

## Market Update & Our Thoughts – Covid-19 (aka Coronavirus) - 3 March 2020

*General Advice Disclaimer: The information in this document is general advice only and does not take into account the financial circumstances, needs and objectives of any particular investor. Before acting on the general advice contained in this report, an investor should assess their own circumstances or seek advice from a financial adviser. Where applicable, the investor should obtain and consider a copy of the prospectus or other disclosure material relevant to the financial product before making any investment decision to acquire a financial product. It is important to note that the price or value of financial products go up and down and past performance is not an indicator of future performance.*

The world is watching with concern about the spread of coronavirus. The uncertainty is being felt around the globe, and it is unsettling on a human level as well as from the perspective of how markets respond. Since the recent peaks a couple of weeks ago, the Australian S&P/ASX200 is down 9.05% and the US S&P500 is down 8.74%.

At Tilea Wealth, our investment philosophy's fundamental principle is that markets are designed to handle uncertainty, processing information in real-time as it becomes available.



Given all information, a stock's current price reflects aggregate expectations about risk and return.

We see this happening when markets decline sharply, as they have recently, as well as when they rise. Such declines can be distressing to any investor, but they are also a demonstration that the market is functioning as we would expect. Stock prices can and often adjust quickly.

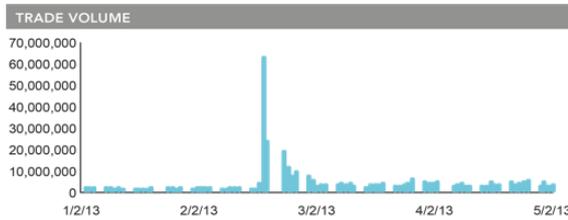
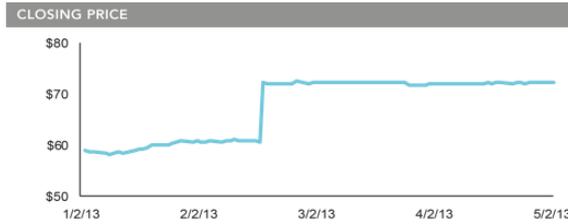
Your trusted partner on the journey to financial security.

Level 1, 633 Logan Road, Greenslopes QLD 4120 | PO Box 162, Carina QLD 4152  
T 07 3160 2600 | F 07 3036 4623 | [info@tileawealth.com.au](mailto:info@tileawealth.com.au) | [www.tileawealth.com.au](http://www.tileawealth.com.au) | ABN 92 034 065 376

Tilea Wealth Pty Ltd t/as Tilea Wealth Financial Services is an Authorised Representative of Consultum Financial Advisers Pty Ltd | ABN 65 006 373 995 | AFSL 230323

**“Heinz agrees to buyout by Berkshire Hathaway, 3G”**  
 –USA Today, February 14, 2013

News travels quickly, and prices can adjust in an instant.



In US dollars.  
 Source: Bloomberg  
 The security identified is shown for illustrative purposes only to demonstrate the investment philosophy described herein. These materials are not, and should not be construed as, a recommendation to purchase or sell the security identified or any other securities. Actual holdings will vary for each client, and there is no guarantee that any client will hold the security identified.

Market declines can occur when investors are forced to reassess expectations for the future. The expansion of the outbreak is causing worry among governments, companies, and individuals about the impact on the global economy. Apple announced earlier this month that it expected revenue to take a hit from problems making and selling products in China<sup>1</sup>. Australia’s prime minister has said the virus will likely become a global pandemic<sup>2</sup>, and other officials there warned of a serious blow to the country’s economy<sup>3</sup>. Airlines are preparing for the toll it will take on travel<sup>4</sup>. And these are just a few examples of how the impact of the coronavirus is being assessed.

The market is clearly responding to new information as it becomes known, but the market is pricing in unknowns, too. As risk increases during a time of heightened uncertainty, so do the returns investors demand for bearing that risk, which pushes prices lower.

Our investing approach is based on the principle that prices are set to deliver positive future expected returns for holding risky assets.

## The Capital Markets Have Rewarded Long-Term Investors

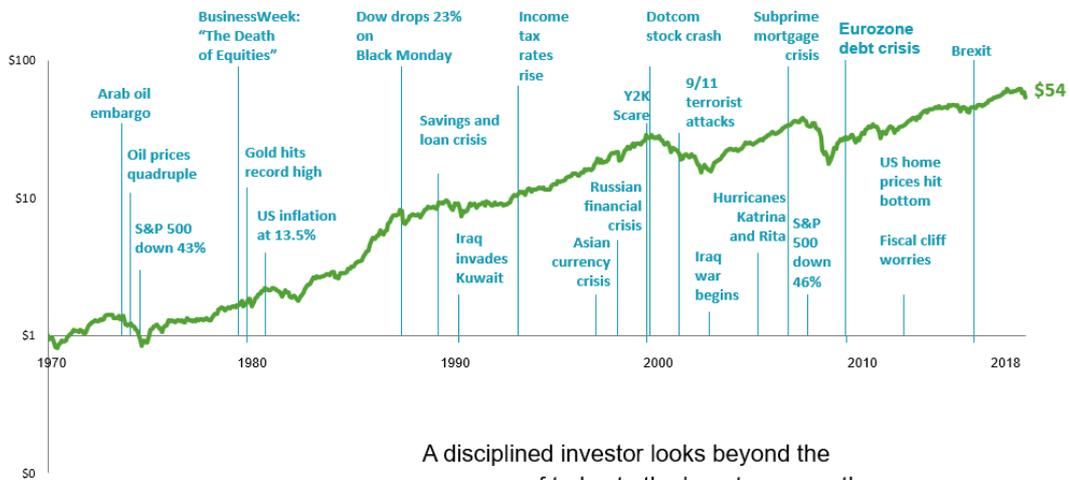
Monthly growth of wealth (\$1), October 1989 – December 2018



In Australian dollars. Australian inflation rate provided by the Australian Bureau of Statistics. Data provided by Bloomberg Finance L.P. S&P/ASX data copyright 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance not indicative of future performance.

# Markets Have Rewarded Discipline

Growth of a dollar—MSCI World Index (net dividends), 1970–2018



A disciplined investor looks beyond the concerns of today to the long-term growth potential of markets.

In US dollars. MSCI data © MSCI 2019, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

We can't tell you when things will turn or by how much, but our expectation is that bearing today's risk will be compensated with positive expected returns. That's been a lesson of past health crises, such as the Ebola and swine-flu outbreaks earlier this century, and of market disruptions, such as the global financial crisis of 2008–2009.

Additionally, history has shown no reliable way to identify a market peak or bottom. These beliefs argue against making market moves based on fear or speculation, even as difficult and traumatic events transpire. Reacting due to fear can hurt long term performance.

**In fact, overnight, the US Dow Jones had its best one-day gain in 11 years rising 5.09%. The Australian Market is following and at the time of writing, it is up 1.87% (ASX200).** Perhaps the bottom has been reached already. We will only know with the benefit of hindsight.

# Reacting Can Hurt Performance

Performance of the ASX/S&P 300 Index, 2001–2018



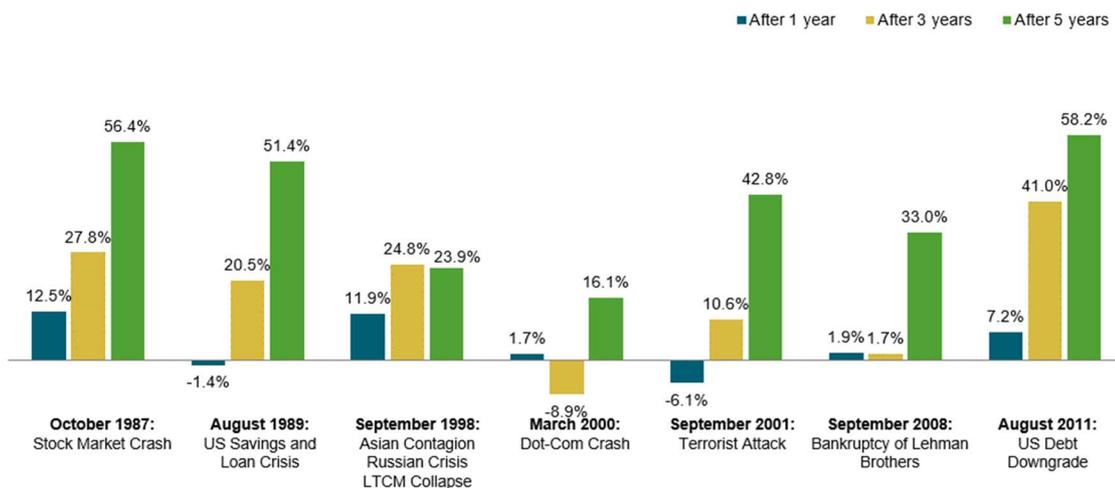
In Australian dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P/ASX 300 Index (total return) at the end of the missed best day(s). Annualised returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero. S&P/ASX data copyright 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Data provided by Bloomberg Finance L.P. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

*Our general advice – focus on what you can control and stay disciplined through market dips and swings.*

Some of the best investment returns occur after a crisis.

## The Market's Response to Crisis

Performance of a Normal Balanced Strategy: 60% Stocks, 40% Bonds  
Cumulative Total Return



In AUD.  
Balanced Strategy: 30% S&P/ASX 300 Index (total return), 30% MSCI World ex Australia Index (AUD, net div.), 20% Bloomberg AusBond Bank Bill Index and 20% FTSE World Government Bond Index 1-3 Years (hedged to AUD); rebalanced semiannual. S&P/ASX data copyright 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. MSCI data copyright MSCI 2020, all rights reserved. Data provided by Bloomberg. FTSE fixed income indices © 2020 FTSE Fixed Income LLC. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance. Returns taken one month after specified crisis date.



## Footnotes

- <sup>1</sup>Apple, February 17 press release. <https://www.apple.com/newsroom/2020/02/investor-update-on-quarterly-guidance/>
- <sup>2</sup>Ben Doherty and Katharine Murphy, "Australia Declares Coronavirus Will Become a Pandemic as It Extends China Travel Ban," The Guardian, February 27, 2020. <https://www.theguardian.com/world/2020/feb/27/australia-declares-coronavirus-will-become-a-pandemic-as-it-extends-china-travel-ban>
- <sup>3</sup>Ben Butler, "Coronavirus Threatens Australian Economy Reeling from Drought and Fires," The Guardian, February 5, 2020. <https://www.theguardian.com/business/2020/feb/05/coronavirus-threatens-australian-economy-reeling-from-drought-and-fires>; Ed Johnson, "Australia Says Economy to Take 'Significant' Hit from Virus," Bloomberg, February 5, 2020. <https://www.bloomberg.com/news/articles/2020-02-05/australia-says-economy-to-take-significant-hit-from-virus>
- <sup>4</sup>Alistair MacDonald and William Boston, "Global Airlines Brace for Coronavirus Impact," The Wall Street Journal, February 26, 2020. <https://www.wsj.com/articles/germanys-lufthansa-makes-cuts-as-it-braces-for-coronavirus-impact-11582712819>