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Shall I still buy equities or equity funds at this point?

Paul Severin



The stock exchanges have gone through a rollercoaster ride of shedding 25% in value in March before rebounding sharply and even setting new highs, for example in the USA.

In view of the difficult situation due to the corona virus and the resulting tense economic situation, many investors have asked themselves whether it might still pay off to buy after recent share price increases.

As shareholder, you (co-) own the company

Buying a share means you become an owner of the company. The security literally certifies a share in the equity of the company; and in case of ordinary shares, the share also gives you the right to vote at the annual general meeting (AGM).

The share price represents the market value of the company. It tends to be significantly higher than the equity capital as shown on the balance sheet. The market value is also referred to as market capitalisation, which reflects the value of equity from the shareholders' perspective.

Market capitalisation of selected shares:

Company	Share price	Market capitalisation
Erste Group Bank AG	21.02	EUR 8.9bn
Deutsche Bank AG	8.276	EUR 17.0bn
Voestalpine AG	21.09	EUR 3.8bn
Walt Disney Company	130.64	USD 194.8bn
Apple Inc.	503.53	USD 2,152.5bn
Deutsche Telekom	17.835	EUR 69.4bn
Lufthansa AG	8.936	EUR 4.3bn

Source: Telettrader; 25 August 2020

The economic outlook of the various companies is constantly subject to re-evaluation on the stock exchange. Crucial factors for the value of the company are the business model, i.e. the prospective income of the company, its competitive situation, legal risks etc. In addition, economic factors such as the economic cycle, inflation, and monetary policy also influence the share price. The stock exchange is often very short-sighted in its horizon, which is why market psychology enters the picture. According to an old adage, "for a bull, no price is too high, and for a bear, no price is too low".

Do not get distracted by short-term irritations

Ultimately the share price is driven by fundamental developments. Business models that facilitate a sustainable increase in dividend or company earnings will also

lead to rising share prices in the long run. Think about what themes or sectors could be interesting in the long term. So-called mega trends like environment or technology will be among them. Alternatively, you can leave the selection of the most interesting shares to an equity fund manager. Make sure the selection process is based on fundamental considerations and simply buy an interesting equity fund.

Quality shares are always in season. We have seen many a crisis in the past. The best companies have overcome them repeatedly and have sometimes even become stronger for it. This will not be different this time around.

Transaction costs eat into profits

Every transaction creates transaction costs. Among them are of course buying and selling fees. But also, shares are bought at their so-called ask price, while they are sold at their bid price. The spread between bid (lower price) and ask (higher price) is the profit margin and risk premium of the broker or market maker, who provides the desired number of units at the respective price. Taking into account the spread and any capital gains taxes, a retail investor may well wonder whether the short-term profit is commensurate with the risk involved.

Stay calm

Short-term setbacks come with the territory on stock exchanges. By employing a suitable strategy, e.g. by setting up a savings plan in equity funds, you can even put setbacks to good use and benefit in the long run once prices have recovered.

It is always a good idea to keep some cash on the side – not only as iron reserve for unexpected expenses, but also for investment opportunities in securities as and when they present themselves. This way, you can exploit price corrections and achieve a lower average purchase price.

The so-called market timing, i.e. short-term buying and selling, tends to only be relevant for specialists. Traders and market makers who monitor the market on a constant basis need infrastructure to do so – ideally, in-house analysts and a designated risk management team.

Stock exchange logic and the Old Master, Kostolany

Nobody has a crystal ball that tells them when the optimal time for buying has come. It is unclear what the future holds: will a vaccine against the corona virus become available, will the conflict between the USA and China be settled after the elections in autumn, and when will the oil era come to an end?

It is best to heed the recommendation of the Old Master of the stock exchange, André Kostolany. He said: “On the stock exchange, 2 plus 2 never equals 4, but 5 minus 1. You just have to keep calm and outlast the minus 1.”

And he continued: “Buy shares, take a sleeping pill, and don’t look at your portfolio anymore. Many years later, you’ll find you’re rich.”

You cannot take the part about being rich literally, of course. But it is a fact that in the long run, the equity market has always recovered and reached new highs – much like in recent weeks. Do not get discouraged, keep your optimism, and stick to your strategy!

Erste AM equity funds:

- [ERSTE FUTURE INVEST](#)
- [ERSTE GREEN INVEST](#)
- [ERSTE EQUITY RESEARCH](#)

⚠ Risk notes according to 2011 Austrian Investment Fund Act

ERSTE FUTURE INVEST may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

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ERSTE GREEN INVEST may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

⚠ Risk notes according to 2011 Austrian Investment Fund Act

ERSTE EQUITY RESEARCH may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

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of the most recent publication of the fund prospectus, the languages in which the key investor document is available, and any additional locations where the documents can be obtained can be viewed on the web site www.erste-am.com.

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Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

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