INVESTMENT MANAGEMENT

INVESTING IN A BEAR MARKET

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Although the market volatility of the past year has been unnerving, 2018 thus far has merely been a cog in the wheel of a 5-year protracted bear market for South African equities. We are not experiencing the same quick (albeit painful) correction of 2008/2009, but rather the prolonged bitter reality of the equally weighted Top 40 Index declining in value over this 5-year period. It is at times like these that an investor's instinct is to flee the market, however, smart investing can defeat the power of emotion.

Hereunder are three valuable principles that can help overcome the urge to make emotional decisions in times of market turbulence, making the markets more bear-able.

1 BEAR MARKETS ARE INEVITABLE

Market corrections are brutal when they hit. Ask any investor who was fully invested in equities during 1973–1975, or during the Tech Crash between 2000–2003, or during the Global Financial Crisis in 2008. But they are inevitable, and so are their recoveries. And if they are inevitable then why not make the most of them while they're around. Warren Buffett once said that as an investor, it is wise to be "fearful when others are greedy and greedy when others are fearful."

Bear markets can offer opportunities to boost your portfolio and create the foundation for more long-term wealth-building. The idea is to invest when shares are cheap and let capital growth, dividends and time in the market take care of the rest.

2 A PLAN IS ONLY AS GOOD AS ITS EXECUTION

Trust in your plan. A carefully considered investment plan takes into account the inevitability of bear markets. Your well-diversified investment portfolio was modelled to plan for your financial goals – be they your liquidity needs in some instances or your long-term retirement needs in others. The worst deviation from an investment plan is to shift your money around to try out-guess the markets when markets are in turmoil. Market performance has a general upward trend over a long term horizon, and therefore the less time you are invested in the market, the lower your long-term returns. Stay where you are, stick to your plan – this too shall pass.

3 DIVERSIFICATION

Diversification is one of the simplest investment strategies that can help protect your portfolio from high market volatility. Diversification allows you to spread your investment risk across various assets classes (e.g.: cash, bonds, property, equities) as well as across different economies and regions when investing offshore. This will mean that certain assets will still most likely perform, even during a bear market.

In summary, a sudden market plunge is concerning but market adjustments of the magnitude currently being suffered are not unprecedented in financial markets and do not mean that equities are no longer an appropriate long-term investment. Markets will recover, so if you can, hang in there!

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