

## What COVID-19 has taught me (so far)

My old Adelaide University Economics professor used to say, “Never Waste a Disaster”.

So what can we learn for our own personal finances from the Coronavirus hit? The starting point may well be to ask ‘What Would Warren Do?’

In this environment, Warren Buffet is being quoted more often than any ‘sage’. I think his approach could be summed up with a recommendation that people should not be greedy, that they be counterintuitive – and patient.

Perhaps the starting point for our own reflection is to consider what signs did we miss?

In February this year, I recommended that clients wallowing in the joy of a 14% return take out 10% of the upside and put it into cash, because the bust was overdue. This didn’t make me either Nostradamus or ‘lucky’ – it was simply that this time, I got it right. Nevertheless, I believe that investors all need to be prepared to ‘bank’ some upside as an insurance policy.

One way of doing this is to reweight portfolios regularly. There is always that demon on the shoulder (the same one who whispers to the roulette player to spin one more time) the one who tells us we will miss out on more upside if we rebalance – and the demon may be right. But the demon never tells us about the massive and inevitable downside.

I believe that it is incumbent on stockbrokers and financial advisers to step up and counsel their clients (in much the same way that a football coach recommends a different approach in front of goal, when the player would prefer to go for the glory singlehandedly). Investors often don’t want to hear that message, but it is important to listen to professional advice if we are to distance ourselves from the emotional involvement which so often results in poor decision making.

I remain convinced of the value of sticking to a strategy and resisting the urge to sell in fear and risk missing the surge back. History shows that markets rebound – even after the 1929 stock market crash the market rebounded approximately 70% from its lows in 1930. Similarly, be cautious about buying in times of uncertainty. As every rookie stockbroker loves to say, “you don’t want to try and catch a falling sword” and there is a good deal of truth in this analogy. A medium to long term strategy is always best.

More than ever, the present crisis has also reinforced my long-held conviction in the value of buying index funds (e.g. buying the ASX 300 as opposed to ‘stock picking’ 20 or so specific stocks) to spread the risk. Index funds provide the ability to diversify, at low cost, into **ALL** asset classes, not just Australian and overseas share markets.

After speaking with my clients over the last six weeks, I have also formed the view that it is important to stop thinking about superannuation as ‘money’. I prefer the ‘retirement engine’ analogy – and currently, that engine is working hard to crest a very steep hill. Provided the engine is well made (through sound portfolio construction) and well maintained with regular professional service, it will eventually reach the top, and coast along to complete the retirement journey.

For retirees, sound portfolio construction means the inclusion of a cash-buffer as a sure way of protecting growth assets in the inevitable and periodic market falls. I am more than ever committed to this concept. Perhaps over the medium to long term they will be slightly worse off – but only on paper. I view this as the payment of an insurance premium in order to avoid selling good quality assets at discount prices (and for some peace of mind) during the downtimes.

While on the subject of insurance, I will also be talking with my family, friends and clients about the need to review our own insurances and those of our adult children.

Consider dropping unnecessary cover. There may also be a time to ‘man up’ and buy appropriate life insurance – this is particularly applicable when young people commit to relationships – not just marriage. And while doctors and nurses will probably find insurers will exclude COVID-19 from income protection policies, they may be able to increase their super based life insurance and Total and Permanent Disability (TPD) insurance.

COVID-19 has brutally reminded us that whilst we have managed to insulate ourselves from many of the risks of life in the western world, life is still risky.

In the US, perhaps a quarter of a million people are expected to die from this virus. Approximately forty thousand people per annum die from the normal flu in the US (as do many thousands from motor vehicle and industrial accidents as well as individual health crises unrelated to the current pandemic). The message here is to protect your loved ones financially.

At age 57, I am feeling at the top of my investment game. I’ve learned that the stock market booms and busts like the ocean crashes waves onto the beach. This is normal. Where great amounts of wealth are transferred during times of panic, investors like Warren Buffett and others are able to step forward with their well-stocked war-chests and buy good businesses at bargain prices – but there are very few who can do this. The rest of us are best served by staying with a long-term strategy, and by being patient.

My message to my children during the present crisis is that they continue to educate themselves in financial matters. Our free-market system is a wonderful system. In our society we have enormous freedoms to create (or lose) wealth, but we need to respect those rights – and cherish them. I will also be telling my loved ones to avoid the advice they want to hear, and to listen to what they need to hear, especially if it makes them uncomfortable.

Perhaps the final message of this Coronavirus forced tutorial is to act. Don’t sit on the fence, don’t roll the dice, don’t prevaricate over getting extra financial protection in place. Don’t waste the disaster – learn from it.

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