E support@lifestylewealth.com.au
W www.lifestylewealthpartners.com.au

Fact or Fiction?

Corona Virus and its impact on markets

29th February 2020

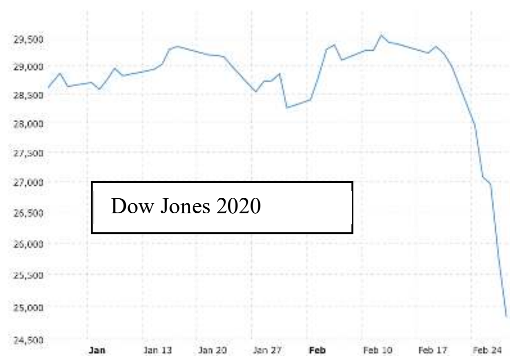
It's the absence of facts that frightens people: the gap you open, into which you pour fear, fantasies and desires.
Hilary Mantel, Wolf Hall

To know what you know and what you do not know, that is true knowledge.
Confucius

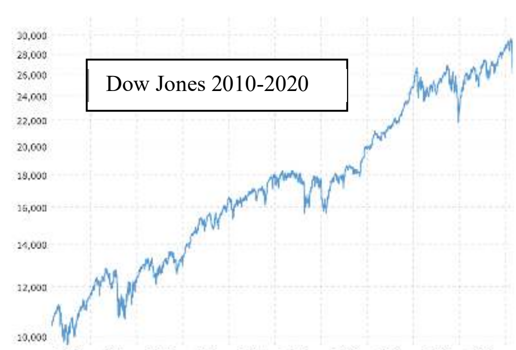
Without a measureless and perpetual uncertainty, the drama of human life would be destroyed.
Winston Churchill

Time to Panic?

If you are a resident of Hubei province in China or the Lombardi region in Italy, you would probably be quite scared right now. If you had kids, were elderly or had respiratory conditions in these, and now so many other regions of the world, it would be understandable if you were worried.



Whilst our hearts go out to the people that are impacted by Covid-19 (Corona Virus) the concerns expressed by many are clearly not limited to the virus, stock markets too have finally broken the longest bull run in history. As at today's date the Australian market is down around 10%, the US market down now around 15%. A 10% fall is a technical correction and the ending of a bull run.



What a difference time frame makes

The change in market prices make good headlines, at least negative ones do, as we have pointed this out many times in the past. The market in the US, as of Sydney time Saturday morning has now "plunged" to where it was back in May 2019, just 10 months ago. Remember, it is still up 140% over 10 years NOT including dividends.

E support@lifestylewealth.com.au
W www.lifestylewealthpartners.com.au

Yes, it's a loss but not drastic as the media is making out, not yet at least anyway.

It's where it goes from here that is what we will continue to watch carefully.

The global economy was not strong going into the crisis, Australia's was arguably weaker. A good economy is like a washing machine of money. It goes round and round and everybody gets a piece of the action, the business owner to the employee, the employee to the restaurant owner, the restaurateur to the waiter etc. With such a contagious and dangerous virus people stop their activities, travel plans, eating out, sporting and cultural events etc. This is when real economic loss occurs.

Many companies, especially global companies, have a lot of debt. When the income stops and is slow to start again this can be as fatal to a highly indebted company as Covid-19 is to some humans. But like Covid-19, it is likely to impact only a very small percentage of companies. Covid-19 mortality rates vary with age but range from 0.2% to 1.3% of infected cases for people under 60. It rises to almost 15% for those over 80 years old.

Company impacts will likely be on similarly low level even if the situation turns into a pandemic.

Our portfolios have been conservatively positioned with low global credit exposures (company debt) and higher cash, bond and credit exposures domestically as we felt this to be a safer option.

Yes, shares are being hit now and will almost certainly fall again in the coming days and weeks, perhaps months. They are however, to this point at least, only given away very recent gains.

With current expectations of a vaccine within 6-9 months 2020 is likely to be a pretty ugly year before things start to normalise. Unfortunately trying to pick the turning points is almost impossible to do reliably, you'll either get out too early or too late and this is the easy decision. The much harder decision and one you'll more than likely get wrong, is when to get back in.

Following a disciplined process and managing risk is the smarter strategy to preserve long term wealth. Further, once the storm has passed we expect to see some great buying opportunities.

There is a risk the globe will go into a recession, with Australia potentially a 50/50 chance of going into a recession. I do not expect it to be deep, protracted or a significantly painful recession, should one eventuate. Like any bad news it won't be fun but with Australia closing in on almost 30 years without a recession, the longest of ANY western country in over 300 years, we are probably due one in any case. Further whilst recessions are not great for markets, economies and markets can perform very differently at the same time, discerning this difference is crucial when analysing markets.

Interest rates are likely to be dropped further into this year with the RBA meeting just next week. Good news for borrowers, more bad news for savers. Be prepared for markets, like the virus, to potentially get worse before it gets better, however "staying the course", being disciplined and not panicking is a tried and tested methodology of longer term investors.

We are therefore watching developments closely but are less concerned than media reports as this correction has been anticipated for a long time now, even though the cause could never have been predicted, we were ready for it.

We got through the Global Financial Crisis without any long-term casualties, just short-term stress. This current downturn is presently expected to be less severe and shorter in duration but similarly resulting in no long-term portfolio damage. The one thing we can guarantee is that there will be continued instability, especially in the short term. We want to steer clear of making emotional decisions in these market events as this can damage long term performance. That is why we are staying invested and managing asset exposures based on proven investment disciplines, this will ensure we help you stay on track.

If you would like to discuss this paper or any other matter, please do not hesitate to contact us at support@lifestylewealth.com.au or (02) 9984 7774.

Kind Regards

David Lunn
GDFP, MBA, SSA
Authorised Representative No: 239790

Mark Johnson
GradDipFP, B.Bus, CFP®
Authorised Representative No: 432093

Charts courtesy of Macro Trends: https://www.macrotrends.net/