Investing in a time of Crisis

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Shelley van der Westhuizen, head of corporate financial well-being and engagement at Alexander Forbes, urges: “Be informed so that you know what to pay attention to. Take responsibility for knowing what you need to know so that you can control things that are controllable. Rely on others who have the know-how and experience to manage things you aren’t equipped to manage for yourself. Pay attention to the things that matter so that you make it through the tough times in the best possible state – health-wise, emotionally and financially.”

Important information about your retirement savings

The financial market shock brought on by COVID-19 and drastically falling oil prices adding to several existing local crises such as bailouts of state-owned enterprises, the electricity supply crisis, high government spending compared to income, economic recession and credit rating downgrades may have resulted in your retirement savings decreasing. Financial market shocks have happened in the past and are expected to happen from time to time.

Although we can’t be sure what will happen now, markets tend to recover from shocks over time

Van der Westhuizen says nine financial market shocks were examined – from the energy crisis in 1969/1970 to the global financial crisis in 2008/2009. In the nine market crises reviewed, the share market lost an average of 34%. What we wanted to help answer is what happened to people’s investments during these times.

We found the following: If you had R100 invested in the market at the time of these crises, your investment would have fallen to R66. After one year, your investment value would have been R103 on average and after three years, R191. In all cases, investments would have recovered (and more) after three years.

In general, it’s better to keep money invested in the share market after a crash

She explains that there are no guarantees that the current market crisis will follow the same path. How much the market will recover and how long any recovery will take is not something we can predict. The information we have about the past shows that people who took their money out of the share market after a crash would have been better off if they had rather kept their money invested in the share market.

The effect of this financial market shock: we now pay less for buying a retirement income

Achieving retirement income goals not only depends on the amount of savings you have when you retire. Retirement income also depends on the cost of converting your savings into a retirement income (by buying a life annuity which guarantees retirement income for life). This cost changes over time and is mostly determined by changes in government bond interest rates.

The recent financial crash has not significantly affected the retirement income a pensioner could buy

Van der Westhuizen illustrates her point by offering an example to show the effects of recent events on retirement income: At the beginning of March 2020, a person with R1 million could have bought a retirement income (life annuity) of approximately R7 290 per month and on 23 March, they could have bought a retirement income of approximately R7 269 per month with their reduced savings balance of R846 321 – a difference of R21 only. This shows that the financial market crash did not significantly reduce the retirement income a pensioner could buy.

The role of experts in tough times

Most of us will know what has happened to financial markets since the start of the crisis because it’s the kind of news that makes headlines. Some of us will understand that markets go up and down over time and have recovered from past crises with time. Fewer of us will know COVID-19 and other recent market shocks have resulted in **the cost of buying a retirement income going down**. This highlights the importance of having experts helping us manage our money.

While no one could have predicted the exact nature or timing of these events that have significantly affected our lives and investment professionals cannot see the future any better than we can, they manage money by applying methods that have stood the test of time.

Emotions such as fear often cause us to react in costly ways when it comes to managing our own money. For instance, we may switch our investments out of the share market into cash when the share market is at its lowest point. Although investment professionals are not immune to fears and emotions, they have knowledge and experience of investment markets and economies and use processes and apply principles in expert teams before making decisions about the investments in their portfolios.

Taking responsibility

Relying on others is not the same as a "head in the sand" approach. It's important to use this time of crisis to take stock of your circumstances, understand your options and make good decisions that give you the best chance of reaching your goals. Sometimes asking for help is the best choice. Financial advisers are one good source of help during tough times.

Being armed with this knowledge hopefully allows us to feel more comfortable and in control so that we can focus on our health and loved ones during this tough time. "Remember that your retirement savings may have decreased and can increase again. Your expected retirement income has not been significantly affected by events so far. If you are still concerned about your personal circumstances, please speak to a financial adviser," concludes van der Westhuizen.

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