Antipodean Private Pty Ltd
133 Alexander Street
Crows Nest NSW 2065
Phone: 1300 101 250
Mobile: 0438 893 571
Email: michael@antipodeanadvisory.com
Web: www.antipodeanadvisory.com

Retirees COVID 19 and options on the table during a market crash

The spread of coronavirus has been followed by some of the biggest plunges in share markets since the Global Financial Crisis (GFC), both here in Australia and around the world.

There’s nothing new about a market correction, but for those close to retirement it can be a nerve-wracking experience. If you’ve checked your superannuation balance over the last week, you may need a stiff drink.

For investors, or anyone with super, the general advice is to hold your nerve. Selling out at a low will lock in losses. Market corrections are quite normal and share market pullbacks provide opportunities for investors to buy cheaper stocks that will rise in value over time.

Yet “hold tight” may be easily said to younger or middle-aged Australians accumulating wealth in the super system; but what about our ever-increasing pool of retirees? Do they have the luxury or the option to weather corrections such as this?

For younger Australians currently making regular contributions to super, the impact of large sell off is minimised for two key reasons. Firstly, there is plenty of time to wait until markets recover, and secondly, they also may benefit from buying cheaper assets at the bottom of the cycle.

Antipodean Private Pty Ltd (T/A Antipodean Advisory) is a Corporate Authorised Representative (No. 1271526) of Capstone Financial Planning Pty Ltd. ABN 24 093 733 969. Australian Financial Services Licence No. 223135.

Antipodean Private Pty Ltd
133 Alexander Street
Crows Nest NSW 2065
Phone: 1300 101 250
Mobile: 0438 893 571
Email: michael@antipodeanadvisory.com
Web: www.antipodeanadvisory.com

Yet for retirees there are no such luxuries. While markets are down, every dollar of income drawn on from super is crystallising the loss at a market low point, this is commonly referred to as 'sequencing risk' and is the reason why retirees need to be more careful than those in accumulation phase.
We as a species have evolved with embedded natural instincts to flight or fight in times of crisis. The tendency for retirees to watch their investments closer and have a greater care-factor for their investment outcomes makes a lot of sense – they are less capable of replacing these savings. However, as a result, there can be a flight to safety at the worst possible time. Known as 'behavioural risk' this is the observation that investors tend to switch out of risky assets near the lows of the market cycle.

The spread of coronavirus and the resulting fall in markets highlights the importance of investors understanding how much risk they are holding in their super or pension account. Australians in or approaching retirement, who have sat up and taken notice of the recent market plunge, may now be wondering, what is the right amount of risk to hold in their investments?

Our view is that the decision to reduce risk needs to be traded off with the impact of potentially lower long-term returns.

With record low interest rates and bond yields, the future return expectations on traditional safe-haven assets is lower than ever, strengthening the concept that if risk equals return, no risk equals no return! And with our life expectancy ever increasing with advances in medicine, science and technology, our retirement savings need to support our lifestyle longer.

Investors looking to reduce downside risk, but concerned about the impact on long term returns, could consider some of the following options:

- Diversifying into non-traditional income generating assets, such as infrastructure assets
- Remaining in equities, but adding protection
- Checking investments are being optimised for retirement tax treatment
- Remaining in growth assets but increase diversification into growth-alternatives
- Consider a strategy that dynamically adjusts the asset mix based on the environment

But most of all, with any of the above, our view is that right now is most likely not the right time to make a reactionary switch. Let the dust settle and move gradually over time.

Retirement is about enjoying life without the obligation to work. For your investments retirement is also about considering your own personal appetite and capacity for risk, the cost of suffering large portfolio losses, and the impact of not earning sufficient return.
It's a balancing act, but with the right help, entirely achievable.

Source: AMP Capital