CareSaver

Five tips to avoid coronavirus chaos in your KiwiSaver

John Berry · 05:00, Mar 21 2020

OPINION: On September 11, 2001, I was half-way across the Atlantic when our plane turned around - we were told two planes had just flown into the World Trade Centre. US airspace and financial markets were shut down.

Back in the UK on Deutsche Bank's vast London trading floor where I worked at the time, the feeling of dread was crushing when markets were to re-open. And when they did, it was mayhem. The US market fell nearly 12 per cent over several days as investors digested the consequences of the terrorist attack.

I watched the same chaos from trading floors during the Asian crisis (1997), Russian crisis (1998), dot.com crash (2000) and later during the global financial crisis in 2008. Over the last couple of weeks markets have been following the same script.

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Pathfinder Asset Management chief executive John Berry.

Covid-19 is a terrible tragedy for our society globally and in particular for our elderly and vulnerable. We don't know how bad the suffering will get. We don't know for how long or how hard it will hit humanity.

There is however a common characteristic for the way financial markets have played out in response to these events, even the crash of 1929 that preceded the Great Depression.

Right now nobody wants to be told this, but each time markets have at some point bottomed out, come back to life and eventually rebounded to hit new highs. KiwiSaver investors want to know when will that rebound happen? How much worse will it get in the meantime? How will we know when the rebound has started? These are questions on the mind of investors in our ethical KiwiSaver fund CareSaver.

A market collapse follows a predictable sequence of emotions from investors. The first fall causes anxiety ("what's happening? I don't understand"), followed by denial ("this isn't big, just temporary"), then fear ("how bad can this get?"), depression ("OMG my investment value is collapsing"), panic ("I need to sell before it's all gone") and finally capitulation when the investor sells everything.

As fund managers we know the point of final capitulation is a key one. Investors who held their nerve through the fear, depression and panic phases finally sell. When they sell, there are no forced sellers left and the market will inevitably bottom.

This week we have seen capitulation. At times it has felt like investors are getting out at any price. The S&P500 has crashed lower, down an astonishing 12 per cent on Monday alone. I am absolutely not saying that this week is the end of the brutal selling and the final capitulation – no one is smart enough to predict that.

But this week's sell-off has a sense of bringing us closer to the end, not the start of something new. Markets may well fall further, or they may not. However, what is clear is that a growth KiwiSaver investor should stay the course.

So what can you do to avoid capitulation?

1. Check with your provider that you are in the right fund (ideally you would have done this three months ago). KiwiSaver is about saving for retirement or for a first home. If you are close to buying a house you most likely need capital stability, it's unlikely you should be in a growth fund. If you have 30 years until you need your KiwiSaver, you absolutely should be in a growth fund.

Over recent days, I have seen a few people switch from conservative to a more risky fund. Is that the move of a genius or an investment clown? We will know in time – my bet is when we look back, we will say they were brave and smart.

2. Don't check your KiwiSaver balance often. If you don't need it for 5 or 10 or 20 years you can't 'will' it higher, you need to let it run its course. Over-watching and over-thinking will lead you to the panic I want you to avoid.

3. Remind yourself this month that your contribution from your salary buys more shares - but now you're buying at cheaper prices. When markets recover, and they will, you will look back and know you bought cheaply.

4. Do not stop your monthly contributions, you are buying cheap now. I know it is impossibly hard, but you need to tell yourself to feel the same excitement with each monthly contribution that comes from buying a long-desired clothing item at a 25 per cent discount.

5. If you are nervous and want to take action, you need to think about whether your manager can effectively take that action for you. A passive manager (one that only invests in index funds) will ride the market up and ride the market down and take no steps to mitigate the losses. An active manager will be turning every dial in front of them – cash holdings, currency exposures, only holding quality stocks and using derivatives – to minimise the downside. Personally, I wouldn't want to be in a passive fund at the moment.

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Markets plummetted after the terrorist attacks on September 11, 2001.

Markets have a habit of anticipating bad news. An awful lot of bad news is already be priced in. Markets also have a habit of anticipating the recovery, and you cannot predict or pinpoint when the recovery will start.

In 2008 in the midst of the global financial crisis, I woke up each day genuinely worried the entire financial system could collapse. Now I worry more for those growth KiwiSaver investors who give in and capitulate and risk deeply harming their long-term savings.

John Berry is chief executive of the CareSaver KiwiSaver Plan (managed by Pathfinder Asset Management). His views in this article are general only and do not constitute recommendations for any particular person to acquire, hold or dispose any fund or financial product.