Partner with your clients
to maintain wealth-creating portfolios during crisis

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The tried and tested wisdom when constructing an investment portfolio is to understand your needs and goals and then to invest accordingly. You should resist the temptation to make knee-jerk, emotional changes to your portfolio. Even with these rules in place, financial planners are frequently pressured by their clients to reconsider investment choices during times of crisis.

A review of a client's investment portfolio is not necessarily a bad idea, because a crisis may expose weaknesses in stocks and sectors that seemed great when they were initially considered. It would be unwise to make rash decisions based on the market fallout triggered by the COVID-19 pandemic; but adopting an 'ostrich' approach of doing nothing could be equally damaging to your client's long term financial outcomes.

Choosing to hold or sell

A portfolio examination should be approached from two angles. Firstly, you should consider what stocks and sectors to invest in, from today on. Secondly, you should consider whether to disinvest from any stocks that you currently own. These decisions will be affected by your core fundamentals, which are made up of your investment timeline and your risk appetite.

Accommodating your risk appetite does not mean trying to time the market. Investors who attempt this will inevitably buy when stocks are near their highest levels and then realise losses by selling when they are near their lowest. Investing during a crisis is an especially daunting task for investors who have just started on their savings journey. It is difficult for them to align their core fundamentals with short term market volatility, especially if that volatility means that their investment value has dropped below the sum of their contributions.

The current market volatility reinforces the need for financial planners to educate their clients and manage client expectations on each step of the wealth creation journey. Clients should not be questioning their investment strategies or considering switching to overly conservative strategies just because of short term losses. Instead, market corrections should be viewed as opportunities to buy.

Understanding a buyer's market

It is not true that every share is a 'buy' just because the market has fallen. Some companies have been so affected by the global pandemic that they may never recover or take a long time to do so. Investors must also understand that a buyer's market does not guarantee that a stock's value will increase immediately after buying it. Prices may fall further, especially if global markets remain under pressure.

A carefully chosen stock has the prospect of recovering and growing beyond its current purchase price, over the investment horizon, because the fundamentals of the company remain solid. Investors will have their favourite stocks and will probably focus on areas where recovery from a crisis are most likely. Under this scenario it is important to protect your portfolio diversification, as it is never a good idea to deploy all your money into a single stock, market, or sector.

You may, however, identify sectors that you do not want any exposure to and adjust accordingly. Another aspect to anticipate is how the investor is changing. Increasingly, we see investors looking for more advice and not necessarily investing in the same thing every month, even in their retirement annuities. To do this effectively, you need to be in contact with your clients more often. Your guiding advice could prove invaluable.

Good news for financial advisers

Investors are increasingly concerned with impact investing and making positive contributions to communities and the environment, while generating sustainable returns. These investments often run counter cyclical, offering stable inflation-beating returns when other sectors are struggling. All of this is good news for financial advisers, who can add more value by partnering with their clients to generate a wealth-creating investment portfolio. ●