Raiffeisen INVEST

How to keep a cool head in the capital markets despite the coronavirus

The coronavirus is causing uncertainty. And not just in terms of health, but also in the capital markets. Stocks are falling across the globe. Many of you may be asking yourself questions like,"What should I do?" "What's going to happen next?" Today we have some suggestions for you on how to keep a cool head despite the current (and, of course, possible future) fluctuations in price.

What has led to the price declines on the world's stock markets?

Before we look at how you should deal with the current situation on the capital market, let's look at the whys. Why there have been such price declines recently:

- The **coronavirus**, originating from China, has now reached **large swathes of the globe**.
- The entire **world economy is reeling**. These economic upheavals are due to closures, travel restrictions and curfews, etc.
- Concerns about the economy and the disagreement about a possible restriction on production at last week's OPEC meeting caused **the oil price to drop rapidly within a very short time**.
- **Interest rate cuts** by Fed & Co. should support the national economies and reassure market participants. In some cases, however, this was seen more as a cause for concern than for encouragement, and share prices turned negative.
- **Additional measures by the central banks through bond purchase programs**: the European Central Bank (ECB), for example, announced a pandemic emergency purchase program initially in the amount of EUR 750 billion, under which primarily bonds from governments and companies can be bought and for which existing purchase restrictions have been partially lifted. This purchase program is armed with some crucial flexibility in several respects (volumes, timing, issuers) and, if necessary, it could also be topped up to provide almost unlimited short-term liquidity support for companies.
- In parallel, governments around the world are announcing new aid programs to support their economies almost on a daily basis.

The financial markets are currently trying to somehow price in the radically changed global economic environment. However, in view of the enormous imponderables on many levels and the lack of any historical comparison options, this is almost impossible at the moment. From a psychological point of view, it's no wonder that these and other reports are generating uncertainty. The first reactions are panic and fear for one's money. But…

Remember that your securities portfolio is not a product of chance!

You’ve made your **investment decisions based on your personal situation** and certain ‘framework’ considerations. It is these basic reasons for your initial decisions that should be the decisive **factors in determining how you proceed** – and not concern about the coronavirus. Don't let emotions get the better of you, but answer the following questions calmly, with a clear head:

- **Has anything changed in terms of the original framework considerations?** New goals, different time horizon, a change in your willingness to take risks? Then your **investment strategy needs to be adjusted**.
- Are the **basic parameters still unchanged**? **Don’t** let yourself **get knocked off course**. Falling prices are just as much a part of the capital market as price increases. The longer your money is invested, the greater the chance of making up the losses.

Time is the main ally of the investor.

Every cloud has a silver lining – where there’s risk, there’s also opportunity.

If the price declines mean uncertainty on the one hand, and bring a paper fall in your reserves, they also offer an **opportunity to use the lower trading prices as a chance to invest**:

1. **Regular fund saving**
   Regular fund saving means that you buy investment fund units on a regular basis (e.g. monthly) with a fixed amount of money each time. Since the same amount is always used, more fund units are acquired in times of price declines than in periods where prices are higher. As a result, you achieve a cheaper average purchase price of the fund units (this is referred to as the cost-averaging effect).
2. **Increase your regular fund savings**
   If you are already saving under a fund saving agreement, now might be just the right time to increase the regular amount you invest. By doing so, you will benefit more from the above-mentioned cost-averaging effect. And because you will then hold more units overall, you will be in a better position to profit from any future price increases.
3. **Single-sum investment? – do it step by step!**
   Should you be thinking about investing a larger amount in one go in securities funds in these volatile times? Perhaps, but it doesn’t have to be in one go – think about doing it this way: In order to be able to benefit from possible further price declines over the longer term, it can make sense to split the single sum into smaller amounts. That’s why we say invest the money step by step.

The increased fluctuations in value due to the coronavirus are often leading to emotional responses and uncertainty. However, consider your investments as objectively as you did when you originally decided to make them. Question the underlying motives for your investments. And to conclude with well-known phrase:

If you don’t have the shares when they fall, you also don’t have them when they go up!

Creation date: March 2020

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