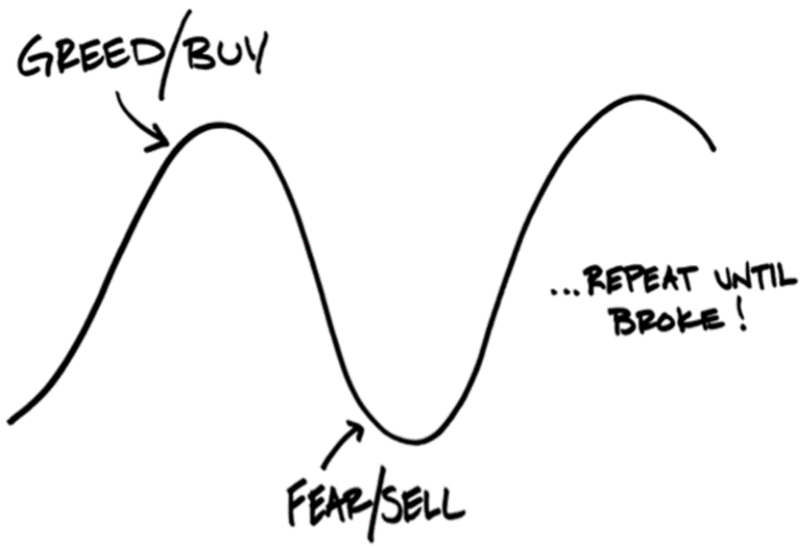
THE GENERATOR

An investment in knowledge pays the best interest—Benjamin Franklin

Covid-19 Update



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COVID-19 and Portfolio Implications

This investment update provides an overview of the impact that COVID-19 is having on investment markets and the implications for portfolios. We also provide an overview of the actions we are taking to monitor developments and our recommendations to keep your portfolio on track.

Headlines around COVID-19, outside of Asia, have continued to worsen. Rising virus cases in Europe and the US, coupled with the oil spat between Russia and Saudi Arabia, have sharply reduced investment sentiment and created pockets of financial stress. At the time of writing, (17 March) the US share market is down 29% since its peak, and the New Zealand market has fallen by about 21%, fearing the worst from COVID-19 with little optimism shown towards policy responses thus far.

It is impossible to plot the exact path that markets will take from here. COVID-19 has become more

Feel free to give us a call or email if you have any questions around what is happening in the markets.

What is your risk profile?

Advisers usually try to match a clients risk profile with the investments selected, amongst other factors.

Risk tolerance is a measure of your attitudes and perceptions towards the uncertainties associated with investing. E.g. a risk-averse investor is less willing to accept risk of loss and is therefore comfortable with lower returns, or someone with a higher-tolerance is willing to accept greater risk of loss in exchange for potentially higher investment returns.

If you would like to complete a risk tolerance questionnaire please don't hesitate to contact us

widespread than markets initially anticipated, affecting supply chains and economic activity. This poses a challenging environment for economic policies and forecasting growth. While sentiment is clearly downbeat, we need to recognise that there is still a wide range of outcomes that can occur. We note already that much of China is getting back to work and, in many areas in Asia, there have been no new COVID-19 cases for over a week.

The best-case scenario is that COVID-19 proves to be, as some recent epidemiologists have suggested, less contagious as the northern hemisphere summer emerges and that a co-ordinated global monetary and fiscal policy response restores market confidence. It is worth noting that in China, where the outbreak started, economic activity (measured using high frequency indicators like traffic congestion and coal consumption) has started to resume as new cases slowed to a trickle and containment measures are relaxed.

The worst-case scenario is that the virus takes longer to burn-out or be contained and indeed leads to a global recession. Currently, markets are favouring, and are pricing in, a recession and more financial stress.

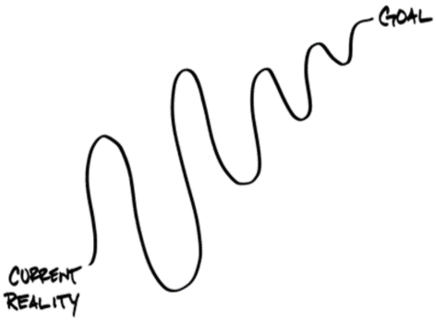
Unless markets recover strongly over the rest of March investors should expect negative returns for the first quarter of 2020. For growth-oriented portfolios, the decline will be in the double-digits. For defensive portfolios, declines are tracking in the low single digits.

While the virus itself wasn't predicted, the fund managers expected behaviour in extreme market stress is considered. Our fund managers responded to the recent volatility in various ways, including managing downside risk with options protection strategies and, with a longer-term view, taking the opportunity to buy good quality companies when stock prices fell to more attractive levels.

We are monitoring the situation closely along with the economic and policy responses. Economists still expect that the impact will be temporary, as ultimately the virus is understood and there is a cure coming. But how long the downturn lasts, and how severe the health impact will be on populations, very much depends upon how successful governments and central banks are at managing the health and economic risks.

We understand that these events will raise concerns, however periodic short-term adjustments in the markets are to be expected over the economic cycle. We would reiterate that it is important to stay focused on the long-term and to recognise your portfolio has been selected to fit with your own appetite for risk and expected long

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



term returns. No-one can predict exactly what happens next, but what we do know is that markets will recover at some point from this 'shock' and that sticking to long-run asset allocations remain the surest way to ensure that your portfolio benefits from this.

The next three months will be rough for the global economy, financial markets and investors. The news-flow is going to be increasingly worrying, economic indicators will fall off a cliff, and we'll see plenty of profit warnings from companies about how the 2020 financial year is going to look.

Then, at some point, things will get better. Maybe the northern hemisphere summer will arrive and take the sting out of the virus, maybe a vaccine will emerge, maybe the number of new cases will naturally peak or maybe financial markets will simply reach maximum pessimism.

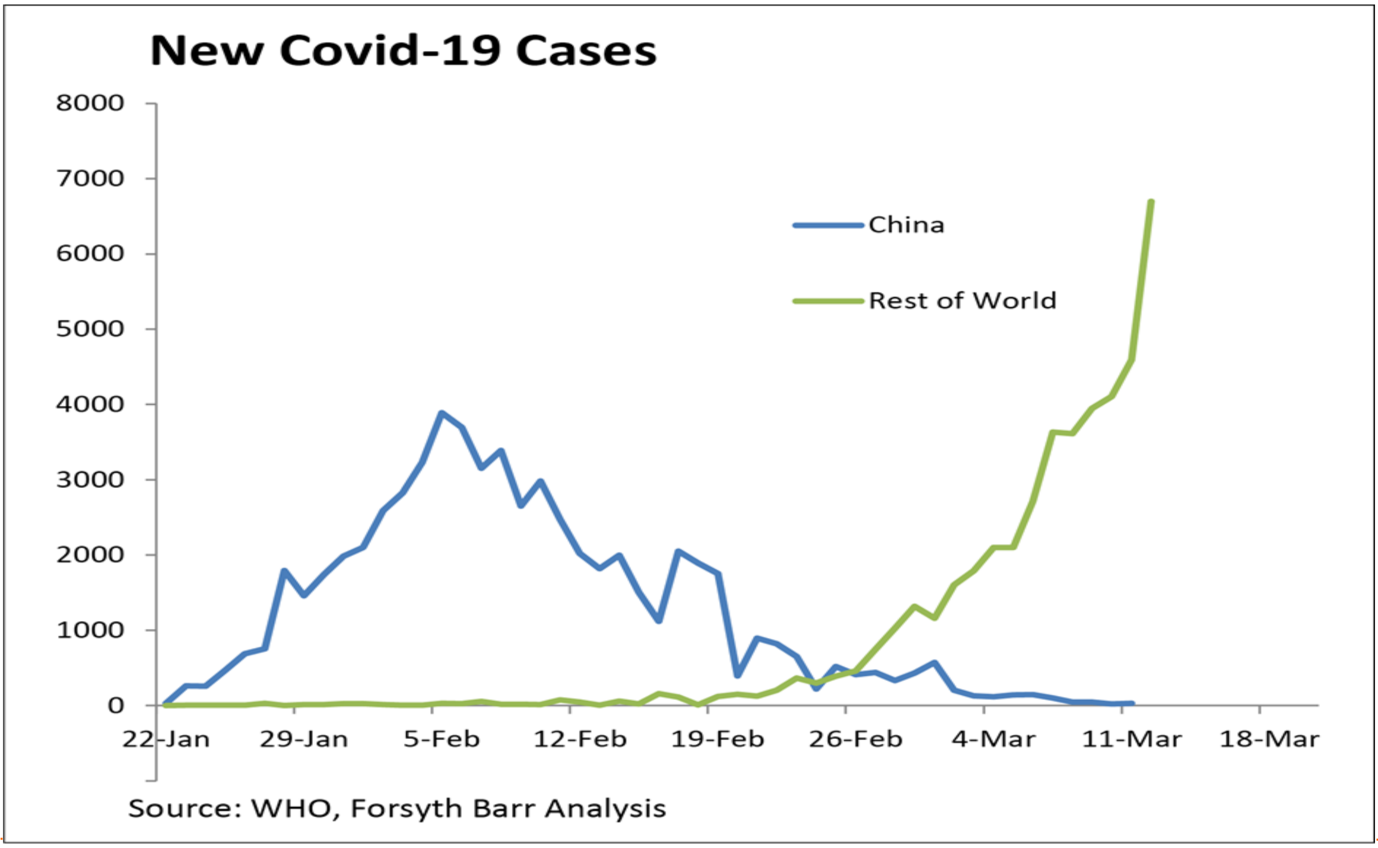
The latter could happen well before we see evidence of the situation (or the global economy) improving. That's an important point to keep in mind. Markets usually rebound long before we see firm evidence of any improvement.

Life's tips/1

"Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard."

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*



THOUGHTS FOR SURVIVING THIS PANDEMIC, RECESSION AND BEAR MARKET

Life's tips/2

"I think of shares in the same way as my socks—I buy them when they're on sale"

– Warren Buffett.

This is when your adviser earns their keep.

Use them. Anyone can do well when the going is good, but during times like these your investment adviser will prove their worth. The role of a good adviser is not to predict the path of financial markets, provide trading ideas or to be a start stock picker. He will add significant value to your lifetime wealth by ensuring you maintain a disciplined investment strategy, talking you out of poor decisions you could be tempted to make during unnerving periods like this one, and reminding you of your long-term objectives and how they are best achieved.

Your investment objectives haven't changed, so neither should your strategy.

Most of us are investing in the hope of meeting our long-term objectives, which are usually some five, ten or twenty years

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?*

into the future. With that in mind, it makes little sense to react to weekly, monthly or yearly volatility. Equities remain a key part of your long-term plan, and we know that over longer investment timeframes they will deliver strong returns with remarkable consistency. Investing isn't about chasing the ups and downs of the market, it's about managing a well-constructed portfolio in line with your goals and objectives. Play the long game, stay the course and stick to your strategy.

Keep your 'defensive line' intact.

Equities may have had a rough ride, but most investors have diversified portfolios, which means they also hold some cash, good quality fixed income and possibly even a small amount of gold. This part of your portfolio will have held its own during recent weeks and has probably even gone up in value. Your 'defensive line' of lower risk assets are doing their job, so there's no need to sub them off at this point.

Life's tips/3

"The stock market is a device for transferring money from the impatient to the patient"

– Warren Buffett.

Should we sell everything, ride this out then get back in later?

If things do get worse and markets fall further, selling up could be the right thing to do, but only if you're good enough to get back in at the right time. If you're a long-term owner of quality businesses rather than a trader, you might be better off just staying put. **Corrections, bear markets and recessions will come and go, but great businesses remain resilient**, keep paying dividends and rediscover their former glory sooner or later.

Stay diversified, being at extremes is a poor strategy.

Investing isn't about being 'in or out' of the market, contrary to what some media commentators might have you believe. Economies, markets and currencies ebb and flow, so hedging your bets across different asset classes, geographies and sectors is the least volatile and safest route for most of us. If you're fully invested in equities you open yourself up to the full force of volatile periods, but you'll do your future self just as much of a disservice by sitting on the sidelines and missing out on the strong periods (of which there are more).

If you're an accumulator or a new investor, it might soon be time to start taking some risks.

If you need to cash up your portfolio and call on your money soon, corrections and bear markets are awful. However, if you've got cash you want to put to work, **if you're still looking to accumulate quality assets, or if you're a younger investor, periods like this are a huge opportunity**. You want to buy shares when they're on sale if you get the chance. Things could go down further from here, but we've already seen some hefty falls so it's a good time to be thinking about how you can take advantage. Take your time, do so patiently, and in instalments.

Stay calm, and don't panic.

It's hard not to feel overwhelmed by all the negative news we're seeing and hearing. However, we don't make our best decisions when we panic. Stay calm, take a step back, and lean on your trusted adviser for support and guidance. Now and again, steer clear of the business news. The media is almost certainly being more dramatic than necessary.

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Next step

••• *See us about the best investment options for you.*

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