RESEARCH UPDATE

Market Update

Apt.
WEALTH PARTNERS

23 April 2020

This market update contains:
- A review of past bear markets.
- How investors should respond.
- Conclusion.

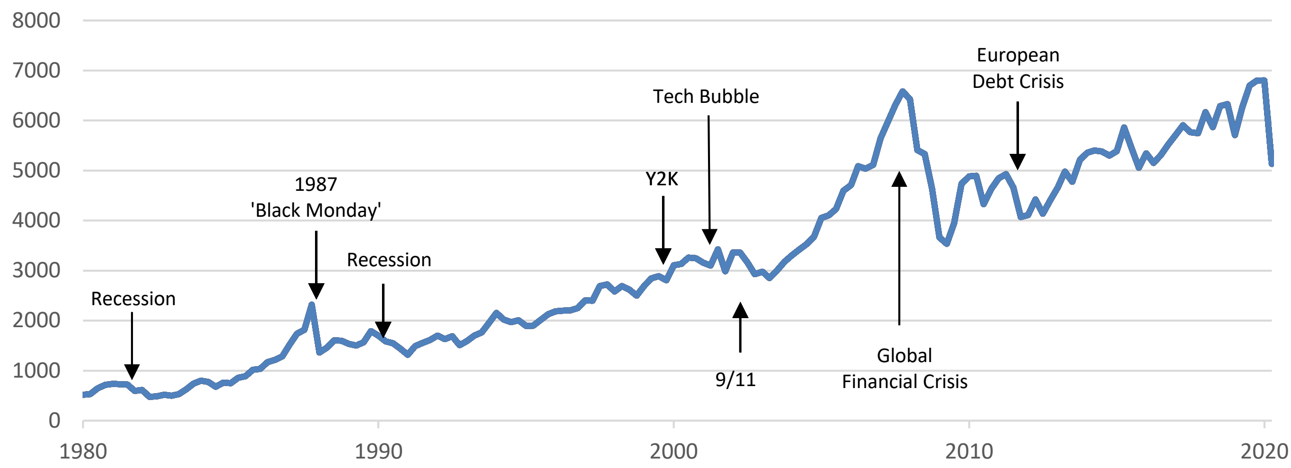
The All Ordinaires Index entered a bear market in March 2020 and is currently trading 27% below the all-time high reached on 20 February 2020. There have been nine 'bear markets,' not including the current one, since 1980. A bear market is defined as a decline of 20% or more from the previous high.

The All Ordinaries Index - Bear Markets Since 1980			
Start Date	**End Date**	**Duration (days)**	**Price Decline (%)**
1 February 1980	28 March 1980	43	20.3
17 November 1980	8 July 1982	598	40.6
21 September 1987	10 February 1988	142	49.2
29 August 1989	16 January 1991	505	32.4
8 November 1991	16 November 1992	374	21.1
3 February 1994	8 February 1995	370	21.7
7 March 2002	13 March 2003	371	22.3
1 November 2007	6 March 2009	491	54.6
11 April 2011	26 September 2011	168	22.5
Average		*340*	*31.6*

Source: Macquarie Research and Bell Potter, 23 April 2020.

Bear markets occur relatively frequently and can last from a few weeks to over a year. They create uncertainty, however, history has shown that investing in a bear market is one of the best ways to generate long term wealth. As Figure 1 demonstrates, there have been numerous reasons to be concerned in the past, yet markets have continued to reach new all-time highs and this excludes the impact of any dividends.

<u>Figure 1: The All Ordinaries Index – 1980 to 2020</u>



Data Source: Bell Potter, 23 April 2020.

Negative news headlines can lead to the emotional response to sell equities while the market is declining and try to buy-back in once conditions have normalised. This is very difficult to do and by selling you may miss out on some of the best days in the market. An analysis of large US companies by Morningstar showed that over a 20-year period from 2000 to 2019 the Ibbotson Large Company Stock Index returned 6.1% per annum. However, missing just the 10 best stock day returns meant the return fell to just 2.4% per annum.

The current market decline was one of the fastest in history, with the All Ordinaires Index declining 37.1% from the February peak on February 20th to the trough on March 23rd. However, if an investor had sold at the March low, they would have missed out on the subsequent 15.5% rally which includes six single trading days where the market rallied by greater than 4%.

The All Ordinaries Index – 24 March 2020 to 22 April 2020	
Date	**Largest Price Rise (%)**
30 March 2020	6.6
17 March 2020	5.4
25 March 2020	5.3
6 March 2202	4.2
24 March 2020	4.2
13 March 2020	4.1

Source: Bell Potter, 23 April 2020.

Attempting to time the market is hard, it is much easier and more important to remain focused on the long-term goal.

How Investors should respond

Actions that have already been taken

1. *Regularly rebalance the portfolio back to your risk profile:* to ensure that the portfolio is not exposed to unwanted risks and to also lock in profits.
2. *Maintain a buffer of safety:* despite the low interest rate environment, holding a buffer of cash and term deposits has been a key strategy for client portfolios to provide a cushion against market downturns and to protect capital.
3. *Focus on quality investments:* that generate stable cash flows to support distributions, which are not connected to the movements in asset prices.
4. *Diversification:* across assets classes, industries, sectors and geographies.

Actions to take

1. *Remain calm, speak to your Apt adviser*: it is important that you speak to us before making any financial moves. Your adviser understands your long and short-term goals and will have been planning for these types of scenarios already, so they are best placed to explain any impact and discuss the best options and opportunities for you personally.

2. *Don't try and time the market. Stay invested:* the equity market bull run has been running for over 10 years. Markets do not always go up. It will be volatile and even a well-constructed portfolio will not be immune to a market downturn. However, history shows that equity markets will recover strongly from sudden drawdown events. The low interest rate environment driven by Central Bank monetary stimulus and Government fiscal stimulus provides support for a market recovery.

3. *Stick to the plan:* focus on your long-term goals. Our investment approach is focused on the long term and designed so that your portfolio can ride out any downturns – including this one. Stay the course, despite how uncomfortable it may feel right now, it will prove to be the better option when looking back five years from now.

4. *Take advantage of the weakness:* market downturns provide buying opportunities to invest in long term, quality investments.

Conclusion

Markets will remain volatile and patience will be required. Use the market volatility as an opportunity to purchase attractive assets at discounted prices or raise any required cash during periods of strength. The Apt Wealth investment team, along with your adviser, have an action plan to navigate through the current investment environment to ensure we continue to meet your long-term objectives.

The Apt team are monitoring COVID-19's impact on the market. We are here to help you navigate the current investment environment and keep you on track to achieve your financial goals. We have developed specific resources to help you financially navigate COVID-19. Please feel free to share this resource with your family and friends.

https://aptwealth.com.au/coronavirus-and-your-finances/