ERSTE Asset Management

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https://blog.en.erste-am.com/navigating-the-corona-crisis-with-s-fund-savings-plan-opportunity-or-risk/

Navigating the corona crisis with s Fund Savings Plan – opportunity or risk?

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Prices are falling on the capital markets – as is my fund! Am I heading for a total write-off, or do crises also offer opportunities? What am I supposed to do with my s Fonds Plan (s Fund Savings Plan)?

Note: Depending on the performance of the investment fund, the performance of an s Fonds Plan will differ from that of a single investment (higher or lower). A loss of capital is possible in both cases.

Our 6-point strategy is meant to answer frequently asked questions and give you food for thought in the investment arena.

Two important general rules as introduction:

- If you have decided to build capital gradually and over a longer period via the s Funds Savings Plan, you should not let short-term fluctuations affect you.
- It is not important where prices are today, but where they are at your investment horizon.

"Have we seen times like these before, and when will they be over again?"

Many of our investors have never experienced a crisis with significant losses on the financial markets. Therefore, their worries about their investments are understandable. Let's first have a look at the past.

25Y global equity index / logarithmic scale, initial value = 100%,

27 Mar 1995 – 27 Mar 2020

*Russian crisis / 2001: bursting of the dotcom bubble / 9/11 / 2008 financial crisis / Euro government debt crisis / Emerging markets crisis / COVID-19 crisis Chart: global equity market (Index), 25Y, initial value = 100 % **Note:** this is an index, no direct investment possible **Source:** Refinitiv Datastream **Disclaimer:** the past performance of an investment is not indicative of its future development*

In the past 25 years, we have seen numerous crises with significant effects on the equity markets. They have all had one thing in common: they were overcome, and the share prices bounced back. They may have lasted for shorter or longer periods of time, but the psychology behind them was always the same. Once prices are heading south, many retail investors become scared that they might fall even further and start panic-selling their shares.

Questions from our investors, and what we as investment experts have to say to them:

1. **How long can this phase of the crisis and of elevated price fluctuations last?**

The current crisis was triggered by a virus that primarily affects the health of people. In order to find a solution, massive containment steps had to be taken that disrupted our daily routine and thus the economy. The duration depends on how quickly the spreading of the virus can be contained and a medical solution can be found. The various states took fiscal measures in order to absorb the impact on the economy. The central banks have launched comprehensive programmes to stabilise the financial markets.

2. **My equity fund has lost a lot of value – will this be permanent?**

All crises have had an impact on the equity markets. The resulting losses were both significant and painful for investors. However, they were also temporary. Once the crisis had been overcome, the company earnings recovered and re-embarked on their earlier growth path. As a result, share prices and equity funds rebounded as well. Patience and resilience are two crucial requirements for success in investment.

3. **I pay monthly into my s Funds Savings Plan. Should I stop now?**

Assuming that the crisis can be overcome, the effects on the financial markets should not exceed the short to medium term. Investors who build capital by paying regularly into a fund savings plan usually have a very long investment horizon. In the long run, the attractiveness of equities will not change, from today's perspective. If you sell your fund shares now, you not only realise your losses, you also miss out on the chance of participating in the market rebound.

Let's look at a simple example: you invest EUR 100 per month, and the price of the fund you chose was EUR 100 per share as well last month. Therefore, you bought 1 share last month. Then, the global share prices (and the calculated value of your fictitious fund) fell by 30%. This means the price of your fund is EUR 70. You get about 1.4 fund shares this month for your EUR 100. In other words, you get more for the same amount. In high street shops, you would call it a "sale". The longer the prices remain low, the more months you can buy fund shares for less money.

Many experts have compared the current situation to the financial crisis in 2008, although the causes are very different. The chart below focuses on one segment of the earlier chart above, on the performance during that particular crisis, and on how long it took to recover the losses:

3Y global equity index – financial crisis 2008 Monthly data, initial value = 100%, 31 December 2007 – 31 December 2010

2008 financial crisis / Average price at 76% Chart: global equity market (Index), 3Y, initial value = 100 % ***Note:*** *this is an index, no direct investment possible* ***Source:*** *Refinitiv Datastream* ***Disclaimer:*** *the past performance of an investment is not indicative of its future development*

If you had bought shares (as illustrated by the global equity index) at the beginning of 2008, you would have incurred a loss of more than 50% a year later; you would have had to hold the shares until the end of 2010 – i.e. three years – to be (almost) back at the original purchase price. Every point in the chart represents one month's worth of constant investment. The average price in the observed period was about 76% of the initial value. You got that price by simply sticking to your strategy. The model does not account for the additional shares that one would have bought in addition at the lower prices while keeping the investment sum constant. This means that with a lump sum, you would have been above 90% of the initial value at the end of 2010, but by investing regularly, you would have already turned a profit.

The opportunity to buy at low prices does not come along that often. The s Fund Savings plan does that automatically, if you maintain your monthly investments.

4. **The prices are very low now. Should I start with a larger initial amount?**

Significant price cuts caused by crises have in the past proven good moments to invest, because ultimately all crises have been overcome. Nobody knows whether in the current crisis we have already seen the markets bottom out or whether prices will fall further. What we have seen in the past is that during times of falling prices, the fear of further losses overwhelms many investors, keeping them from investing more money. One potential strategy is to split the amount set aside for investment and invest it via smaller deposits for example over the coming twelve months.

5. **Maybe shares are too risky? Would it not be better to invest in safe government bonds or, even better, leave it all in the savings account?**

The savings account is a form of investment with which many Austrian feel comfortable. There are no price fluctuations, and access to the money when needed is easy. However, interest rates (i.e. the return on such investments) have been almost zero for years. And the picture gets even less attractive for safe government bonds (e.g. Austrian government bonds). Prices across the maturity spectrum are so high that the yield (i.e. the return until maturity) is negative. If you are looking for safety, the savings account is a good alternative. However, this form of investment does not even protect you against inflation. This means that a loss in purchase power (i.e. the value of money) is already built into this alternative.

6. **How safe is my money in a fund? What if my bank goes bankrupt?**

Regardless of price movements, one has to ask what could or would happen to my money that I invested in a fund if for example my bank went bankrupt. Here, the good news for all fund investors is that investment funds are special assets. This means that these assets belong to the investor. If your bank or the investment company were to file for bankruptcy, your money would be protected, because it would not be part of the estate.

Conclusion

Investing in the s Fund Savings Plan is like building a house: brick by brick, over a long period of time. During that time, there may be hail before the roof has been put up. The result is moisture in the cellar. The important thing is to have a construction plan and to stick to it. Once the house is finished and you can sit on your couch in the living room, all the stress has paid off.

For your s Fund Savings Plan, this means: your capital is being built slowly and over a long period of time. There will always be setbacks. But you should keep your eyes on the prize. The s Fund Savings Plan is the perfect instrument to reach your goal especially during difficult times.

Legal note:

Prognoses are no reliable indicator for future performance.

Johann Griener

Johann Griener has worked at Erste Asset Management in Sales Retail since 1 January 2001. In this function he supported for example the Sparkasse banks in Austria, with a current focus on Upper Austria. His scope of duties includes the servicing, training, training and education of Sparkasse employees who work in the securities field. This means creating and holding presentations in the local branches and in Erste Asset Management for the purpose of promoting sales of Erste Asset Management GmbH and Erste Immobilien KAG funds. He also supports the Sparkasse banks (Austria-wide) in their own investments (nostro business). In addition, Griener is developing numerous publications for internal and external use. The “1x1 of Investment Funds” that he wrote is found in all of the branch offices of Erste Bank and the Sparkasse banks as basic reading and an introduction for customers on how investment funds work.

Griener began his career in 1988 as an employee at the bank counter in a local Sparkasse bank. There he learned the banking business, from a savings book to loans to investment operations. After a few years at the Sparkasse, he decided to continue his studies at the Vienna University of Economics and Business, with a focus on “banks” and “securities”. After completing his master’s degree, he remained loyal to the Sparkasse sector and has been working at Erste Asset Management since.

His motto: “Only a day with laughter is a good day”