markets. Your adviser has designed your portfolio with all this in mind, protecting you through the use of diversification and the timeframe discussed when first investing.

Sticking to your "plan" is the best way of protecting your wealth.

Inside

program ($700bn). In addition to this the US government has passed a US$2 trillion stimulus package with similar moves being seen in the UK, France, Germany, China, Canada and Japan. Central banks and governments are now coordinating and using the phrase "**whatever it takes**" as they seek to inject stimulus.

Closer to home, the RBNZ also cut our overnight cash rate to 0.25%, the lowest level ever seen, and Finance Minister Grant Robertson announced a $12 billion package targeted at supporting small businesses and our health system.

The clear message from all these initiatives is that governments are going to do everything they can to ensure that economies survive and ultimately thrive after the shocking near-term effects of the coronavirus. These strategies will work, as they did after 9/11 and the GFC.

Over the next few months though many businesses will be tested to, and beyond, their limits. There will initially be a certain amount of luck involved as some sectors, through no fault of their own, will be hit far harder than others. For individual businesses their strategic positioning, leadership and balance sheets will be critical. This scenario has played out many times throughout history with those "better" companies prospering through the cycle as their competitors disappear. The origins of companies such as Apple and Microsoft are great examples of this from the technology boom (and crash) of the late 1990's.

Remember that this is a virus and will pass. The best minds around the world (scientists, not politicians!) are working flat out to find solutions. The level of fiscal and financial stimulus being applied is such that when the crisis passes, we should expect a very strong rebound in financial assets. Economies like China are already recovering very quickly and are now close to operating at 85% to 90% of pre-crisis levels.

The fund mangers role as investors of your funds is to ensure that your portfolio is well positioned, that the individual fund managers are searching for those businesses that will eventually prosper, and to use the recent volatility in markets to acquire these shares at attractive levels relative to their fundamental value.

Markets such as these are trying for all investors, but history is a wonderful guide as to how we should all be conducting ourselves at this time.

We are working hard to keep ourselves as informed and up-to-date with developments as we can

Did you know

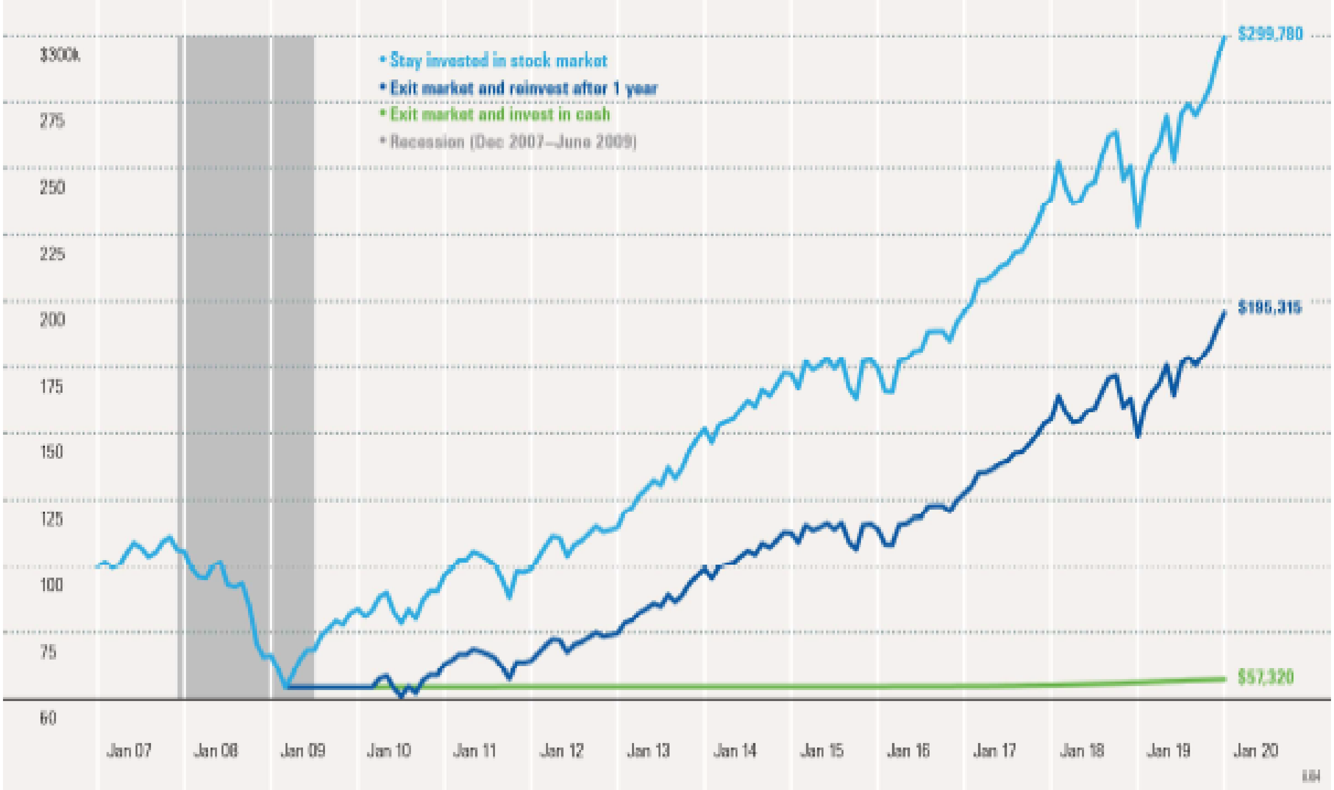
If you earned $7,000 every hour of every day since the birth of Christ you still wouldn't be as rich as Jeff Bezos, the founder of Amazon

Summing up

- *Talk to your adviser if you're worried*
- *maintain your disciplined investment strategy*
- *think of your long term goals and how they are best achieved*

The Importance of Staying Invested

Ending Wealth Values After a Market Decline



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Returns From the Bottom of Bear Markets

			Forward Returns		
Drawdown	**Peak**	**Trough**	**1 Year**	**3 Years**	**5 Years**
-86.2%	9/7/1929	6/1/1932	162.9%	170.5%	344.8%
-56.8%	10/9/2007	3/9/2009	53.6%	97.9%	181.6%
-54.5%	3/6/1937	3/31/1938	35.2%	38.2%	84.5%
-49.1%	3/24/2000	10/9/2002	24.4%	59.0%	105.1%
-48.2%	1/11/1973	10/3/1974	38.1%	72.7%	117.5%
-40.6%	9/7/1932	2/27/1933	98.7%	194.5%	154.6%
-36.1%	11/29/1968	5/26/1970	34.7%	50.6%	42.2%
-34.5%	11/9/1940	4/28/1942	61.2%	128.6%	144.9%
-33.5%	8/25/1987	12/4/1987	23.2%	55.5%	121.7%
-31.9%	10/25/1939	6/10/1940	8.0%	59.7%	118.8%
-31.8%	2/6/1934	3/14/1935	83.8%	16.3%	84.9%
-29.8%	7/18/1933	10/21/1933	2.9%	120.1%	87.3%
-29.2%	2/19/2020	???	???	???	???
		Averages	52.2%	88.6%	132.3%

Summing up

- *No one makes good decisions when they are panicking. A considered approach always wins*
- *The world is becoming unrecognisable. Is your financial planning taking account of the reality of the future?*

Surviving Your Very First Market Crash

If you're 10 years or less into the workforce, this is likely your first experience dealing with losing a real chunk of money. It hurts. It's confusing. At times it feels like it will never end…and it's only been going on for about 5 weeks now (although it feels like 5 years).

There have been a handful of stock market corrections since the Global Financial Crisis ended in 2009 but none of them had the carnage or levels of panic created by the current iteration. The past 11 years or so have been kind to investors in risk assets so if you're a young person who is relatively new to investing, this whole ordeal may come as a shock

You have to get used to market crashes

Since 1928, the S&P 500 (US Shares) has experienced 12 different declines of 30% or worse. There have been 20 times when stocks fell at least 20%. These losses have occurred once every 7-8 years and once every 4-5 years, respectively, on average. If you start investing in your 20s or 30s, your investment lifecycle could last six or seven decades when we include retirement years. Unfortunately, these types of downturns are part of the trade-off when investing in risk assets.

Understand the trade-off between risk and reward

U.S. stocks have finished the year with a loss in 25 out of the past 92 years. The worst of those losses was in 1931, when stocks fell nearly 44%. Three-month USA treasury-bills (a proxy for cash or short-term savings rates) have never had a down year.

The safety of cash sounds pretty desirable right about now as stocks are getting hammered. But the trade-off for the relative stability of holding cash is you don't earn as much in returns. One hundred dollars invested in t-bills in 1928 would have grown to around $2,080 by the end of 2019. That same $100 in the S&P 500 would have grown to more than $500,000.

Risk and reward are attached at the hip. You can't expect to earn higher returns if you aren't willing to accept occasional losses and volatility.

Don't worry about timing the market

There's an old saying that ***the stock market is the only business where the product goes on sale and all of the customers run out of the store.*** The problem is during a market crash, it will always feel like it's too late to sell but too early to buy.

The good thing about being a young person is you don't need to worry about timing the market to succeed. You have the ability to wait out bear markets because you have such a long runway in front of you.

Your biggest asset

Human capital represents your future earnings stream and it's the biggest asset of all for young people because it acts as a representation for time.

Let's look at an example to show how saving early can positively affect your investment balances in retirement. Sarah decides to start saving for retirement at age 25. She saves $500 a month in her retirement account until age 35. At this point, she stops saving and just let's compound interest work in her favour. At age 65, assuming a 7% annual rate of return she will retire with approximately $675,000 even though she only contributed $60,000 total into her account.

Jon decides to wait until he is 40 to start saving. He saves the same $500 a month that Sarah did but he actually saves that amount right up until the day he retires. His total amount contributed to his account over those 25 years would be $150,000. Assuming he also earns an annual return of 7% on his funds he will end up with around $406,000 when he retires.

Even though Jon contributed 2.5x as much money as Sarah did, he actually ends up with almost $270,000 less than her at retirement. The best thing you can do as a young person is to start saving and investing as soon as possible to take advantage of your biggest asset.

And the fact that you now get to buy in at lower prices is a good thing over the long haul.

Next step

See us about the best investment options for you.

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