How to ride out the impact of *coronavirus*

The recent increase in market volatility has created a challenging environment for investors and the wider superannuation industry.

We take a look at some of the important things to consider about your super during times when investment markets are affected by events such as the coronavirus.

What is happening?

China first reported the outbreak of coronavirus in late December and most cases and deaths have been in the Hubei province. Chinese authorities responded with travel restrictions and many countries banned travellers entering from China.

The virus was assumed to be relatively contained. However, coronavirus has now spread to 48 countries and the US Centre for Disease Control states that "current global circumstances suggest it is likely that this virus will cause a pandemic."[1] Locally, the Australian Government has enacted its pandemic plan to ensure a proactive response.[2]

How have markets reacted?

There was an optimistic tone in the markets at the beginning of 2020, and prior to the rapid spread of the virus outside of China, markets were pricing a relatively confident outlook. It was assumed that there would be a temporary impact to Chinese growth, but that Chinese authorities could deliver stimulus to counter this.

With a backdrop of ongoing central bank support via low interest rates, it was viewed that markets would undergo a "V-shaped" recovery. That is, a sharp decline followed quickly by a sharp rise back to its previous levels.

When the virus spread outside of China these assumptions changed, and it's now looking like the impact to global growth will be more severe, with recovery taking longer than originally expected. Additionally, the crucial role that China plays in global supply chains has become clearer and many global companies are now reporting delays in sourcing input materials and products.

At First State Super, we manage our investments to take account of short-term risks. We are guided by a longer-term strategy that aims to maximise your long-term savings.

[1] www.cdc.gov/coronavirus/2019-ncov/summary.html
[2] www.abc.net.au/news/2020-02-27/federal-government-coronavirus-pandemic-emergency-plan/12005734

What does this mean for my super going forward?

Market volatility is expected to remain a prominent feature of the next few weeks and months due to the coronavirus, its potential impact on economies and related shifts in investor sentiment.

While headlines can be distracting, and at times unsettling, it's important to remember that super is a long-term investment.

At First State Super we manage our investment portfolios with longer-term objectives in mind. This means we look beyond the daily news and focus on investing in a mix of good quality assets that can grow your savings over time.

So rather than reacting to short-term events, we prepare for them by including strategies to diversify market risk and deliver positive long-term outcomes for members.

We also diversify our pre-mixed options across many asset classes including property, infrastructure and bonds and shares, as well as alternative investments that aim to outperform during periods of market volatility. Spreading your money across a range of investments can reduce the impact of a poor performance in any one asset class.

I'm concerned, what should I do?

Most of our members choose to ride out the ups and downs, but those who choose to switch investment options to cash tell us that negative returns are the main trigger.

When you see others reacting to a falling share market, it can be hard to accept that doing nothing is often the most sensible response. But during times of heightened volatility, it's even more important to focus on your long-term strategy and think carefully before making any significant changes.

Switching to a more conservative option, such as cash, after a market fall can lock in losses. This may mean you miss out on any rebound that occurs. For example, the market falls that resulted from the October 1987 crash, the tech bubble burst in 2001, the September 11 terrorist attacks and 2008 global financial crisis, were all followed by a strong bounce back within a relatively short timeframe.

Put another way, a loss on your statement remains a paper loss if you remain invested because it is possible you will recover any losses as markets rebound. However, switching to a more defensive investment option removes this potential and locks in that loss.

Short term market volatility typically has little overall impact on long term returns. Markets are also inherently unpredictable and trying to time them means you must get two important decisions right: when to get out and when to get back in. There is a risk of having to pay a higher price to get back into the market, as well as missing out on the growth from any market recovery.

The important thing is to choose an option that is appropriate for your age, investment timeframe, risk tolerance and any investments you have outside of super. History has shown that **having a long-term plan and sticking to it gives you the greatest chance of reaching your retirement goals** and that those who do this ultimately end up better off than those who change investment options.

Should I Invest in cash?

In volatile times, you may be tempted to switch your investments to cash options. Cash has the lowest market risk and potential for loss. While cash can protect against negative returns, its value does not usually increase over time and with today's very low interest rate environment, the level of income is also low.

This leaves the investment susceptible to inflation risk. That is, the return on your investment may be lower than the rate of inflation, meaning the purchasing power of your money would not actually be growing, which is an important consideration for your retirement savings.

This highlights the long-term risk associated with investing in cash, which is the relevant horizon for your superannuation – even in retirement. Investing over longer periods (10 years or more) means that your investments will probably have time to ride out short-term ups and downs and keeping up with inflation is your main risk.

What if I'm retired or close to retirement?

Even if you are close to, or in, retirement you probably still have a reasonably long investment horizon for your retirement savings. Sticking with your longer-term strategy and focusing on your longer-term goals can make it easier to deal with periods of market volatility.

History has shown that having a long-term plan and sticking to it gives you the greatest chance of reaching your retirement goals and that those who do this ultimately end up better off than those who change investment options.

Further questions?

We appreciate the impact of events like these can be unsettling, and that everyone's situation is different. If you have further questions, please do not hesitate to contact us at **enquiries@firststatesuper.com.au.**

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