ALEXANDERFORBES
Securing your financial well-being

THE CORONAVIRUS
AND YOUR INVESTMENTS

Dear Client

You are probably washing your hands more regularly to protect yourself from catching COVID-19. Should you be doing anything different to protect your investments?

Investments are rising and falling more often

Why is COVID-19 affecting financial markets?

Estimates of the economic impact of the virus are largely guesses based on the 2002/2003 outbreak of the Severe Acute Respiratory Syndrome (SARS) virus that killed 774 people worldwide. The economic impact of the SARS outbreak was smaller than expected and it was mostly confined to China, where economic growth slowed down to 9.1% in 2003 from just over 11% in 2002. The global health impact was contained relatively quickly and it did not spark widespread fear or quarantine episodes.

Today, China's economy is deeply transformed and integrated into global manufacturing and services value chains, with a GDP more than ten times bigger than it was back in 2002. The COVID-19 outbreak was therefore initially expected to impact the supply of goods and services globally because of factory closures in China.

However, the quarantining and restriction of people's movements has also impacted the demand for goods and services. Employers may also at some point stop paying people the longer they remain not actively working, which will further impact demand.

The potential dual impacts on demand and supply, and their effect on the global economy, are causing significant movements in financial markets.

Stay on the journey

It is times like these that the true value of a financial plan becomes apparent. In developing a plan to achieve the financial outcomes needed to realise your life goals, investment risk is a key consideration.

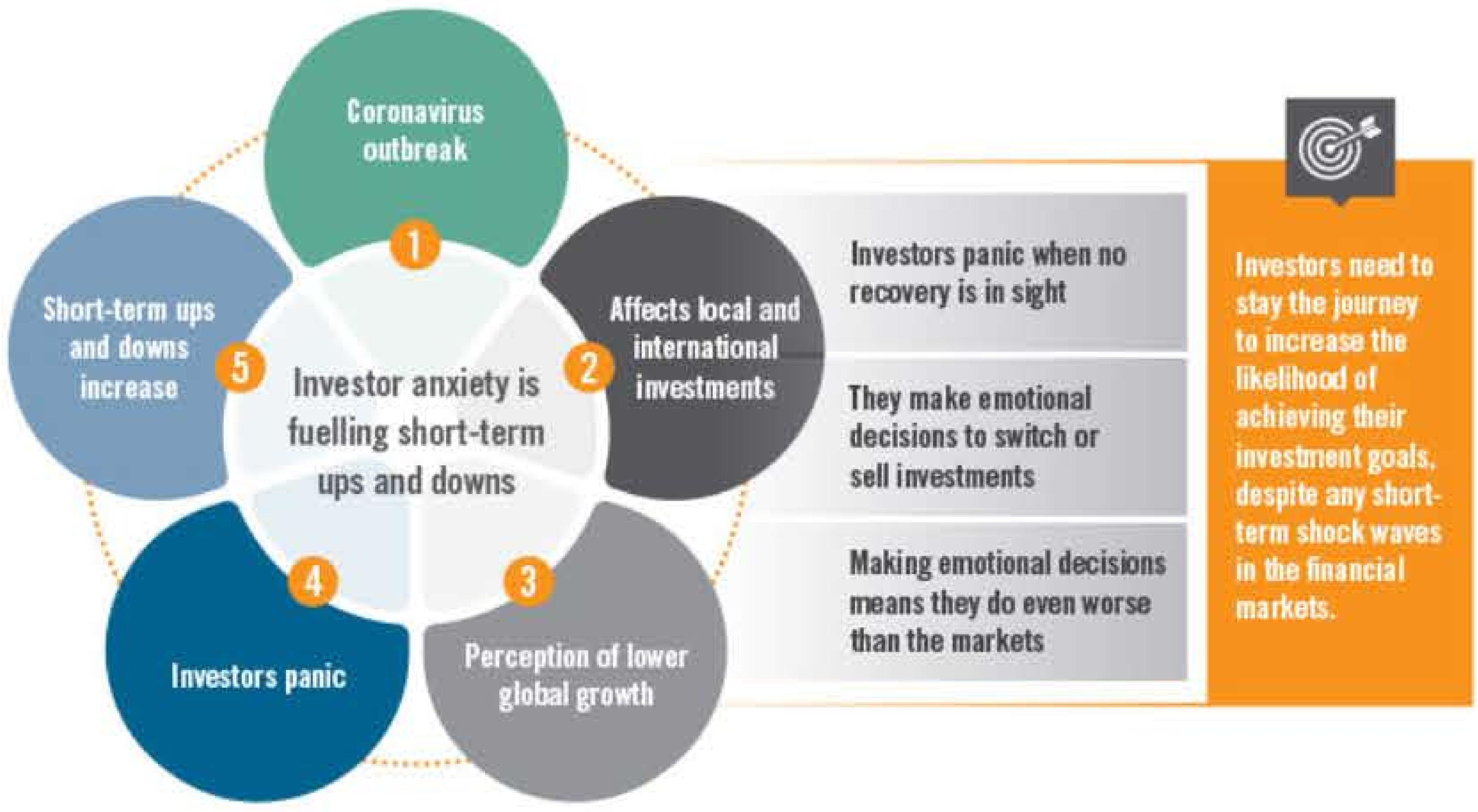
Your financial planner will work with you to understand:

- your willingness to live with increases and decreases in the value of your investments (described as your risk tolerance)
- the extent to which you would be able to absorb these changes without significantly impacting your lifestyle (described as your risk capacity)

Your investments are then selected to include the appropriate financial assets to achieve your financial goals.

The plan to achieve your financial goals is often not a smooth journey. There will be ups and downs, twists and turns as well as breaking news on a new crisis.

It's no surprise that investors panic when investment performance is at its lowest and no recovery appears to be in sight.
Research[1] shows that, on average, investors' emotions lead them to make poor investment decisions and underperform the markets.



[1] Chague, Fernando and De-Losso, Rodrigo and Giovannetti, Bruno, Day Trading for a Living? (November 21, 2019).

Your financial plan takes account of short-term volatility

The investments selected to achieve your financial plan will have taken account of the possibility of short-term declines in value because this is a normal feature of investment markets. Your financial plan represents your path to your financial goals; the path includes twists and turns, and when these are encountered you should resist the temptation to abandon the path.

Switching your investments at the wrong time will destroy value

Where you are investing for the long term, the impact of any short-term shocks will likely be recovered. Swings in the financial markets can't be timed with certainty.

Ultimately, it's about riding out the short-term waves and staying on course to meet your investment goals.

Click here to see Alexander Forbes response to the COVID-19 outbreak.

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