

Braced for the correction

Prophecies of a market downturn are everywhere, writes **Rob Stock**, but one survey suggests investors are prepared to wait it out.

After stellar runs for global share markets, the country's fastest-growing online funds supermarket decided to ask investors how they would respond to a crash.

To mark the tenth anniversary of the Global Financial Crisis, Invest Now's Mike Heath surveyed investors who had put money into funds through the business on whether they would buy, sell or hold, if share markets fell by 10 per cent in the space of a week.

More than 250 investors answered the survey, and just 2 per cent claimed they would sell to cut their losses, if markets fell by 10 per cent in a week.

The vast majority said they would also hold their course, or invest more, even if markets then fell another 20 per cent.

Heath said many would see falls in share prices as an opportunity to buy more shares at bargain prices.

Three in ten said they would buy more shares if markets fell by 10 per cent, while nearly six in 10 would do so if markets slipped another 20 per cent.

"That was great to see," he said. "They weren't going to react. They were saying 'I am in it for the long term'."

Only a market correction would show whether they would have the nerve to hold the course.

As Matthew Frankel, columnist for the Motley Fool investing news service put it: "Unfortunately, many investors let their emotions get the best of them, and they end up doing the exact opposite.

"When the market has a massive winning streak and everyone is making money, investors are tempted to buy stocks at inflated prices ... And when the market



Sharemarket corrections happen, and investors need to be prepared. 123RF

corrects or even crashes, investors panic and sell when stocks are cheap."

The result is that they "crystallise" their "paper" losses, removing their ability to earn their money back in any market recovery.

Heath said the survey was conducted to put the spotlight on an important issue all sharemarket investors have to grapple with: What would they do if markets headed south?

"It's encouraging to see people are thinking about the fundamentals of risk," Heath said.

"We think it's important that investors are asking themselves 'what if' questions."

Sharemarkets can move quickly to "price in" bad news, which can lead to extremely sharp falls, but similarly, market recoveries, when

they happen, can be quick too.

InvestNow is not like KiwiSaver.

The online business makes it easy for people to shop around for managed funds, but the people who seek it out have taken an active decision to put money into sharemarkets, as opposed to having an account opened for them as a result of their employment.

That means InvestNow clients tend to be self-led, savvy investors.

Sharemarket investors have to learn to live with ups and downs in markets, and, it seems, periodic financial crises. Heath said in 84 of the 219 calendar months since July 1999, investors experienced negative market returns.

Though Heath is not suggesting a sharemarket correction is imminent, it's not hard to find prophets of economic doom.

"There will always be another financial crisis coming in the not too distant future," insurers at the Insurance Council's annual conference in Auckland were told on Wednesday by visiting geopolitical expert Alastair Newton.

When the next financial crisis comes, it could start in Dubai, Mumbai or Shanghai, Newton said, but America's return to sub-prime lending, its deregulation of financial markets, and the chance president Donald Trump would start a trade war with China, or even a real war, made it likely that "when the next financial crisis comes, it will be 'Made in America'."

"What I'm saying is there is real political risk out there," Newton said, urging insurers to question their assumptions about how they invested.



Investor attitudes are encouraging, says InvestNow's Mike Heath. SUPPLIED

"History tells us we're heading for a crash," ACT leader and savvy share investor David Seymour said this week.