



# HARVEST

FINANCIAL CONSULTANTS

## *Client Letter* *March 2020*

### *Dear Client*

#### **What's going on!**

People are dying! Markets are crashing!  
Indeed, what is going on?

Well, what's happening is that people are being people and markets are being markets. This sounds like a rather flippant remark on the serious subjects of life and life savings. However, in truth we have been here before – a number of times. There is invariably an event (or series of events) that send the world into a panic, leading to selling of shares and buying of baked beans, toilet paper and now hand sanitizers. And like before, we will one day look back and wonder what all the fuss was about.

I must immediately qualify my dismissive remarks and express deep sadness for those who have lost loved ones due to the contraction of Covid-19. For them the devastation is real. However, the majority who are infected will recover and many more than that will remain untouched. As authorities move to stem its spread, lives will be disrupted and economies negatively affected. It is therefore right that we should be circumspect of markets and accept that companies' results (particularly in certain sectors) will take a knock. However, eventually the virus will be contained and markets will stabilize and then recover.

In 1987 (gold collapse) the US market dropped over 30% in a very short space of time. In the early 2000's (tech bubble) it came off over 40%; in 2008 (housing bubble) over 50%; in 2018 (trade wars) almost 20%; and now about 20%. Despite these shocks, the US market is up over 2,500% in the past 40 years – an annual compound rate of 8.5%. For South Africans you can add a further 8% per annum for currency depreciation.

It is worth mentioning that quite a bit of the recent market loss is due to a new trade war – one between Russia and Saudi Arabia. The latter wanted OPEC members to cut oil production in the face of prices coming off due to lower usage (virus related). Russia rejected this, so Saudi Arabia retaliated by ramping up production and dropping prices further. This is bad news for oil producing countries like Nigeria and for many big listed companies aligned to the oil industry. However, for the consumer and countries like South Africa (producing little of its own oil) it is good news.

I am often asked if the market is going to crash, particularly after a good year such as 2019. My answer is always yes, but stating that I just don't know when. I can also confidently say that this will not be the last crash, but with the same confidence I say that the markets will recover and over time it is growth assets such as equities that will provide the best returns. For those who have cash funds available, these market drops provide great buying opportunities, even if it means doing so with a weakened Rand as markets have come off more than what the Rand has. For those who are already in the market, sit tight – it will get better. That is not to say it won't first get worse, but short term movements are anyone's guess.

All of this highlights the importance of good investment planning and considered asset allocation. Equities remain the place to be for longer term investors (5 years plus, although in some cases even 3 years will do).

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For South African residents, the cushion provided by a weakened Rand during such times shows the benefit of offshore investing – something I have always advocated. For shorter term needs and for those who require regular drawdowns and cannot wait for the markets to recover, fixed income / cash is for you. There are nuances to this, as each individual has their own set of unique circumstances to consider. I welcome the opportunity to continue to guide you on your financial journey and to provide council for those who feel financial anguish in times such as these. In general I encourage you to keep to your long term strategy and not be swayed by short term events. Those who try to time upturns and downturns by moving in and out of markets tend to lose more from predicting crashes than from the crashes themselves.

More important than money, stay healthy and keep the virus at bay as seasons change and we head towards winter.

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