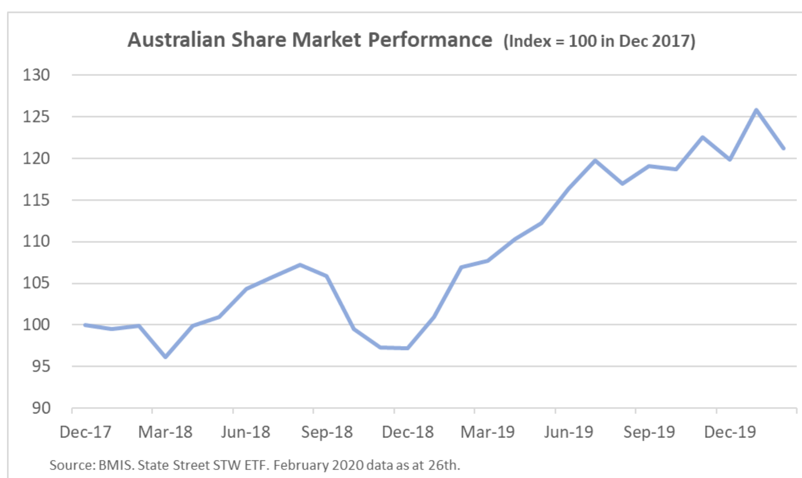
Now is not the time to try and time the markets March 2020

After showing great resilience, and perhaps a degree of complacency, equity markets have fallen sharply in recent days. A relatively sudden surge of confirmation of corona virus outbreaks outside of China has been the main trigger for the correction. However, Apple's removal of previous earnings guidance and a deterioration in some leading economic indicators (such as the preliminary reading of the U.S. Purchasing Managers Index and the Baltic Dry Index) have also played a role in the share market sell-off.

At the time of writing (26th February), the Australian share market, as measured by the S&P ASX 200 Index, has fallen by 6.1% from its high of February 20th. This is similar to the 7.3% decline recorded by the U.S. S&P 500 Index over the same period. Although these corrections are material, they do need to be viewed in the context of the strong appreciation of share markets over recent weeks. For example, the fall on the Australian market only takes valuations back to where they were in the first week of January.



Unlike bond markets, which reacted to the coronavirus much faster via a rise in bond prices and fall in yields, equity markets have only recently acknowledged that the virus may have more than short term effects on company earnings and the broader global economy – in addition to the known tragic human toll. The extent of the spread of the virus beyond China has increased the expected economic impact and, importantly, increased the degree of uncertainty over the duration and severity of the crisis.

What action should investors take?

It is this uncertainty over the future progression of the coronavirus impact that makes it particularly challenging for investors. A virus of this nature, combined with the significance of the mitigation actions, has few precedents. Although it may be tempting to respond to the heightened risk by lowering exposure to assets such as equities which are sensitive to this risk, such a response may be problematic. Ultimately, if longer term wealth accumulation objectives require exposure to equity like returns, then a shift to defensive assets can only be profitable if the re-entry into equity markets can be made at a lower price than the exit price. Now whilst a further decline in share market values in the current climate of uncertainty is highly possible, the task of timing a re-entry into markets at lower value than exit value may be very problematic. With markets largely focussed on a single source of concern, any dilution or elimination of this concern could result in a very rapid reversal of the recent price correction. The development of a vaccine, the onset of the Northern Hemisphere Spring season or simply evidence of a decline in new infections are examples of catalysts that could result in a sharp "relief" rally on share markets, which would be difficult for investors to action ahead of the market movement.

Whilst market timing in the current environment is fraught with danger, using the correction in share market valuations as an opportunity to execute strategies consistent with longer term objectives may be highly appropriate. For example, investors that had been holding higher cash or more defensive positions than prescribed by their longer term risk profile, could use the current period of lower share prices as an opportunity to at least partially add equity assets. Similarly, investors that were looking to adjust their geographical exposures due to changes in the longer term earnings growth outlook of different markets may find opportunities to purchase desired assets at more attractive valuations.

What is most important form an investors perspective, however, is that long term strategies are not abandoned due to the current spike in investment risk. History shows that investors who hold their long term strategies through periods of apparent adversity are ultimately rewarded; whereas looking to time an exit and re-entry into markets is extremely difficult to execute successfully on a consistent basis. History also shows that each period of heightened risk is unique; and the corona virus is certainly very different to the majority of risks faced by investors over recent years. The balance of probability remains, however, that this crisis will ultimately be managed or eradicated in some form and the resilience of holding a portfolio of diversified and well managed investments will be proven once again.

General Advice Disclaimer
Every effort has been made to offer the most current, correct and clearly expressed information possible within this document. Nonetheless, inadvertent errors can occur and applicable laws, rules and regulations may change. The information contained in this document is general and is not intended to serve as advice. No warranty is given in relation to the accuracy or reliability of any information. Readers should not act or fail to act on the basis of information contained herein. Users are encouraged to contact Rhodes Docherty & Co professional advisers for advice concerning specific matters before making any decision. Rhodes Docherty Financial Advisors Pty Ltd ABN 43 122 391 315 is an Authorised Representative of RDC Advisors Pty Ltd, Australian Financial Services Licensee No. 396268 (Ph. 02 9988 4033). Any advice contained in this document is of a general nature only and does not take into account the objectives, financial situation or needs of any particular person. Before making any decision, you should consider the appropriateness of the advice with regard to those matters. Copyright Rhodes Docherty & Co © 2018. Liability limited by a scheme approved under the Professional Standards Legislation