Aspirations Wealth Group
Build and Protect your Wealth

Investment Market Update
February 2020

www.aspirationswealth.com.au

Market comments

We are currently seeing a major correction occurring in all global equity markets as investors try to assess the impact of the coronavirus (Covid-19) on corporate profits. The Dow Jones is currently down over 12% from is recent peak and the Australian share market has fallen some 10%.

The extensive factory closures and travel bans that we are seeing in many parts of the world due to the coronavirus outbreak will no doubt have a real impact on global economic activity, and this will in turn impact the profits of many companies.

These types of markets, where uncertainty and fear are leading to many investors selling indiscriminately (while not that frequent) are nothing new. In these types of markets "the good, the bad and the ugly" all get sold as investors reduce their overall exposure to the equity market.

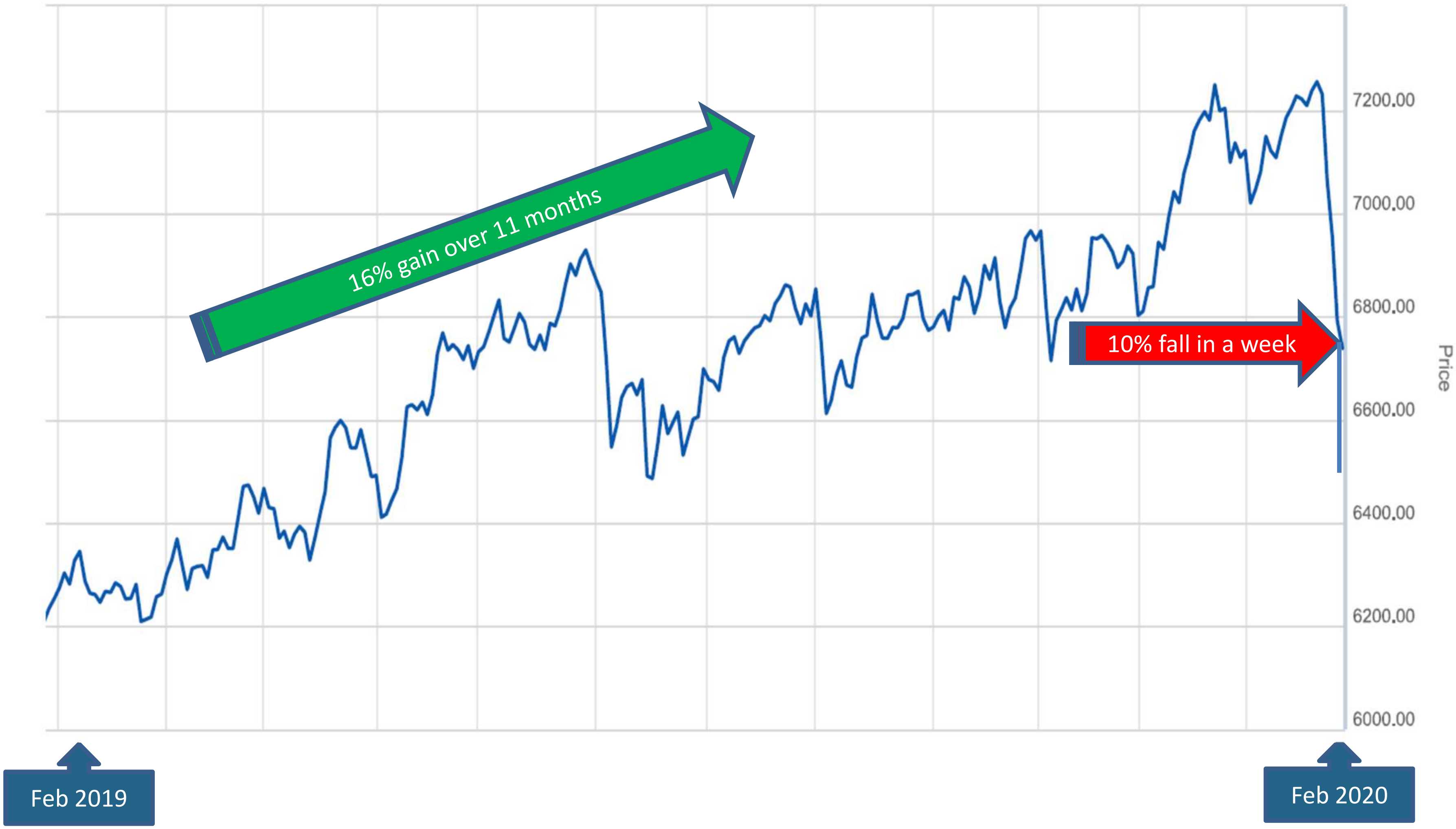
In times like these, there are a few things to keep in mind:

- The correction is happening at a time when many sharemarkets around the world had reached record highs on investor optimism of continued world growth, with many stocks arguably in over-valued territory.

- While the Covid-19 is being taken very seriously by government authorities, so far the virus has led to around 3,000 deaths. To keep this in perspective, it is worth noting a 2017 World Health Organisation study attributed around 500,000 deaths per annum from the influenza virus.

Aspirations Wealth Group
Build and Protect your Wealth

Australian share market chart (1 Year)



Aspirations Wealth Group
Build and Protect your Wealth

www.aspirationswealth.com.au

Where are we with the Covid-19 outbreak so far?

The mortality rate has increased to 3.3% - although there is uncertainty about it. Some argue it's higher because it's wrong to divide deaths into all cases as there is a lag from getting the disease to dying. Others argue it's much lower because only those who are seriously ill are showing up for help and being measured.

The mortality rate does look to be below the 9% for SARS but above that for swine flu though and it's mainly the old and sick who are most vulnerable.

Containment measures in China have been aggressive and if the declining number of new cases in China is correct maybe they are working. Australia's quick toughening in entry and quarantine conditions may also have helped in contrast to other countries that now have many more cases. However, some governments may not be able to implement and enforce such tough measures.

The spread of cases beyond China has raised increasing concerns that Covid-19 is become a global pandemic. While we and others have made comparisons to the SARS outbreak of 2003, the swine flu pandemic of 2009 is also relevant. Despite efforts to contain the disease it is estimated to have ultimately infected 700million to 1.4billion people but because its death rate was low at around 0.02-0.04% it doesn't get referred to much. Partly due to this swine flu had little impact on the global economic recovery of 2009 although it did occasionally rattle share markets. Though Covid-19's mortality rate looks to be greater than that of swine-flu its worth noting that swine-flu's mortality was initially reported to be as high as 9.5%.

Whether Covid-19 is soon contained, turns into a re-run of swine-flu or something a lot more deadly remains to be seen. But the risk of it taking longer is significant and in any case it's increasingly clear that the economic impact will be quite severe as containment measures spread globally disrupting supply chains and spending.

www.aspirationswealth.com.au

So how does this impact your portfolio and what are we doing about it?

Clearly this will be a negative month for investors with losses recorded in every sector. Our client's portfolios will also be negatively impacted by the current correction as all stocks get sold off heavily.

In many of our portfolios we hold a good weighting to cash which means we do not have to ‘panic sell’ and can look to perhaps buy good quality stocks when they get oversold. Our portfolios are tilted towards investments which we believe are relatively immune to the consequences of the impact of the virus on economic activity and many of these investments offer attractive sustainable dividends.

The Australian dollar has also fallen heavily (down over 6% since 1 January 2020). This fall in the Australian dollar is a positive for all Australian exporters and most of our international share investments.

It is impossible to say exactly when the current volatility will settle down. However when the sharemarket does recover, good quality investments with sustainable earnings will again be well sought by investors and should recover well.

Clearly this is very painful for investors, many of whom have benefited from the good gains seen in recent years. We have been through corrections like this before and will remain disciplined in our approach to investing at all times.

Finally, for most investors is is very difficult to time any of this - whether it’s a further share market fall of 5% or 20% or NO further fall at all - it makes sense to turn down the noise around the virus and stick to your investment strategy.

www.aspirationswealth.com.au

Aspirations Wealth Group

Build and Protect your Wealth

Michael Barker
Director & Private Wealth Adviser

Don Changson
Private Wealth Adviser

Rik Arendsen
Director & Private Wealth Adviser

(02) 9580 7966