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5 things to know about market upheavals

To survive and even thrive in volatile times during the pandemic, it pays to be conservative and beware dangers of market timing.

1. What drives the unprecedented volatility?

Widespread lockdowns to contain the pandemic have led to a pronounced business to a virtual standstill.

For the first time since last February, the fear of an ensuing recession caused investors to dump stocks indiscriminately, and sharply brought to an end the longest bull market in the United States. The panic selling was so bad that many would-be circuit breakers were activated to halt trading four times.

In the meantime, massive fiscal and monetary packages announced by the US and other countries give the market hope that the economic damage from the Covid-19 crisis could be quickly contained and that the ensuing recovery would likely be well and deep.

2. Know what you don’t know

Following the market’s reaction in China in the middle of last month, mariners had a shaped rebound.

The US stock market has been marked by increased volatility amid the coronavirus crisis. For example, the S&P 500 suffered its worst quarterly loss since 2008 but recovered with a record weekly gain. Photographers FRANCK FLAIVE

3. Brutal truths about market timing

The surge in market volatility creates deceptively attractive biases to buy low and sell high, making easy money quickly. As a result, trading volumes have increased sharply.

The truth, however, is that few can time the market consistently. A popular approach is to infer from past crises about the possible resolution of the current one.

History, however, does not simply repeat itself. For example, it took only 15 days to drop 38 per cent into a bear market in the current crisis while the black swan events of the past took at least 10 days in the US. Furthermore, the sub-zero rally of nearly 20 per cent from late last month was also viewed as an anomalously strong to the unusually short duration of the preceding downturn.

4. There are no bold, hold investors

Bloomberg recently reported that more small investors in Singapore are leveraging, despite warnings from the Monetary Authority of Singapore. This is because a stock’s daily increase in trading price is lower than a large investor.

To make matters worse, the stock market is full of small investors who are not as well-informed as large investors. This is because a stock’s daily increase in trading price is lower than a large investor.

5. Conservative investors sleep well

Positive signs are emerging – the road to recovery has started in China and some European countries, and last month’s trade data from China is better than expected.

But a new International Monetary Fund report points to a rather grim picture: The lockdowns on a global scale have hit the world economy into a recession, likely the worst since the Great Depression in the 1930s.

Volatility is here to stay. History is a indicator, adopting a conservative approach, by following the 60s, will serve investors better.

- Avoid leveraging finance so you don’t have to face forced sales when the market suddenly tanks.
- Avoid companies whose high valuations rely largely on future promise and whose income statements have yet to show meaningful operating profits.
- Adopt a globally diversified portfolio, including low-cost and highly liquid index exchange-traded funds.
- Avoid the notion of "backs" buying stocks, as you will get stuck with stocks that are in high-quality shares when a stock market downturn appears.

Endnotes:

- Charles Duh, head of research and associate professor of accounting at the University of Clermont Auvergne School of Business. The opinions expressed are those of the author and not represent the views and opinions of NUS.

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