Protecting yourself against a loss of future income in a recession

By Gerard Visser

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With low GDP growth, credit ratings downgrades and the Covid-19 pandemic, our economy has taken a knock, leaving many investors' reluctant to save and invest.

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This hesitance is understandable, especially when one sees the daily drop in your actual investment values, and many investors might be looking at changing their current strategy by switching portfolios out of markets. However, success takes time, and a good investor must not base long-term decisions and strategies on short-term concerns.

Investors need to know what value they are getting for their investments and whether it is competitive or not. Short-term market fluctuations and low economic growth environments can be ridden out where your investment period is over a long term.

If you find yourself in a low economic growth environment, it is a good time to assess your current financial habits and make the necessary adjustments. It is important to understand the different types of investments you hold and determine the risks associated with them.

A low economic growth environment highlights the importance of keeping to good financial habits, like spending within your means to help get you through the tougher times. There are certain investment strategies you can follow to assist your investments during these times to be correctly set up for future growth.

Don't panic

It is important not to panic and switch your portfolios from your investments, especially if they are standing at an all-time low. You could erode significant future value should you choose to sell an investment at a loss. Quite simply if you sell at a loss, you will realise the loss and lose money in the long term. Your best bet is to keep your money where it is and wait for markets to recover.

Asset allocation involves deciding on the different mix of asset classes you hold in your portfolio, for example local and offshore exposure of shares, property, bonds, and cash. All asset class returns behave differently and offer different returns for different periods. Having a mixture of these asset classes will help grow and protect your investment though uncertain times. A portfolio with exposure to the different asset classes will offer protection and diversification in low economic growth.

Investors should not have all their money in one company or industry. If that industry or company takes a hit, so will your portfolio. This highlights the importance of diversification.

It is important to set up an investment strategy for the specific investment you are taking out as the allocation to the different asset classes will vary and in turn either increase or decrease the volatility and chance to make returns.

The stock market is cyclical and while it is useful to check your portfolio occasionally, to give you a general idea of how it is performing. It will not be helpful to check the value every day. When you invest in the stock market, you have to ride out tough times in order to come out on top.

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