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Don't panic about crash

RESPONSE: WAYS TO PROTECT YOURSELF DURING A MARKET DOWNTURN

Long-term, markets are resilient and invariably bounce back.

Jonathan Braans

This time it is different. These, in my opinion, are the most dangerous words which can be thrown around during a market correction or crash.

Whether it was the dot-com bubble burst, the US subprime crisis, the Covid crash or the current inflationary environment and turmoil in Eastern Europe, people tend to panic when markets go down.

This is despite the fact that history has shown that markets over the long-term are resilient and invariably bounce back.

At the time of writing, the MSCI ACWI (All Countries World Index) is down 18.8% year to date in rand terms, SA equities have fared slightly better but are still down roughly 8.5% as per the All Share Index. With this in mind, it is important to ask what to do when volatility is prevalent in the market and the best course of action.

The behaviour gap is a type of bias widely spoken about in investment circles.

Put simply, it is the difference between the rates of return that investments produce when an investor makes rational decisions and the rates of return investors actually earn when they make choices based on emotions.

Here's a look at how investors can utilise certain strategies (or behaviours) to minimise the impact of a stock market crash on their investments and mitigate the adverse effects of the behaviour gap.

TAKE ADVANTAGE. A stock market crash provides you with the perfect opportunity to increase your equity allocation at a reasonable cost. However, it is also important that you do not make panic buys. Picture: AdobeStock

Resist the urge to panic sell

During a market downturn, selling might seem like a good idea. However, in 10 of the last 20 years, the gap between the best and worst performance days of the S&P 500 was less than 40 days. This is the key reason why the strategy of timing the market does not work well and results in investors selling investments at low prices. Rather sit tight and give the market time to recover.

Create an emergency spending fund

Have an emergency fund which is protected from market volatility. In reality, a stock market crash impacts a lot more than the value of your portfolio. It can have an impact on things like inflation, consumer spending, and employment. Having a nest egg is of paramount importance as it negates the need to draw down on any equity investments you may hold during times of volatility.

Invest in (the right) equities

A stock market crash provides you with the perfect opportunity to increase your equity allocation at a reasonable cost and, if appropriate, allows you to switch to a more aggressive asset allocation from a comparatively conservative allocation. Equity investments, especially when purchased at low valuations, have an unmatched ability to boost your investment returns for long-term goals such as retirement. However, do not make panic buys during a market crash. Stick within your own risk parameters and not just blindly purchase equities because of their relatively low valuations.

> *Investors can utilise certain strategies (or behaviours) to minimise the impact of a stock market crash.*

Adopt a long-term view

Perhaps the most important strategy. The stock market does not go down to zero. While short-term volatility is inevitable when you are investing in equities, markets should bounce back. If correctly positioned in terms of your ability to withstand volatility, the short-term change in value becomes less relevant.

It is normal to feel anxious when markets are suffering. However, block out the short-term noise and focus on the long-term goal. Have a solid plan which provides you with peace of mind.

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