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If you exit your unit trust portfolios now, you lock in your losses

When stock markets crash and bad news just keeps on coming from all corners of the globe, panic is a natural reaction for many unit trust investors. Considering that the last significant market crash happened 11 years ago, this is also the first time that a new generation of unit trust investors would have been exposed to extreme market volatility.

A number of unprecedented shock events over a relatively short period of time have caused the perfect storm for global financial markets, says Leon Campher, CEO of the Association for Savings and Investment South Africa (ASISA). "The oil-price war between Russia and Saudi Arabia and concern about the impact of the coronavirus on the global economy have sent financial markets into a tailspin," explains Campher.

He acknowledges that the pain felt by many investors who have seen the value of their investments decline in recent weeks is likely to be compounded by the emotional stress presented by the COVID-19 pandemic.

However, says Campher, emotional reactions rarely lead to prudent investment decisions. "Just as Wall Street halts trading for 15 minutes to force traders to catch their breath and consider their investment decisions when indices drop by more than 7%, individual investors should reflect on the situation before taking decisions, preferably with the help of a qualified financial adviser."

Campher says fear driven decisions will not deliver the outcomes that investors may be hoping for. "Therefore, the best advice I can give to unit trust investors is that it is the time in the market that will get you the returns you want and not timing the market. The market volatility has been extreme and the rollercoaster ride may continue for some time to come, but if you switch out of your unit trust portfolios now you effectively materialise what have been paper losses thus far."

He points out that while volatility is part and parcel of investing in unit trust portfolios that hold shares, it is important to remember that financial markets have historically not only recovered their losses after every crash, but they have also reached new highs.

Campher speaks from experience. He started his portfolio management career in the aftermath of the Crash of 1969 and has first-hand experience of the Black Monday Crash of 1987, the Asian Financial Crisis in 1997, the Dotcom Crash in 2001 and the Subprime Mortgage Crisis in 2008.

Campher says the 2008 financial crisis, which is still fresh in the memory of many investors, presents some good learnings for investors thinking that making the switch out of their unit trust portfolios into cash is a good idea.

In reaction to global market turmoil caused by the financial crisis late in 2008, individual investors switched out of unit trusts with high exposure to equities (shares) and parked the bulk of their money in money market portfolios. While institutional investors moved back into equities during the second quarter of 2009, many individual investors remained in money market portfolios.

Campher says as a result most individual investors did not participate in the 37.5% growth achieved by the FTSE/JSE All Share Index (ALSI) from its lows in early March 2009 to the end of September 2009. "Not only did these investors lock in their losses when they switched out of unit trust portfolios with equity exposure in the panic that ensued in the last quarter of 2008, but they also missed out on the recovery and the additional growth."

On 22 May 2008, the JSE ALSI reached a new record high of 33 232 points. By 3 March 2009, the JSE ALSI had fallen to 18 120.69 points as a result of investor panic fueled by the financial crisis. Campher says investors who stayed in the market saw the JSE ALSI climb back to 24 910.85 points by the end of September 2009, regaining 37.5% of its value. By 17 January 2012, just over two years later, the JSE ALSI had surpassed its previous record high of 33 232 to close at 33 424.73.

How to manage the fear

Campher says investors should check in with their financial advisers to remind themselves of why they picked the unit trust portfolios that they were now concerned about. "If these investment decisions were taken for the right reasons and if you regularly review your portfolio together with your adviser, there is absolutely no need to make changes now. Rather ride out the volatility and even consider increasing your investment amounts."

"Once you have invested in a unit trust portfolio or a combination of portfolios, a long-term commitment is required together with an understanding that it is time in the market that makes all the difference," adds Campher.

He also points out that while South Africa is certainly feeling the heat generated by the COVID-19 market turmoil, it is important to remember that the country prides itself on a well-regulated financial services sector that is globally recognised as one of the best in the world.

"Our financial system remains robust and our institutions are highly capitalised and well positioned to withstand market shocks. History has also shown that our country and its people are resilient and react well in crisis situations. I am confident that we will get through this challenge as well, provided we stand together."

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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies.