

Investing in a post-Covid world

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Despite the uncertainty about the domestic and global economy, financial markets have staged a rapid recovery since the COVID-19 pandemic triggered a severe sell-off in February and March this year. The fiscal and monetary stimulus of economies contributed to the improved sentiment in markets since April, but the question is to what extent this can be sustained? We are also faced with a variety of problems in South Africa that will not disappear overnight.

Going global or staying local

In addition to challenges at home, the global economy is also plagued with substantial uncertainties. Global economic prospects hinge on COVID-19 timelines. It is still uncertain when we will get a vaccine, produce the quantities required, and make it available to masses of people. We also wonder what will happen to all the debt that has been created on government balance sheets around the globe? And what surprises will the US presidential election bring?

Is local investing still relevant?

The past five years delivered disappointing real returns, mostly due to an abnormal period of asset class returns in South Africa. This period saw conservative assets, specifically cash, significantly outperform growth assets like equities and listed property. Traditionally one expects long-term riskier assets, specifically equity, to substantially outperform cash.

South Africans are legitimately frustrated with the situation. Investors and citizens have been through a period that has tested us on every conceivable level. It seems that the government has been able to make more progress in 18 months than what was achieved in the preceding 10 years. Regrettably, it does not show in our economic growth numbers, and that is going to take some more time. The expectation is for the economy to stage a recovery from a low base next year, and then to build momentum from there.

In the meantime, we are offered excellent investment entry points into great South African businesses. Bond yields are also offering returns that will comfortably beat inflation. We believe the next five years will look materially different from the preceding five – and in this environment investors need to be aware of the consequences of being either too conservatively positioned, or not being sufficiently diversified.

Contrary to popular belief, investment prospects in South Africa are remarkably attractive. Superior returns are not on the table in an environment where the outlook is clear. The best investments are made during challenging periods, when valuations are cheap, and uncertainty is high. Now is the time for well diversified portfolios that mitigate risk while seeking disproportionate upside potential.

Perspective in times of crisis is critical

In times like these, staying focused on the bigger picture is critical. We too often see investors obsess over fund performance numbers. Yet, there seems to be little cognisance of the fact that, even if you were to find the best fund portfolio, odds are the average investors' experience will be very different. Why? Because investing is a process that is susceptible to emotional interference. Investors rarely remain unswayed by news or market movements. Instead, they tend to panic and make poor decisions.

This means that although the fund manager is performing well, the investors are not using the product correctly, and therefore not extracting full value. This is exactly where a good

financial adviser can be very valuable. In tough times an adviser should guide you on how to avoid mistakes, with buying high and selling low topping the list of expensive mistakes investors typically make during tough times. Keeping a rational, long-term perspective is more important than ever and will help you achieve your investment goals in a post-COVID world.

Ends.