PSG

Big Picture Insights

Sometimes the best course is no action

Sometimes the best course is no action

"I'm not afraid of storms, for I'm learning how to sail my ship." - Louisa May Alcott.

In its latest monetary policy statement the Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) unanimously decided to keep the repo rate unchanged at 3.50%. "With inflation expectations remaining stable, and despite inflation risk increasing, the Committee still expects inflation to be contained in 2021, before rising to around the midpoint of the inflation target range in 2022 and 2023," the SARB stated on 20 May 2021. It is for this reason that we recommend that investors consider investing a considerable part of their investment portfolio in equities.

Investors might still be invested to heavily in cash, mainly due to concerns about the state of the world economy or that markets may be on the expensive side and due for a correction. However, economies are recovering faster than expected. As vaccines rollouts and economic recovery continue, confidence and stability are slowly starting to return globally. The International Monetary Fund (IMF) recently revised its growth estimate for South Africa for 2021 upwards from the previous 2.8% to 3.1%. In the USA, recovery has been strong as further stimulus has been rolled out. 2021 gross domestic product (GDP) growth is estimated at 6.4% for the USA, and 8.4% for China.

Various research studies have shown that investing in equities is the best long-term wealth creation strategy. Unfortunately, many investors pull out of equities when markets are down or very volatile. We see this all too often - investors buy into investment portfolios when the portfolios are performing well but then sell during a downturn. This ultimately means investors are buying high and selling low - a sure-fire way to lose money. Had the investors stuck to their long-term plan by staying invested, they would have been rewarded in the subsequent months during the market upturn. As the old adage goes, "Time in the market is more important than trying to time the market."

Looking at international research

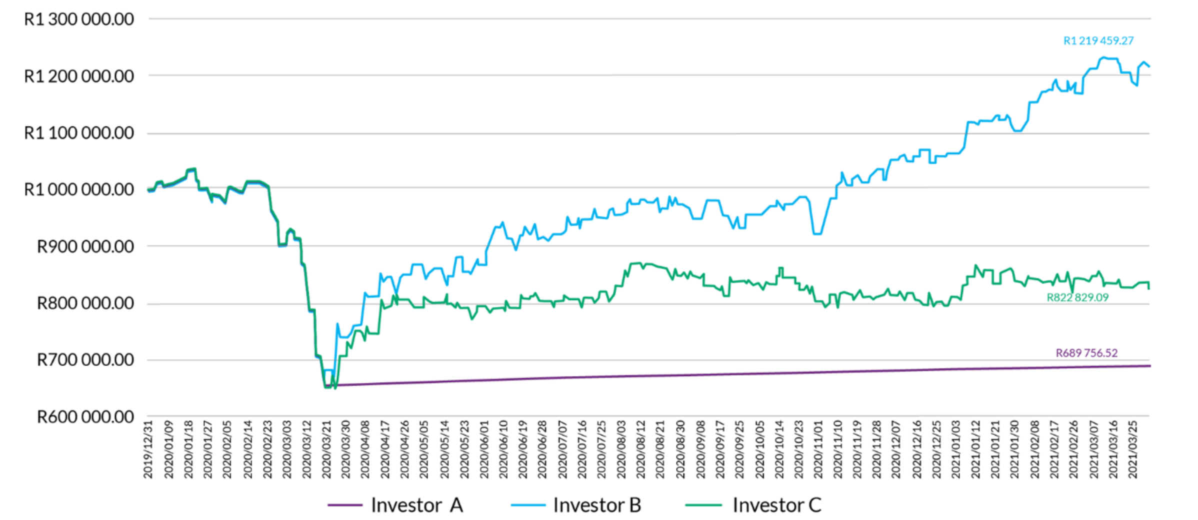
J.P. Morgan regularly researches the "impact of being out of the market". A study conducted in June 2020 assumed that US$10 000 was put into the S&P 500 between January 1999 and December 2018. Investor A, who stuck to the investment life span, accumulated approximately $30 000 in total returns. Investor B, who missed out on the 10 best days in the market every year, ended slightly below $15 000 in total returns. However, Investor C, who let the market´s volatility affect his decision-making and lost out on 30 of the best days annually, only enjoyed about $6 213 in total returns. Hence, when investors stay in the market longer, not jumping to other products at the first signs of trouble, this data shows that market volatility is unlikely to impact the long-term performance of investments significantly.

A PSG Wealth example

We looked at three investors, who invested R1 million each in the PSG Wealth Creator Fund of Funds (FoF) on 1 January 2020. On 18 March 2020, when the local equity market hit a low point due to the Covid-19 pandemic, Investor A moved into the PSG Wealth Enhanced Interest FoF, a cash product. Investor B left his investment as is. Investor C opted to move into our Global Flexible Feeder Fund at the same time.

Our analysis shows that all three investors would have lost 32.05% between 1 January 2020 and 18 March 2020. However, Investor B made over R500 000 more than Investor A - just because he stayed in his product over the downturn and was able to make valuable gains in the subsequent recovery. Investor C lost just under R200 000 from his initial R1 million investment because of the switch to a global product in the March 2020 downturn. Hence, investors who left the South African equity market in turn for South African cash or offshore assets made a loss on a relative basis.

Investors who disinvested from South African equity into South African cash or offshore assets made losses after the Covid-19 downturn recovery phase



Source: PSG Wealth research team - Data as at end of April 2021

The example above and graph is for illustrative purposes only

What should you do?

When your adviser assisted you initially in constructing an investment plan, they assessed your needs and timeframe. They constructed that path knowing that there will be market volatility during your investment´s lifespan. So, they selected the best possible solutions to protect you during trying times and offer the highest returns in market upturns.

During uncertainty, contact your adviser to discuss the possible dangers around pulling out of an investment ahead of its investment lifecycle, before you commit to something that could hurt your wealth creation plans.

Sources:
PSG Wealth research team analysis. Data as at 31 March 2021. *Switching products in a downturn.*

SARB. 20/5/2021. MPC statement. Available at:
https://www.resbank.co.za/content/dam/sarb/publications/statements/monetary-policy-statements/2021/statement-of-the-monetary-policy-committee-may-2021/Statement%20of%20the%20Monetary%20Policy%20Committee%2020%20May%202021.pdf

J.P. Morgan. 5/6/2020. Impact of being out of the market. Available at:
https://am.jpmorgan.com/br/en/asset-management/adv/insights/impact-of-being-out-of-the-market/

Research done by the PSG Wealth research and investment team and Adriaan Pask, Chief Investment Officer, PSG Wealth