Your Personal Wealth WINTER

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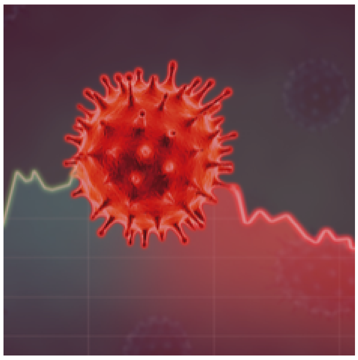

MARKETS REBOUND

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THE TROUBLE WITH SHORT TERM TRADING

Several weeks ago, the Australian Securities & Investments Commission (ASIC) published a report stating that in the early stages of the COVID-19 crisis, when markets were at their most volatile, there was a rapid increase in the frequency of trading by retail investors and a decrease in the time they held on to securities.

In other words, ASIC noticed a concerning surge in the number of retail investors engaging in short-term trading strategies and "unsuccessfully attempting to time price trends".

Many of these retail investors were also completely new to the market, and many were buying and selling complex, high-risk investment products.

While the age-old philosophy of buy low, sell high seems a simple enough concept, it is definitely easier said than done.

According to the report, on more than two-thirds of the days on which retail investors were net buyers, the price of the shares they bought declined the next day. Conversely, for more than half of the days on which retail investors were net sellers, their share prices increased over the next day.

Even for the brightest of professional traders, timing the market in such volatility is tough.

ASIC reports there has been a clear spike in new trading accounts being opened by retail investors, with roughly 3.4 times as many accounts being opened during their research period (from 24 February to 3 April) compared to under normal circumstances.

The typical holding period of the investments has also fallen during this period of significantly higher volatility, and ASIC is clearly warning investors that the pursuit of quick "wins" is more likely to lead to losses.

Do or do not... but always with discipline

When markets are in turmoil, emotions often are too. Our innate need to be in control can sometimes lead us to making impulsive decisions that don't benefit a long-term goal. Taking control doesn't necessarily mean taking action (any action!).

In volatile markets, market timing is a dangerous temptation. Vanguard's empirical research conducted both in academia and the financial services industry has repeatedly shown that the average professional investor persistently fails to time the market successfully.

But that's not to say investors should remain complacent when markets are volatile. Being disciplined also means sticking to your investment plan and rebalancing where necessary (although not on a daily basis).

Control your costs

It's also worth keeping in mind that every trade comes at a literal cost. The more frequently you transact, the more fees you must pay and ultimately the more profit that gets eroded.

Perhaps we can also view costs from an emotional perspective. The stress of monitoring hourly share price swings and overnight market moves surely takes a toll. Not to mention regret over unexpected losses or missed windfalls, hence the saying that opportunities that are clear in retrospect are rarely visible in prospect.

Conclusion

The best chance at investment success doesn't usually stem from impulsively picking one individual stock over another – and then selling it two or three days later. That is behaviour better characterised as gambling rather than investing. Rather, investing success is more likely to flow from setting goals, taking a diversified portfolio approach, maintaining a long-term perspective, and focusing on the factors you can control, such as your asset allocation.

Still having doubts? Seek out your adviser and give them the opportunity to "talk you down off the ledge".

THE TAP-AND-GO ECONOMY

In 2020, the purchasing of goods and services means mastering the tap-and-go economy, payPass purchases, online shopping, and other forms of electronic payments — none of which involves you actually seeing any cash change hands. Gaining confidence and building trust in this brave new world of "better enabled" spending remains a challenge for many.

The use of the often preferred tech solution for the payment of regular bills, subscription services and regular expenses will see most of us eventually having a series of automated payments in place against our savings accounts and credit cards, many of which have either an auto-renewal capability or a monthly subscription plan carefully thought out to keep customers locked in for the longer term.

Gaining the knowledge and confidence necessary to navigate this new world of spending requires a healthy mix of enthusiasm and willingness to use technology, as well as a measure of restraint given how easy it now is to part with your hard-earned dollars. The use of technology-enabled finance presents a unique set of challenges in terms of managing your money on a day-to-day basis.

It has been said that many of the "more mature generation" still avoid using online banking and, in an ever-reducing cash-based economy, find that transacting in the traditional way is becoming more and more difficult. The current COVID-19 measures are only accelerating the move to a truly cashless society.

While digital finance has made the act of spending fast, easy and convenient, it can also make it increasingly complicated to instil an understanding around the real value of money, and the consequences of your spending. Some of the lessons we might have learnt from our own parents, such as "always pay with cash" for example, may no longer hold true to the extent they once did. For individuals new to the world of tech-driven finance, attempting to instil the right behaviours around finance has been particularly difficult. Despite the increased ease in which we can transact, financial fundamentals have not changed.

Users of these new technologies need to remain grounded in the basics; the best thing you can appreciate is your need to earn and save for what you really want.

The need to constantly monitor spending

Aside from the challenges brought about by a soon to be (so it would seem) cashless society, there are other challenges for the everyday individual seeking to make the family budget go further in this tech-driven economy.

New research has shown that three in five Australians (62%) are wasting money on subscription services they either don't use or have forgotten about, with estimates in the order of $3.9 billion being wasted on unnecessary subscriptions, apps and services. In a recent study undertaken by REST Super over half (62%) of those surveyed said they keep paying for subscriptions they don't use, while 42% actively avoid paying attention to their finances to pick up on unwanted fees such as these.

The race to a fully "cashless society" remains on track, and it is in everyone's best interest to understand what is coming, and what may inevitably be taken away. To allow you to be at your effective best in the now flourishing tap-and-go economy, make the time now to better understand what technology can do for you and how best to use it.

Source: Lifespan

BE AWARE OF PERSONAL BIASES

As the curve continues to flatten and as lockdown restrictions begin to ease, many might be wondering what life will look like "on the other side" of the COVID-19 crisis.

Restarting economies after they have been in hibernation will surely be no small feat for governments, and it will take a coordinated social effort over time to get businesses on their feet, people back into their jobs, and for some sense of normality to return.

In the last few months, investors around the world have certainly had their resolve tested given the wild market swings and portfolio fluctuations.

The use (or misuse) of information

With the amount of readily available market information, and the speed at which it often changes, it's sometimes difficult to process it all and make rational decisions. Some have even termed the amount of information (and misinformation) out there about COVID-19 as an "infodemic".

When this happens, we can easily fall into the trap of seeking information that supports what we already believe in. This is known as confirmation bias and may lead us to place more emphasis on information we are familiar with or that supports our view and to ignore information that's new or contradictory.

If you are of the view that markets will rebound sharply and follow a perfect V-shaped recovery, you might not even realise you are filtering out data that might suggest otherwise.

Conversely, this also applies if you are particularly pessimistic on global efforts to contain the spread, or perhaps have a lack of faith in those in charge to make the right economic decisions. Remaining impartial in what is a highly emotional situation is perhaps impossible, but just being able to acknowledge when you might be favouring one perspective or source over another can still help lessen confirmation bias, and ultimately contribute to more sound decision-making.

It's also worth remembering that the situation is still fluid, and meaningful economic indicators are still emerging. While there is credible research and economic modelling out there, it would stand you in good stead to adopt a sense of flexibility and willingness to consult with your financial adviser and adapt or rebalance as more concrete information becomes available (but all the while remembering your long-term investment goals!).

The comfort of crowds

There is a certain sense of comfort when you are part of a crowd, and when it comes to unprecedented times like these, doing what others are (en masse) doing seems safer than sounding out your own judgement. By taking this shortcut, it's also arguably less mentally straining than figuring it out for yourself.

We are more prone to "herding" behaviour when we face difficult decisions or uncertainty. If others we know are cashing out as a precaution, doing the same can be tempting even if it's not the best investment decision for your own situation.

Likewise, as we start the journey towards economic recovery, you might be hearing people say it's now the best time to buy as shares are at a discount. But consider if these "cheap buys" will throw your pre-determined asset allocation into disarray or if it means ignoring costs or tax implications.

Just because everyone else is doing something doesn't necessarily mean it's the right course of action for you even if you fear you are missing out. If this is the case, your financial adviser will be able to help you to determine whether a particular course of action is the best one given your situation and needs.

Conclusion

These are just two behavioural biases worth acknowledging as we continue to adapt to the evolving COVID-19 crisis.

The challenge with biases is that they are deep-seated aspects of our decision-making process and are often difficult to spot as they play out so naturally. While perhaps we cannot cure them completely, we can however mitigate.

Just being aware of behavioural biases is a good place to start. Additionally, focusing on the investment factors we can control is another. This means tuning out the noise and sticking to your investment plan even when those around you might not be.

Source: Vanguard

MARKETS REBOUND AS CURVE FLATTENS

After reaching fresh highs in mid-February, global equities and other growth assets sold off aggressively and entered a bear market in March. Fear spread among investors as the COVID-19 coronavirus extended beyond mainland China to the rest of the globe.

The outbreak of COVID-19 has resulted in much of the global economy shutting down in order to help slow the spread. However global equity markets have been rallying lately as it appears that the rate of new cases and hospitalisations has slowed. The other big issue has been an oil price war between the Saudis and Russia. This came at a time when daily global demand has fallen by almost a third because of shutdowns and stay at home orders. The oil price is currently hovering around $30 a barrel, a price at which most of the industry operates at a loss. Output cuts that have been announced by OPEC have helped oil prices recover from much lower levels, but these cuts only amount to about half of the oversupply.

Australian large-cap equities returned -20.3% for the three months to the end of April 2020, well below the return of unhedged developed market global equities, which returned -9.6%. Emerging market equities lagged developed markets, returning -10.5% for the same period. Australian fixed interest returned 0.57%, which was below that of global fixed interest, which returned 0.97%. The worst-performing sector was Australian listed property, with a return of -29.9%, while cash realised a small positive return of 0.22%.

Economy

COVID-19 is a health crisis that has very quickly become an economic one as well. It is very difficult to predict how deep this contraction will be, and probably more importantly, how long it will last. The International Monetary Fund (IMF) has recently put out some forecasts of the economic impact.

They predict the Australian economy will shrink by 6.7% in 2020 due to COVID-19 containment measures before rebounding by 6.1% in 2021. But even if these numbers pan out, it would leave annual economic output below that in 2019 and the unemployment rate at 9% in 2021. The resultant recession would be Australia's first since 1991.

The Australian Federal Government is forecasting 10% unemployment by June this year and believes the rate would have hit 15% if not for the JobKeeper Payment program. The Reserve Bank of Australia has also weighed in, citing that its baseline scenario is for Gross Domestic Product to fall 10% over the first half of 2020 and by around 6% cent over the year, with the unemployment rate peaking at around 10% and remaining above 7% at the end of next year. However, these forecasts could be far worse if the restrictive measures were not successful and were kept in place for longer. "If the lifting of restrictions is delayed or the restrictions need to be reimposed, or household and business confidence remains low, the outcomes would be even more challenging than those in the baseline scenario," Reserve Bank Governor Dr Philip Lowe said.

The IMF also forecasts the world economy in 2020 will suffer its worst year since the Great Depression of the 1930s. It expects the global economy to shrink by 3% in 2020 before rebounding in 2021 with 5.8% growth.

The IMF forecast for 2020 is for US Gross Domestic Product to fall 5.9%. China is projected to grow at 1.2% while Asian GDP is forecast to be flat at 0.0% for 2020. The European Union's own estimate is that its economy will contract 7.4% this year and unemployment will rise to 9% in "the deepest economic recession in its history". Although the 27-member bloc expects that its growth will rebound to 6.1% next year, it also expects its jobless rate to remain stuck at 7.9%.

Markets and Outlook

Prevailing economic conditions have seen governments and central banks around the world providing unprecedented support to households, companies, and financial markets. The Australian response, of the order of 10% of GDP, has been one of the largest. The idea is to tide individuals and companies over until the economy can reopen again.

As new COVID-19 cases and hospital admissions level off in Australia, markets have rallied strongly. Australian equities have rallied more than 20% from the recent low; however, even after the rally the local market is still 20% down from recent highs.

Currently, markets remain focused on better news on the virus front, but will eventually turn to the economic outlook and company earnings. There is no question that lasting economic damage has been done and some industries will take years to recover. The IMF (base case) growth forecasts predict a V-shaped global recovery. However, even the IMF admits that this is an educated guess. In their words, "there is considerable uncertainty about what the economic landscape will look like when we emerge from this lockdown," and "Assuming the pandemic fades in the second half of 2020 and that policy actions taken around the world are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains, we project global growth in 2021 to rebound to 5.8 percent."

The big issue is that no one knows how long the lockdowns will last and what the likelihood is of a second wave that shuts down economies again after they have opened up, just as in Singapore. Even without a second round of shutdowns, it is hard to envisage an environment without extended job losses, bankruptcies and financial strain. This leads us to the view that a V-shaped recovery is probably wishful thinking, largely because of high debt levels and inflated asset prices pre-COVID-19. The solution is obviously a vaccine, but that is not likely for 12 months or more.

Equity markets have had a large fall but so have earnings. The problem is that we cannot predict what earnings will be in this environment. Equity markets are actually not that cheap based on short-term earnings, and markets are looking past the current shutdowns. While we cannot accurately predict earnings this year, we do know they will be considerably lower than in 2019, likely more than 20% lower.

As in previous market downturns we will eventually come out of this, but we suspect that this recovery will be a little more protracted given the economic damage, and we expect interest rates will stay much lower and for longer than they would have without this shock. What this means is that growth assets will be the only way to get any reasonable yield. There will also be some second order effects with supply chains being moved out of China and manufacturing returning to western countries. While this has and will continue to be disruptive, being compelled to diversify away from China has its advantages, as being less dependent on one country would be in the national interest of most countries.

Source: Lifespan

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