Investor Q&A

Market Volatility

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What's exactly happened?

In the past few weeks, global share markets have been particularly volatile. This has been fuelled primarily by weaker economic data from China and the surprise devaluation in its currency, the renminbi. It has also been fuelled by continuing weakness in a number of the other main emerging market countries like Russia and Brazil.

How does this impact Australia?

As you would know, Australia has also experienced its fair share of market volatility in the past few weeks. This is somewhat unsurprising given the influence the Chinese economy has on our economy. While it was negatively impacted in this case, its influence was also evident during the GFC when our resources boom, fuelled largely by Chinese demand for our resources, helped insulate our economy from more widespread downturns.

Should I be selling my investments now?

While market downturns are generally unpleasant for investors, they are to be expected as uncertainty will never disappear from any financial market. History has shown us that Australian and global share markets have eventually bounced back from numerous down times, including the GFC.

By selling your investments immediately after a correction you're not only incurring losses, you're reducing your chances of making your money back should markets recover.

The reality of investing in share markets is that we need to accept some risk when seeking returns that will outpace inflation in the long run.

Should I be moving my investments to cash?

Throughout history there have been numerous examples of share market downturns which have prompted investors into making hasty decisions.

If you're thinking about moving some of your investments into lower risk investments like cash, you should be aware that should the share market recover, only the portion of your portfolio that remains invested in growth assets like shares, will benefit.

Are there still investment opportunities now?

For investors with a medium to longer term investment horizon, these volatile conditions most certainly provide attractive investment opportunities as prices can be lower than before.

I'm retired or close to retirement, what should I do?

While history has shown us the share market does bounce back, it's not always easy to ignore what's happening to your investments when there is so much negative news and markets are volatile. If possible, you should continue to focus on how you are progressing towards your longer-term goals. However, if the recent market volatility has unsettled you to the point where you would prefer to reduce your exposure to riskier assets or protect some or all of your capital, there are some solutions available. For example, the MLC Inflation Plus portfolios have a strong focus on risk management and are designed to limit significant negative returns. Our range of MLC Horizon portfolios are designed to meet a broad spectrum of risk appetites. And, we also offer strategies that aim to protect capital and income.

What are MLC's managers doing?

Prior to the recent share market volatility, a number of our managers have been increasing their cash holdings because in their view, very few stocks were trading at realistic prices. Valuations have been stretched for some time as prices have moved higher than underlying fundamentals, such as company earnings, which have grown by much less. The recent market decline has enabled our managers to use these cash stores to buy stocks at discounted prices. Energy and Metals & Mining were the sectors where there has been a lot of buying activity by our global share managers as they were two of the hardest hit in the recent market sell-off. However, our managers are buying carefully. Even though emerging markets have been weak, our managers still aren't really buying in these countries.

In all periods of volatility, markets act irrationally and our active managers are doing exactly what we expect of them, taking advantage of indiscriminate selling to buy good companies at cheaper prices than they could prior to the volatility, which helps lay the foundations for long-term growth.

Did MLC anticipate the recent volatility?

We have been cautious for some time because market valuations have been stretched, the potential reward for taking on risk has been unattractive and the global environment has been particularly uncertain. Our focus has been on managing risk and searching for ways to help insulate client portfolios from significant negative returns. As a result, our multi-asset portfolios – MLC Inflation Plus and MLC Horizon, have been "defensively" positioned by including strategies that aim to maximise diversification and control and reducing exposure to shares.

Where to from here?

We will continue to make sure our multi-asset portfolios are appropriately positioned to respond to the uncertainties that remain in global markets. However, it's also worth remembering there are a number of positives that tend to be forgotten when markets are weak and volatile. For instance, the US economy continues to perform well. Lower oil prices have benefitted consumers across the globe and inflation isn't a problem at this time. China's growth has slowed but +10% annual growth rates were always going to be hard to sustain.