

Balance: Wealth Planning

News & Updates



Coronavirus COVID-19: Insights for Investors

Coronavirus (COVID-19) has now reached every continent except Antarctica. The virus has shut down airports, halted trade, and cancelled sporting events. There's also talk of an iPhone shortage and Jaguar Land Rover flying parts in suitcases, as ships remain moored in ports. The World Health Organisation has declared the outbreak as having 'Pandemic Potential', and we may have already reached this point.

First and foremost, COVID-19 is a humanitarian challenge and solving it is the top priority for every country around the world. It's a growing concern for people all around the world, not just health-wise, but they are starting to feel the impact on their investments too.

A third of global growth is attributable to China, so when China catches a cold, the rest of the world may do too.

So global growth will be affected this year and will eventually recover. With growth expected to be delayed, not derailed. Nevertheless, outbreaks such as this can and will quickly worry investors, which only compounds the issue further.

As an investor, should I be concerned?

Long term investing should be disconnected from short-term economic reactions. We encourage you to maintain focus on what matters.

Here are just a few ways we make sure your plans are robust enough to withstand such events as Coronavirus:

- **Future-proofing** - When we construct a cash flow plan, we look at short, medium, and long term spending needs. Making sure you have enough when you need it the most.

- **History repeating itself** - Annually, based on historic data, we revise growth assumptions; gathering almost 20 years of returns, including all the ups and downs of the markets during this period.
- **Proceeding with caution** - We take a more cautious approach than what has been experienced in the past because we can't predict what the future holds.
- **Pushing the plan** - We also firmly believe in stress-testing financial plans. Carrying this out when you are not under any duress means you are much better placed to deal with stressful situations. We assume a range of different scenarios, putting your plan through its paces, making sure that **if** the worst should happen, you will be okay.

Of course, we cannot model every possible scenario as the future is uncertain, but planning for 'Black Swan' or 'Grey Rhino' events is a robust and sensible approach to providing financial security.

Is Coronavirus a 'Black Swan' event?

The expression 'Black Swan' refers to an unpredictable event that has severe consequences. Dating back to the 16th Century it was thought that all swans were white, and the black swan was improbable. Until the Dutch found black swans in Australia in 1697.

COVID-19 is not a 'Black Swan' event. Last year The World Health Organization said the world is at [risk from a deadly pandemic](#). Furthermore, according to the World Economic Forum, over the next 10 years, one of the top 10 risks we face is infectious diseases. So this turn of events wasn't out of the blue.

What we also know is that a global pandemic will impact financial markets, economies and global growth. What we cannot predict is the specifics, such as when and how severe the impact will be.

Coronavirus is more accurately a '[Grey Rhino](#)'. An event that is highly probable, but overlooked. It also has the potential to cause further damage (however temporary) before things get better.

So, what should I do?

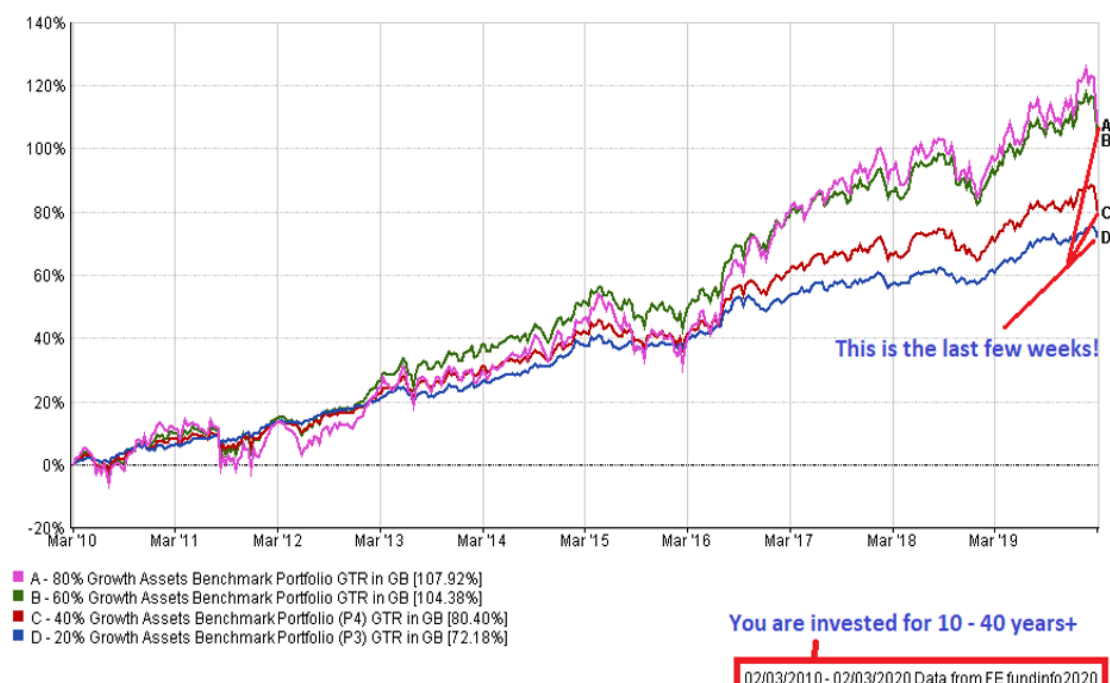
Our advice for long term investors is to **stay the course**.

If you have a large one-off need for money, look at your cash buffer or whether you can defer an investment withdrawal for a few months when things may have settled. But, unless your circumstances have changed, now is not the time to make rash decisions that could have the potential to derail your financial plan.

Here's an analogy to help illustrate this point. If you're on a flight that experiences turbulence, what are your choices? Sometimes it may last for a few minutes and other times longer. The effects might be mild, other times more pronounced. You can't control the turbulence, only how you react. The only way to reach your destination is to remain on the plane, as the alternative of jumping out would only be a last resort.

Market fluctuations are exactly the same.

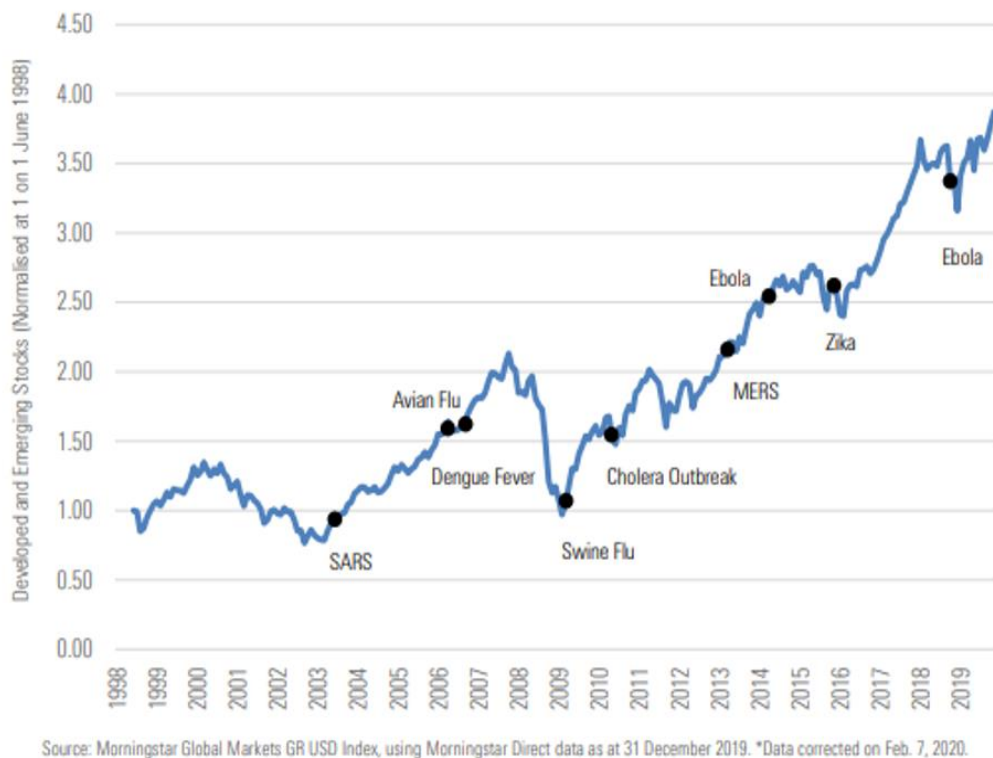
The chart below captures the 10-year returns of four of our benchmarked portfolios – most of our investors fall somewhere within this range. You will see that the more risk taken (80% growth assets portfolio) then there were more bumps along the way. Conversely, this portfolio has been compensated with higher overall returns.



Previous outbreaks have seen markets fall sharply, then rebound stronger once the outbreak started to level out. Selling out of the market is a high-risk strategy, as it potentially locks in losses, as well as not being present for the rebound.

Exhibit 1 Investors Tend to React to Epidemics, But the Long-Term Picture is Positive

Epidemic	Date	Subsequent Returns					
		1mth	3mth	6mth*	1yr	3yr	5yr
SARS	Apr-03	8.7%	17.9%	25.0%	48.3%	26.3%	18.4%
Avian Flu	Jun-06	0.0%	3.0%	11.4%	26.3%	-6.2%	4.6%
Dengue Fever	Sep-06	1.2%	8.2%	11.4%	20.0%	-3.4%	1.8%
Swine Flu (H1N1)	Apr-09	12.3%	23.4%	46.1%	58.7%	22.4%	19.2%
Cholera Outbreak	Nov-10	-1.9%	7.1%	14.9%	1.2%	11.2%	8.5%
MERS	May-13	-0.1%	1.7%	9.1%	15.3%	5.8%	9.5%
Ebola	Mar-14	0.4%	3.3%	6.4%	7.7%	5.4%	6.8%
Zika	Jan-16	-6.1%	0.5%	1.7%	8.8%	7.1%	
Ebola	Oct-18	-7.7%	-12.9%	-2.2%	1.3%		



As seen in the two charts above, markets will react to outbreaks, but they do tend to recover by the six-month mark.

Our thoughts

There are developments every day, and it is an ever-evolving period of time, so we remain vigilant. Many of you will hold investment portfolios intended to help pay for retirement and other goals in the years ahead. As advisors, we continue to focus on helping you to achieve your goals and only act when we believe we need to. We remain confident in our strategy because it is based on solid research with a well-reasoned way to invest.

Our primary objective is to help you, as investors, to reach your goals.

We certainly won't be hitting the panic button. However, if you do have any concerns that you would like to discuss, then we are always here to support you on your financial journey.

If you have any questions, please get in touch with your usual contact, or email team@balancewealth.uk.

All the best,

from

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