NEWS BULLETIN: Coronavirus

FTSE down 11% in the week ending 28th February

At times of market uncertainty, I know that clients become anxious and this is understandable. Most of our clients are either saving for retirement or are hoping that their assets will be sufficient to see them through retirement and obviously substantial falls in the market are concerning.

At times like this, I find myself sounding like a well-played record. When you become a client of Nicholls Stevens we put in place a long term plan, the aim of which is to achieve your objectives. We know that there will be uncertainties along the road because this is just inevitable. The returns on investments, much like life itself, are unpredictable. We cannot predict the rates of inflation, or interest or stock market growth. Our clients are invested for the long term and what we are seeing at the moment is a short-term correction. The market often overreacts to situations such as the coronavirus because they cannot assess the risks. When more information and data becomes available the correction may even out. On the other hand, the virus may spread faster than expected and result in a pandemic which cannot be contained until we get to the summer and warmer weather. The answer is that we do not know. However, here are ten facts you may find helpful:

1 Our clients are invested for the long-term and it is not our practice to sell out in whole or part at times like this. We believe that our clients have well diversified portfolios and they should stay invested.

2 Statistics show that selling out of a falling market and then trying to guess the bottom of the market does not work. Markets often correct themselves very quickly and no-one knows the right time to sell or the right time to buy back into the market.

3 Although clients would love to believe that there are ‘safe’ investments, there are none. If you lose your nerve and sell out of equities and put all your money into cash this is not a sound long term proposition as in most cases you will lose asset value by investing in cash. Inflation is higher than current rates of interest. Interest rates may go lower and there is very little indication of falling inflation, in fact this virus may see a shortage of goods and services which could in turn lead to increased prices and inflation. All investments have a purpose, cash is a place to hold money for immediate liquidity, what we would call your ‘emergency money’. The size of this fund depends on how many emergencies you may envisage.

4 Other clients may consider moving from equities to fixed interest because of a perceived idea that bonds will be a safer investment. In the current environment this is not necessarily the case, particularly with negative interest rates in some of the world economies. In addition investors in corporate bonds face the increased possibility of default of the borrower because of prolonged disruption to their business due to the virus.

5 Most fund managers are not particularly affected by the rise and fall in the market, their job is to pick companies which have fair valuations and good future prospects. They are likely to hold these for 10 years or more. The timing of the purchase is less important than a fair valuation.

6 We are all more upset by seeing a drop in the value of our assets than seeing a rise. At times like this clients will sometimes say ‘my portfolio is losing money’. What they are actually saying is ‘my investments today are worth less than 3 or 6 months ago’. If they look back to when they first invested, there are very few times when the values will be less than the original investment. Investment returns do not go in a straight line, for the last 10 years or so, clients investing in equity funds have seen returns which have way outperformed interest rates, now inevitably we will see a falling off in returns. We cannot escape the fact that the coronavirus will lead to slower growth internationally. The extent of the slow down will depend on the length and severity of the epidemic or pandemic.

7 Many of our clients have drawdown pension arrangements and, as you know, we hold a cash float to fund income for a number of months as we do not want to sell when the market is down. Should the coronavirus continue for a long period then we may contact individual clients to discuss whether they were prepared to postpone income for a few months in order to avoid selling at a low point. We are nowhere near this situation at the current time. We would take a similar approach to clients taking income from Insurance Company Bonds.

8 At times of falling markets I can usually reassure clients in equity income funds that their income is likely to be unaffected. However, in these particular circumstances I am less sure. Dividends are paid from profits and, if the coronavirus continues for a long time, then this will undoubtedly affect company profits and therefore dividend payments. If this does happen, we will of course review individual client situations and seek to find other means of maintaining income levels.

9 What if you do need funds at the present time? We would prefer not to make sales at the present time – my recommendation would be to raise money from Bank or Building Society accounts and reimburse this from your equity holdings when the markets recover. If you cannot do this, we will always attempt to sell down using the profit you have made from your portfolio, keeping your original investment intact.

10 As we are coming up to the end of the financial year many of you may be considering a pension or ISA contribution. We would strongly recommend that you make the investment in order to participate in the tax advantages. We will initially hold the money in cash and then depending on the market we may drip feed the money into the investment over a number of months. The method we use will depend on the market and we will always tell you what we think is the most appropriate.

My final thoughts would be to say that we should all focus more on taking precautions to avoid the virus, rather than worrying too much about the stock markets – they will undoubtedly be volatile for some time but you are all invested for the long term and we can only hope that coronavirus will be a short term setback in both medical and investment terms.

At Nicholls Stevens, we have a policy in place about the virus and we will continue assisting clients, even if the spread of the virus should worsen.

Carole Nicholls **2nd March 2020**