Is Your Portfolio Free from Coronavirus?

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Abstract
The whole world is jolted with the attack of coronavirus. Even few weeks ago, people thought, the virus would destabilize the international supply chains only, which at best would shut factories in China. Though, initially the whole world witnessed the sufferings of china, now the whole world is suffering for the deadly spreading of this virus to Iran, Italy, Saudi Arabia, Japan, South Korea, USA and many other countries and China is gradually overcoming. The coronavirus is going to have a deep and serious impact on the world economy. Policymakers in various countries are worried to find solutions to this unexpected guest. So far, China has successfully tackled the crisis with appropriate formulation of policies. Many transnationals, multi-national and domestic companies in the world have shut down their operations, postponed conferences and reduced employee travel fearing the death threats of Coronavirus.

Keywords: Covid-19; stock return; investment; return; risk

Impact on Stock Market

World famous companies like Microsoft, Google, Apple and Adidas estimate that their profits for this year would be eaten up by the deadly coronavirus. International Monetary Fund (IMF) expects that the global economic growth will be even lower than the year 2008-09 when sub-prime crisis took place (Allen et al., 2014). Since major industries like tourism, aviation, oil, consumer goods, and commodities are seriously jolted, a global recession is just ahead of us. Due to the global meltdown of economy, the stock markets around the world would suffer like anything. Unlike other bourses, the Dhaka and Chittagong Stock exchanges also crashed to the drastic level as investors are under massive panic after detection of over 20 corona patients in the country (Bowman et al., 2012). Following table shows the changes in stock indices between 1 January, 2020 and the 19 March 2020 in the Chittagong Stock Exchange:

Index	1 January, 2020	19-March-2020	Change	Change in %
CSE50	985.67	785.5974	-200.073	-20.2981
CSE30	11412.7	9656.1761	-1756.5	-15.3908

CSCX	8195.15	6641.3204	-1553.83	-18.9604
CASPI	13519.5	10963.401	-2556.07	-18.9066
CSI	860.69	712.3839	-148.306	-17.2311

Source: The Financial Express and Chittagong Stock Exchange

The outbreak of the coronavirus disease (COVID-19) in late 2019 had an unprecedented impact on the global economy, including the stock market (Chowdhury, 2012). As the virus rapidly spread across the world, governments implemented strict lockdowns and social distancing measures to curb its spread. These measures disrupted businesses, supply chains, and consumer behavior, leading to significant fluctuations in the stock market. This essay delves into the key aspects of the pandemic's impact on the stock market, examining its short-term disruptions and long-term implications.

Short-term Market Volatility:

The initial reaction to the COVID-19 pandemic in early 2020 resulted in a sharp and severe market downturn. As the virus spread globally, panic and uncertainty prevailed among investors, leading to massive selloffs and plummeting stock prices. Major stock indices, such as the Dow Jones Industrial Average, S&P 500, and Nasdaq Composite, experienced rapid declines, wiping out trillions of dollars in market value in a matter of weeks (Chowdhury, 2013).

Sector-specific Winners and Losers:

The pandemic's impact was not uniform across all sectors of the stock market. Some industries, like travel, tourism, and hospitality, suffered the most due to travel restrictions and lockdowns, experiencing significant declines in stock prices. On the other hand, sectors like technology, healthcare, and online retail witnessed increased demand and a surge in stock prices (Chowdhury, 2014). The market favored companies offering solutions for remote work, telemedicine, and e-commerce, highlighting the importance of adaptability and innovation during times of crisis.

Government Stimulus and Central Bank Interventions:

To mitigate the economic impact of the pandemic, governments worldwide introduced massive stimulus packages to support businesses and individuals. Central banks also initiated monetary easing measures, lowering interest rates and implementing quantitative easing programs. These interventions played a crucial role in stabilizing the stock market and providing some confidence to investors amid the uncertain times.

Rise of Retail Investors and Online Trading:

The pandemic saw a surge in retail investors participating in the stock market. With more people working remotely and having additional free time, they turned to online trading platforms to invest in stocks. Social media platforms and online forums, such as Reddit's WallStreetBets, gained prominence, leading to the phenomenon of "meme stocks," where individual investors collaborated to boost the prices of certain stocks. This increased retail investor participation added a new layer of complexity and volatility to the market.

Long-term Structural Changes:
COVID-19 brought about several long-term changes that affected the stock market. Remote work gained traction, and companies increasingly adopted digitalization and automation to ensure business continuity. These shifts impacted traditional brick-and-mortar businesses and accelerated the growth of tech-oriented companies (Chowdhury, 2015). Moreover, the pandemic prompted a reevaluation of global supply chains, with many businesses looking to diversify and localize production to reduce dependencies on single-source suppliers.

Uncertainty and Caution:
Despite the initial market recovery, the lingering uncertainty surrounding the duration and impact of the pandemic continued to influence investor sentiment. As new variants of the virus emerged, governments struggled to balance public health concerns with economic recovery. This uncertainty contributed to ongoing market volatility, causing investors to adopt a cautious approach to their investment decisions.

Investment strategies to crack the crisis
The above table shows the market took a sharp dive recently and still we don’t know where the COVIT-19 will take us (Chowdhury, 2016). We are so worried about our investment as the virus is not only a threat to our health, but also to our financial stability. Since the points are yet to land more, what should be our investment strategy during recession? It is true that through appropriate policy formulation and implementation, the market may be recovered but the ultimate impact of disruption in the supply chain will continue. By nature, stock market is volatile. It goes up and comes down. During the recession, following actions are recommended to follow.

Set a long-term investment goal
As an investor, you should not be perplexed at the temporary turmoil of the market. History says, markets always get restored even after serious financial crisis.

Prepare a plan
Based on your capacity to bear the loss, you should prepare an investment plan. If you can digest volatility, you may try volatile shares but if the other way around, invest in fundamentally strong companies. It is experienced that during crisis, the prices of strong companies do not fluctuate too much.

Avoid emotions

When share prices go down, there is nothing to worry. Due to fear and anxiety you should not sell your shares. If all the investors follow this strategy, there will be no additional supplies and thus the prices will remain stable (Chowdhury, 2018).

Diversify your investment

Investing in different shares and bonds comprising different sectors will keep your portfolio stronger and less risky (Cooper, 2014). A particular crisis normally does not hit all the sectors equally. The benefits from less infected sector/shares will recover the losses on more infected sector/shares. Based on the position of your career length, you may select stocks as follows:

Career level	**Initial**	Since you are about to start your career, you can increase your portfolio's long-term investment risk and set yourself up for higher potential returns (Wood and Zivcakova, 2013; Chowdhury et al., 2020)
	Mid	Since retirement is several years away, so you can make the most of the time you have to grow your investments with a moderate increase in the long-term investment portion of your portfolio.
	Last	Since you are very close to retirement, it makes sense to align your portfolio with your retirement income goals by diminishing investment risk and potentially providing higher returns. A diversified portfolio can help ensure you're closer to your dreams.

Source: Sunlife Assurance Company, Canada

At the time of stock selection, you need to consider the risk level and the corresponding return possibility. You can tradeoff the risk and return as per following chart.

Risk level of investment portfolio		
Lower	**Medium**	**Higher**
Cash equivalents, such as money market funds, provide low-risk returns and generally include investments such as guaranteed funds and short-term deposits that pay you interest. While the risk is low, many cash equivalents also have low rates of return (Chowdhury, 2019).	Fixed-income investments, such as bonds, are generally higher risk than cash equivalents, but offer potentially higher returns. When you invest in bond funds, you lend money to the company or government issuing the bond. Over a specified time period, that company or government repays the amount of the loan plus interest. Bond fund values go down when interest	Equity funds are made up of stocks, which are considered to be of higher risk than cash equivalents or fixed-income investments. But with higher risk comes a higher potential for long-term growth. Equity funds give you an ownership in the issuing companies. An increase in the value of a company translates into investment gains (Chowdhury et al., 2021)

	rates go up, and vice-versa (Walsh et al., 2013).

Manage your risk

Once your portfolio is ready, it is time to rebalance the portfolio to manage risk as the investment goal and macro factors do not remain constant (Voorveld et al., 2014; Chowdhury et al., 2019). Rebalancing of portfolio protects investors from rash and taking emotional investment decisions when value starts to decline. The variety in portfolio will give a comprehensive picture of the market and thus will help to overcome the fear on temporary crisis (Chowdhury, 2020).

Do nothing

There is a proverb that, during recession, the best thing to do is to do nothing. The falling market is just like a knife and selling stock is similar to catch the falling sharp knife with a bare hand. By not doing anything during crisis, you can at least save yourself from being a bear's lunch. Therefore, to remain calm, you should have investment in money market instruments which are short-term in nature and ensure regular liquidity and short maturity.

Invest in value stocks.

Financial crisis gives investors a chance to spot value stocks. Prices of fundamentally weak companies go down to drastic level while that of sound companies remain comparatively stable. Veteran investor Warren Buffet takes the opportunity of crisis to invest in some value companies (Baker, 2019; Chowdhury, 2021).

Invest in non-cyclical stocks

Non-cyclical companies are those which produce salt, oil, toothpaste, shampoo, and shaving cream. These stocks normally perform better than the overall market during critical times and offer a consistent earnings and stable dividends, notwithstanding of the condition of the overall market.

Conclusion

To minimize the loss during crisis, an investor needs to stay calm, check the risk tolerance level and think carefully before making any new investment. A well-structured portfolio is the pre-requisite to stay stable during crisis. We should keep in mind that the market will recuperate either quickly or years from now but certainly it will.

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