Brand New Day

Investing in times of crisis

March 17th, 2020

Substantial declines in stock prices are inevitable. On average once every 10 years there comes a time when the stock markets fall sharply in either a short period of time. Just think of the stock market crash of 1987, the bursting of the internet bubble in 2000 or the financial crisis in 2008. These red figures are frightening and many investors feel the urge to act at such moments. But it can be better to keep the long term in mind, especially in such times. To look through the red numbers. And to stick to your plan. We hereby provide you with more information about investing during times of crisis.

The past

Uncertainty always have an impact on the stock market and therefore on your investments. This is nothing new. But one development has more impact than the other. Over the years, we as human beings have been confronted many times with hefty corrections in the stock market. Think of the stock market crash in 1987, the bursting of the internet bubble in 2000 or the disruption surrounding the Brexit and the trade war between America and China in 2018. We could list many years in which the stock market showed large declines from which they later recovered.

For example, those who invested in Brand New Day in 2018 according to a very offensive profile saw their investments decrease in value by more than 9 percent in that calendar year.

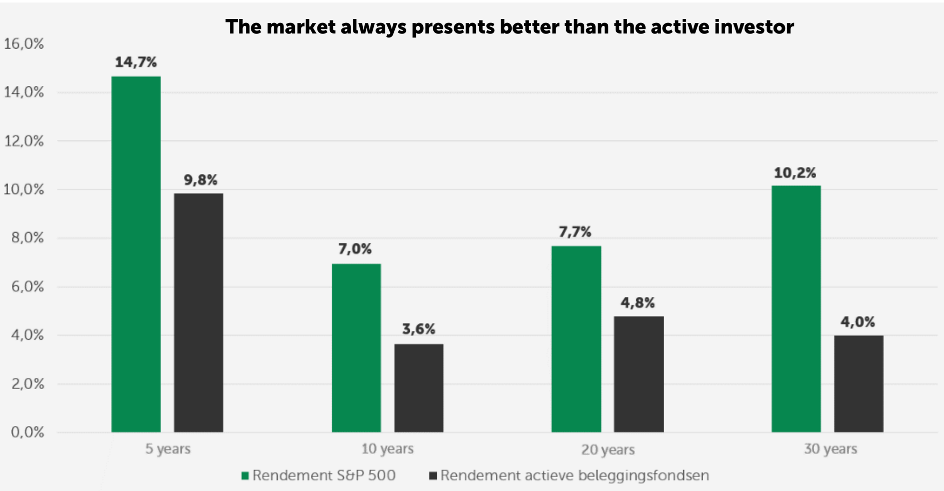
	Very offensive	Offensive	Neutral	Defensive	Very defensive
2010	6,28%	5,64%	5,00%	4,37%	3,73%
2011	-5,50%	-2,79%	-0,08%	2,62%	5,33%
2012	13,05%	11,01%	8,98%	6,95%	4,92%
2013	24,54%	18,79%	13,04%	7,28%	1,53%
2014	8,94%	8,93%	8,91%	8,90%	8,88%
2015	1,05%	0,86%	0,66%	0,46%	0,27%
2016	7,26%	6,31%	5,35%	4,39%	3,44%
2017	15,60%	12,21%	8,82%	5,43%	2,04%
2018	-9,21%	-7,19%	-5,18%	-3,16%	-1,14%
2019	22,75%	18,84%	14,94%	11,03%	7,13%
Gemiddeld	**7,96%**	**6,95%**	**5,88%**	**4,75%**	**3,57%**

The small print: Performance per profile of the standard funds for the investment account and the children's account: the BND Wereld Indexfonds (equities, until 25 February 2016) and the BND Wereld Indexfonds Hedged (equities, from 26 February 2016) and the Euro Staatsobligatiefonds Kort (bonds, until 31 March 2014) and the BND Euro Obligatie Indexfonds (bonds, from 1 April 2014), after deduction of management fees and with annual rebalancing on 31 December. Past performance is no guarantee for the future.

However, in periods of falling prices, it may be advisable to bite the bullet. Those who stayed calm and did not let themselves be chased away by the red figures in 2018, achieved a return of 22.75 percent in 2019 with the same highly offensive profile. Imagine if you sold your investments during the market drop in 2018 and later re-entered - at a higher price. That would probably have cost you a lot of money. The number of investors who acted out because of fear in the past and made large losses as a result, is probably very large.

The market is unpredictable

We suspect you can't predict the stock market. Unless you have a crystal ball, but unfortunately few of us do. All kinds of studies show that it is virtually impossible to beat the stock market. Take a look at the table below, which compares the returns of active investment funds in percentages with the S&P 500, the index of America's largest companies. What does it show? The market generally outperforms the active investor and therefore cannot be predicted.

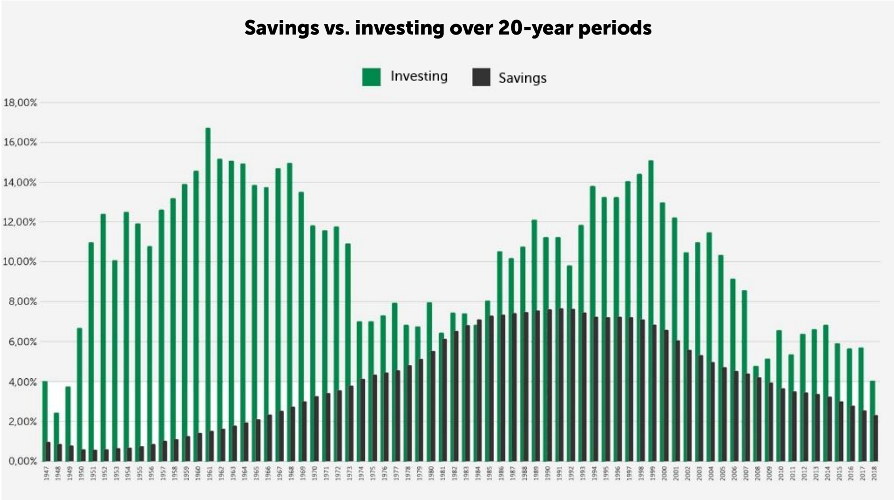


The return in percent of the S&P 500 compared to the performance of active investment funds until 2016. Source: Dalbar.

Investing is for the long term

When you invest, you know one thing for sure: on average once every 10 years, you are faced with a major stock market crisis, with prices plummeting in a short period of time. And during good years, the prices usually fall by 10% in a short period of time. History teaches us that it pays to stay calm. Because in the past, declines were always followed by increases, which were followed by declines, which were followed by... you get the message. History also teaches us that, in the long term, shares still yield positive returns. In the meantime, that can be a lot more or less. So it is important that when you start investing, you keep the long term in mind.

For example, we can cite the returns on savings and investments over periods of 20 years. Below you can see the average annual return over a period of 20-years for both investing and saving over all possible 20-year periods between 1947 and 2018. This shows that investing over a 20-year period almost always produces a higher return than saving.



The small print: This graph shows the average annual return over twenty years for investing and saving. Calculations by Brand New Day. Data for investing comes from the S&P500 Index (in USD, from 1928 to 1969), the MSCI World Index (in USD, from 1970 to 2004) and the MSCI World Index (hedged to euros, from 2005 to 2018). Data for savings relates to the yield on US T-bills (in USD, from 1928 to 2002 inclusive) and the average annual interest rate on Dutch savings accounts without a fixed maturity (source: DNB, from 2003 to 2018 inclusive). These calculations do not include any costs that could reduce the return on both categories.

Isn't it more convenient to sell my shares for bonds?

During turbulent periods on the stock exchange, it can be tempting to sell your shares and buy bonds. Bonds are generally always a safer investment than shares. At the same time, they have a lower expected return. Does something change in your personal situation or do you experience sleepless nights due to (considerable) developments on the stock market? If so, it may be an option to ease off a little by partly rebalancing into bonds.

On the other hand, bonds have a lower expected return and therefore they may contribute less to reaching your goal. Equities have a higher expected return, precisely because they also involve more risk. You are aware of this risk, because earlier we showed that price drops occur once in a while. However, the long-term impact of these drops is negligible. As we saw above, investing over a period of 20 years is almost always more effective than saving. After all, those who invest for the long term allow their shares time to recover. Do you sell your shares in times of stock market stress and buy safer bonds? If so, this can ensure that your investment portfolio takes even longer to recover. After all, bonds usually rise less quickly in value than shares. Moreover, bonds are often more expensive when shares fall in value. When switching from shares to bonds, it is therefore advisable to keep an eye on the long term.

Of course, the above figures are no guarantee for the future. But price drops have been occurring since publicly traded shares have been around. We noticed this in 1987, in 2000 and in 2018. And after all those years, recovery followed. Nobody knows how long troubled times will last. Maybe a day, maybe a month, maybe a year. In the past, the recovery of the stock markets sometimes took more than a few years. Do you have a long investment horizon? Then, according to past figures, there is a good chance that the value of your investments will recover. It is therefore important to keep the long term in mind and not to act out of fear. That fear is in most cases a bad advisor.