An occasional paper from Fiscal Engineers

Coronavirus - keep things in perspective

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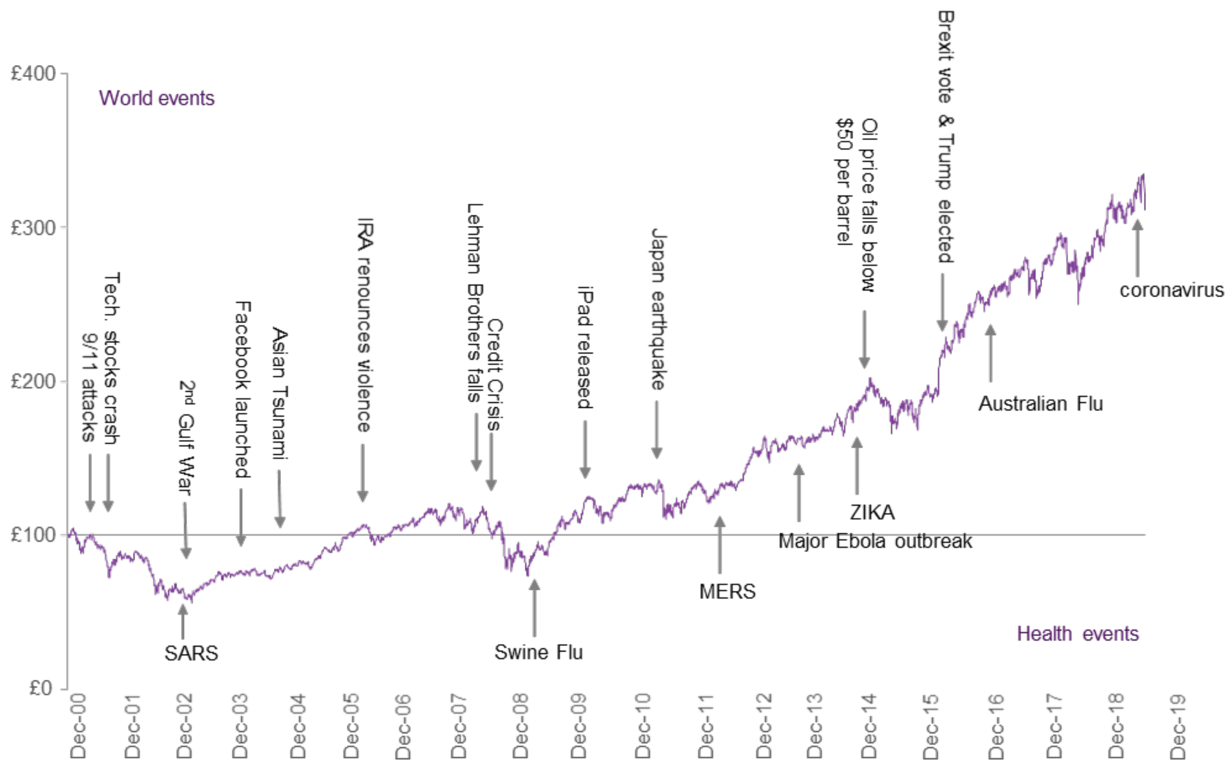
In the modern era, we have far greater access to world news at just the click of a button, or from flash news alerts on our phones. This is not always a good thing as newspapers and websites publish news stories that will attract readers. Bad news sells. It can be all too easy to focus on these stories and get gloomy, disheartened or uncomfortable about these threats and the reported danger to life, society or wealth, the latest being the coronavirus.

However, these world and health events have happened throughout history. Over the past 20 years alone, there have been many material events that we may have felt uneasy about at the time. During such times – at least from a market perspective – it can help to look at the past to ease our concerns. The past may not, of course, repeat itself but markets have been remarkably resilient, as you can see from the chart below.

Figure 1: The relentless rise of markets over time, despite world events



Data source: Morningstar Direct © All rights reserved. MSCI ACWI NR USD in GBP (developed and emerging markets)

It is important to remember that in an efficient market current world events and investors' views are already factored into share prices. As hard as it can be, we need to remember to keep our emotions in check, believe in the robustness of our portfolios and continue on our investment journey with a long-term view. Future news may make the outlook brighter or gloomier. No-one knows.

Investing in the equity markets can be an exciting experience but at times frustrating, and on occasion, worrying. Investing in the equity markets is always going to be (and always has been) a game of two steps forward, one step back. What equities deliver from one year to another is of little consequence for those investors who do not need all their money back today. Please do not confuse short term volatility with permanent loss.

Irrespective of what is happening now and what might happen in the future, as investors we can rely on a number of truths: markets work well over the long term and are hard to beat. Capturing the long term market return on offer using lower-cost, well-structured products makes good sense. Spreading our assets broadly to ensure the risks we face are well-diversified will always sit at the core of a successful long-term strategy. Being patient (living through the short-term dips) and being disciplined (maintaining your philosophy and strategy over time) are fundamental to achieving the returns you need to fulfil your financial goals. Balancing out the risks of equities by owning high quality bonds provides a good insurance policy; currently, the bonds recommended in our portfolios are acting as we would expect – dampening overall levels of volatility in the portfolio.

Previous world events have brought investors here before. As with past short term volatility, our advice is to stick with the long term plan. Trying to time the markets is incredibly difficult and often costly.

'This too shall pass' as the legendary investor John Bogle used to say.

Other notes and risk warnings

Investment into any portfolio should be regarded as for the medium to long term. The capital value of investments and the income generated from them can fall as well as rise. The value of your portfolio is not guaranteed and you may get back less than – or none – of the amount you invested. Changes in exchange rates could have an effect on the value of overseas investments. The effect of inflation could reduce the future purchasing power of your investments. Past performance is no guide to future performance.

Errors and omissions excepted.

The Team at Fiscal Engineers

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