Buying value in time of uncertainty

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17 April 2020 – South Africa’s All Share Index has plummeted to levels not seen for more than six years. This has been on the back of the COVID-19 outbreak globally and the declaration of national state disaster in South Africa. The measures announced on Sunday the 15th of March 2020 to help prevent the spread of the virus, included shutting schools, grounding flights and reducing activity within the country. This set the tone for the week of the 16th of March as an already fragile South African economy was paired with mass selling as a result of the virus fears and the country’s necessary but drastic steps to combat the outbreak.

Emergency cuts and other measures implemented by the US Federal Reserve Rates and other central banks was an attempt to reduce the virus impact on the markets but had little impact on the financial market route. Recent stimulus announcements by the world’s largest governments seems to have calmed markets for now, but volatility remains high.

The JSE all share index is down 23.8% year to date on Friday the 27th of March 2020. The financial sector has been hit particularly hard with its index falling 10.59% on the 16th of March 12.43% on the 18th of March and 11.02% on the 23rd of March, bringing the total year to date decline to 41%. There have been changes to South Africa’s top 40 index with several companies moving outside the top 40 by market capitalisation with some more than halving in value since the announcement of the global pandemic.

This begs the question, is it all doom and gloom out there on the markets, or do these levels we are experiencing present possible buying opportunities for the long-term investor?
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Below is a graph depicting other market crash events and the time of recovery on the JSE:

Source: Timbukone

**Black Monday**: The stock market crash of 1987 saw a steep decline in US stock prices over a few days in October of 1987 which impacted other major markets all over the world. The Dow Jones industrial average fell 22.6% in a single day accompanied by crashes in the futures and options markets.

It is speculated that the roots of the crash lay in a series of monetary and foreign trade agreements as well as computer program-driven trading models on Wall Street which contributed to the rise in stock prices to overvalued levels which were unsustainable prior to the crash.

The JSE saw pullbacks as a result of the global crash, however a year later saw levels clawing back to similar levels pre black Monday, and 1990 levels surpassing previous highs.
The Asian crisis: The Asian financial crisis of July 1997 saw a sequence of currency devaluations that spread through many Asian markets and had an effect globally. Thailand’s currency capitulated first and the government decided to no longer peg the local currency to the US dollar after exhausting much of its reserves to maintain the peg. In a similar fashion, currency declines spread rapidly throughout East Asia, in turn causing stock market declines, reduced import revenues, and government upheaval. This filtered down into the JSE, with a sell off occurring from July 1997 to the end of 1998. From the beginning of 1999 buying resumed in the market with 2000 seeing levels surpassing highs before the Asian crisis.

The tech bubble burst: The tech or dotcom bubble represented a rapid rise in US technology shares driven by investments in internet-based companies during the bull market in the late 1990s. Equity markets climbed quickly to new heights, with the technology-dominated Nasdaq index level rising from under 1 000 to over 5000 between 1995 and 2000. In 2001 and through 2002, the bubble burst, with equities entering a bear market.

The crash that followed saw the Nasdaq index tumble from a peak of 5 048.62 on March 10, 2000, to 1 139.90 on October 4, 2002, a 76.81% fall. By the end of 2001, many dotcom companies were liquidated. Even the share prices of blue-chip technology stocks like Cisco, Intel and Oracle lost more than 80% of their value. It took 15 years for the Nasdaq to regain its dotcom peak, which it did on April 23, 2015. The JSE however surpassed previous tech bubble highs in 2005, making the JSE recovery period much faster than that of its international peers.

The 2008 financial crisis: The 2008 financial crisis is possibly the best-known crisis to hit the financial markets in the last century. The crisis pushed the world’s banking system towards the edge of collapse. The cause of the crisis was a combination of speculative activity in the financial markets, focusing particularly on property transactions and the availability of cheap credit.
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Borrowing especially in the US and UK was out of control. Mass borrowing was used to finance properties. The security of these loans was a one way bet on ever increasing property prices. This was ultimately unsustainable because, from around 2005, the gap between incomes and debt began to widen. This was caused by rising energy prices on global markets, leading to an increase in the rate of global inflation.

This development placed additional pressure on borrowers, many of whom were barely able to afford mortgages payments at the time the loans were issued. Property prices then began falling leading to a collapse in the values of the assets held by many financial institutions and the loss of the security placed for the loans. This in turn resulted in the banking sectors of the USA and the UK coming very close to total collapse.

As a result of the financial crisis the JSE lost 22% since reaching highs by the end of September 2008. Despite global economies falling into recession post the crisis, 2009 saw the start of recovery for the JSE. There were ups and downs in 2009 however by 2010 the JSE was on the road to recovery and by 2012 surpassed previous highs.

**Conclusion:**

The JSE has not been without its share of crisis and falls over the last 50 years. From past data, buying opportunities have presented themselves when the market has fallen. Long term investing is the ability to see past short-term volatility and fluctuations with long term sustainable returns in mind. Finding value in the companies invested in needs to be the key take away. There is no doubt that certain industries will take longer to recover than others post the virus. The world as we know it has changed and so has investor sentiment.

With a crisis, comes panic and mass selling as we have experienced on markets all over the world post the virus announcement. Opportunities however will always present themselves in these times. Value can be found by an investor investing in companies that have seen large pull backs in price but ultimately still value in what the business has to offer. The time is right for long term investors to analyse companies that still have value in assets but have been hit hard on the back of negative sentiment. Buying value and investing for the long-term means ignoring short term moves and allowing the long-term investment strategy to play out over years.
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Those investors that invested in the markets at the time of all the crisis’ explored above would have received healthy returns over the long term. Looking for shares that offer great value for price has been a strategy that has rewarded many long-term investors over the past and one that is worth exploring in 2020.

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