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Stock market crash: We answer the 10 most common questions about the current situation

If, as is currently the case, there are extreme price drops on the capital markets, there is great uncertainty among market participants. A lot of questions arise.
Anyone who has been dealing with securities for a while already knows these questions – they come up again and again at every stock market crash. We've collected the most common of these and answered them here.

1. **What will happen to the markets going forward? Will the current stock market crash result in further price drops on the markets?**

Realistically, no one can answer this question at the moment. The fact is that we're currently witnessing extraordinary developments in the markets and it is impossible to predict what will happen going foward, i.e. whether there will be further declines. What CAN be assumed is that the capital markets will remain very unstable.

2. **How long will this stock market crash last?**

Even if there may be brief recoveries in the meantime, our fund management teams do not expect to see a rapid normalisation on the capital markets. Rather, we expect that when the virus is brought under control, there will then be a sustained upward trend.

3. **What do the fund management staff do in a stock market crash like this?**

The fund management teams follow the developments on the capital markets very closely. The risk in our funds has been reduced. Specifically, the share of equities and bonds has been reduced appreciably. The proceeds from these sales have been reallocated to low-risk, money market-related instruments, but capital losses are still possible at any time. Furthermore, the fund regulations restrict the fund management staff in their scope of action. The fund must contain what it says 'on the tin'. In other words: An equity fund must remain an equity fund. The investment aims and policy can be found in the prospectus of the respective fund, available on our website or any RBA branch.

4. **Can I access my money at any time?**

In principle, you can redeem your fund units at any time at the trade price attainable on the given day. In extraordinary capital market situations, this may be subject to certain delays.

5. **What should I do now?**

This is different from case to case. Has anything changed in the basic factors underlying your initial investment decisions – in your investment horizon, for example, or in terms of your risk tolerance? If so, then adjustments may be necessary. If not, then act with a level head. You will find detailed information about this in the article and document "How to keep a cool head in the capital markets despite the coronavirus", also available on our website.

6. Should I remain invested in a stock market crash or should I get out?

The last major stock market crash was in 2008 – the so-called Lehmann crisis. Prices slumped by almost 50%. This drop was virtually entirely made up over the next three years and from then on, the upward trend continued until prices had risen by almost a further 150%.
Anyone who exited at the low point was left nursing a bitter loss. A new investment a year later – when part of the price declines had already been made up – yielded some solid price gains. However, the result was well below that of anyone who'd been invested from the start. Our conclusion is: Getting the timing right in an extraordinary period of market volatility such as this is not possible, as future price trends cannot be predicted.
One thing's for sure: fear is a bad advisor when it comes to stock market decisions. Get in touch with your Raiffeisen advisor – together you'll be able to work out a sensible strategy.

7. What does the current stock market crash mean for a regular fund saver?

In fund saving, you regularly invest a certain fixed amount in securities funds. This means that more units are bought in weak stock-market phases (i.e. at lower prices) and so the cost-averaging effect comes into play. A fund saver therefore benefits from possible future price increases through an increase in the number of fund units held, though capital losses can still occur. If the monthly savings rate is increased during a weak phase of the stock market, the cost-averaging effect is stronger.

8. You always hear people saying that the markets will recover – why are they so sure about that?

Stock market crashes, or crises on the capital markets, are part and parcel of the securities business, just as are price rallies in the opposite direction.
Since the beginning of 1970 the global stock market has been exposed to more than 20 crises. Sometimes the setbacks were relatively less severe, sometimes more so. But whatever the case, these crises of the past had one thing in common: the recovery that followed. And despite all these price drops, the stock market has, over these past 50 years, returned an average of 8.34% p.a.
Our opinion: Like past crises, this crisis, too, will pass and when it does, we assume that the markets will once again develop positively.

9. What do the current losses mean?

It's important to take a broad, overall view when it comes to securities investment. Depending on how long you've been invested, the loss you've sustained may be relatively large or relatively small. Perhaps there has been no loss at all over the investment period as a whole, the past few weeks having only reduced (albeit considerably) your total return. Another question is whether (in addition) you have a regular fund saver plan in place, which in the current situation will have resulted in cheaper fund-unit purchases. Though this also means that capital losses cannot be ruled out.
We assume that it will take some time for the markets to start developing positively again. If you sell your fund units, then your paper losses will, whatever else happens, become real losses.

10. Should you invest fresh money now?

The markets are still very uncertain for the moment, and market fluctuations are expected to continue for some time yet. Whether you would like to invest again now will depend mainly on your personal risk tolerance and assessment of the market situation. Anyone who decides in principle to invest, also has the option of spreading the investment over a certain period of time (e.g. over 12 months). An investment, step by step.

If you still have any unanswered questions about your securities and the stock market crash, please don’t hesitate to contact us or your Raiffeisen personal banker.

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