Coronavirus / Covid-19: investment strategies during times of market crises

1. Retirement Annuity

a. Time to retirement date (when you expect to start drawing an income from your retirement fund) **< 5 years**
   i. As you approach retirement date, you can start switching no more than one-third of your RA fund into cash – this is the maximum amount you will be allowed to withdraw on retirement.
   ii. The balance should remain invested in a high risk (Enhancer) or medium risk (Builder) portfolio, at best.

b. Time to retirement date **> 5 years**
   i. Do nothing!
   ii. Remain invested in the highest risk portfolio (Enhancer)

c. **Continue to make your regular contributions** to maximise upfront personal income tax savings. Do not stop or reduce your contributions, unless your income drops.

d. If you are currently in a high cost RA fund, use this opportunity while the markets are low, to **switch to a low-cost fund** (e.g. the etfSA RA Fund), especially if there are penalties payable to switch.

e. Remember that you are not able to make your own investment decisions (choose your own ETFs, for example) for you RA fund. It is **managed by an investment manager** (me, in the case of the etfSA RA Fund), who will be taking defensive measures inside the investment portfolio, as market conditions require to do so.

2. Discretionary Investments

a. <u>Current investments</u>
   i. Do not sell just because the market has fallen.
   ii. Use this opportunity to **review what you hold**, to ensure that it is appropriate for your investment needs (diversified exposure to different asset classes, geographic regions, drivers of return, incl. economic, factors and industries). At etfSA we can advise you in this regard if you need it.

iii. Use this opportunity to **sell out of inappropriate investments** (does not fit the strategy as defined above, high cost, etc.) and **immediately reinvest** the funds – you will be selling low, but also buying low!

iv. If you currently have big capital gains (with tax implications), you can use this opportunity to lock this in at much **lower levels of CGT**, rather than waiting to sell once the market recovers, and then have to pay much more CGT.

v. Poor investments (not poor performing, but rather poor / wrong investment exposure) can be sold at a time where you may even be locking in capital losses, which can be used in future to offset capital gains, thus **reducing your tax liability**. But most importantly, **immediately reinvest** the money!

b. <u>New investments</u>

i. **Continue to make regular contributions** to achieve rand-cost averaging – you will be buying some investments at much lower prices than before, giving you more "bang for your buck".

ii. Use new investments to move your portfolio closer towards **your targeted / ideal investment exposure**, so first buy the ETFs that are the most underweight relative to your desired exposure.

iii. If you have a **lump sum to invest now**, and you are not sure if you should do it now, or wait until the market recovers:

1. **Nobody knows** what the market will look like tomorrow, or next week, or next month. Nobody is going to ring a bell to tell you – NOW is the time to get into the market. It is not possible to time your entry into the market perfectly.
2. If your **fear of loss** (the market falls another 10, 20, 30%) is greater than your **fear of missing out** (the market rallies from here and I missed it), then split your investment into two or more tranches, else, just invest now.

3. Tax-Free Investment Account

a. This is the investment that should have the longest investment horizon, and therefor can take the highest risk – **do not sell out of this** and **do not withdraw any money from your tax-free account**, as you will not be able to reinvest the money later on, without negatively impacting your lifetime contribution limits

b. The same principles apply as for the discretionary investment – you can use this opportunity to change some of the investments **inside** your tax-free account (e.g. switch from a tax-free **savings** account to a tax-free **investment** account), but whenever you sell, make sure your immediately buy again, so that you are doing both transactions at the same level in the market.

c. The basic guidelines for the best ETFs for a tax-free account remains the same:
   i. **High yielding ETFs**, which include preference shares, bonds, listed property and dividend ETFs.
   ii. **High capital growth potential**, mostly equities, especially global / offshore for extra rand-hedge protection. It is worthwhile to consider ETFs which have seen the biggest price drops in recent weeks.

Broadly speaking, one can consider the "**risk ratings**" of different ETPs as follows (1 is the lowest risk and 5 the highest risk). In grey are the ETPs that may not be used in tax-free accounts:

1. **Cash, Interest-bearing**
   a. Cash: NFTRCI
   b. Preference shares: PREFTX
   c. Local bonds: ASHINF, ETFBND, NFGOVI, NFILBI, STXILB
2. **Multi-Asset**
   a. MAPPSP, MAPPSG
3. **SA Equity, Property, Global interest-bearing, Currencies**
   a. SA Equity: ASHMID, ASHT40, CTOP50, DIVTRX, ETFSWX, ETFT40, GIVISA, NFEDEF, NFEMOD, NFEHGE, NFEMOM, NFEVAL. NFEVOL, NFSH40, SMART, STX40, STXDIV, STXFIN, STXIND, STXMMT, SWXTR2, TOPTR2, STXRAF, STXRES, SYGSW4, SYGT40
   b. SA Property: CSPROP, ETFSAP, STXPRO
   c. Global bonds: ASHWGB, DCCUS2, DCCUSD, ETFGGB, NFNAMB
   d. Currencies: NEWEUR, NEWGBP, NEWUSD
4. **Global Equity, Property**
   a. Global Equity: AMIB50, ASHGEQ, CSP500, ETF500, ETF5IT, ETFWLD, GLODIV, STX500, STXEMG, STXNDQ, STXWDM, SYG4IR, SYG500, SYGEU, SYGJP, SYGUK, SYGIS, SYGWD
   b. Global Property: AMIRE, ETFGRE, GLPROP, SYGP
5. **Commodities**
   a. Precious metal ETFs: ETFGLD, ETFPLD, ETFPLT, GLD, NGPLD, NGPLT, KCCGLD
   b. Precious metal ETNs: NEWPLT, NEWSLV
   c. Other commodity ETNs: SBACOP, SBACRN, SBAG1, SABOIL, SBAPD1, SBAPL1, SBAS1, SBAWHT

These are **investment** strategies, not **trading** strategies. We assist people with **growing wealth** over the longer term, by helping you to stay the course, and not give in to emotional knee-jerk reactions. If you are looking to achieve a specific entry or exit point for your investments, etfSA is not for you. You will be better served by an online stockbroking platform, with higher costs, and without advice.

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