PrismaLife AG
Industriering 40
9491 Ruggell
Liechtenstein

Phone: +423 237 00 00
www.prismalife.com

Commercial Register FL
FL-0002.027.093-3

Market Commentary

A Steady Hand Instead of Panic

By: Holger Beitz, Chief Executive Officer PrismaLife AG

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The double strike of coronavirus and the oil price dispute has once again led to massive losses on the stock markets after the significant price declines of recent weeks. Unfortunately, fear is spreading just as quickly as the virus.

I can well understand that customers with fund investments in insurance policies are concerned about current developments and are looking for solutions to protect themselves against losses. Nevertheless, the assessment of the situation should be seen in the light of the investment philosophy of an insurance policy. To do this, it is necessary to take a deep breath and reconsider the investment objectives of the retirement provisions.

Of course, the past few weeks on the stock market have been not been a pleasure. But the investment decisions for a pension plan are not based on 20 days, but on 20 years. Nobody knows what the future holds. But what we do know: Anyone who has invested in a global equity mix in any 15-year period over the past several decades and simply waited, has never made a loss.

On this basis, three things are important:

1: Stick to the plan: Long-term wealth accumulation is based on long-term performance

By choosing a unit-linked life insurance policy, customers have opted for a long-term investment strategy. A key aspect of this strategy is the use of the long-term positive developments of the capital markets. Short-term, and ultimately too short-sighted, interventions run counter to this strategy.

2. The basis for decision making: Orientation on fundamental data instead of temporary influences

The corona epidemic has consequences for the economy, but changes little in the fundamental forecast. All over the world, large amounts of capital are looking for suitable investment targets, partly because of the negative interest rates, and this is creating high demand. As the epidemic is likely to affect the economy for a few weeks or months, the markets will pick up accordingly once the situation has calmed down. The short-term realisation of losses through sales thus carries the risk of missing the right time to enter the market.

3. The cost-average effect: consistently using the savings mechanism

Long-term savings plans are mainly based on the cost-average effect. This means that if savings rates remain constant in times of high prices, fewer fund units are acquired, and correspondingly more at lower prices. The latter then also offer the higher price potential. Here, too, it would be counterproductive to suspend this strategy because the currently more favourable entry prices would not be used.
Fear is a bad advisor - panic an even worse advisor. We recommend a policy of the steady hand that sticks to long-term investment decisions.

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About PrismaLife
PrismaLife is the leading Liechtenstein life insurance company based in Ruggell. As a specialist in net policies, the company emphasizes a clear separation of products and commissions. Prismalife manages customer deposits of around 1.1 billion euros. The investments under management are oriented towards sustainable assets. Numerous fund solutions with a long-term focus are also available for PrismaLife customers. Further information can be found at: www.prismalife.com

Press contact
Dr. Hubert Becker / Ms. Svenja Lahrmann
Instinctif Partners
Telephone +49 221 42075-24 / -23
hubert.becker@instinctif.com
svenja.lahrmann@instinctif.com